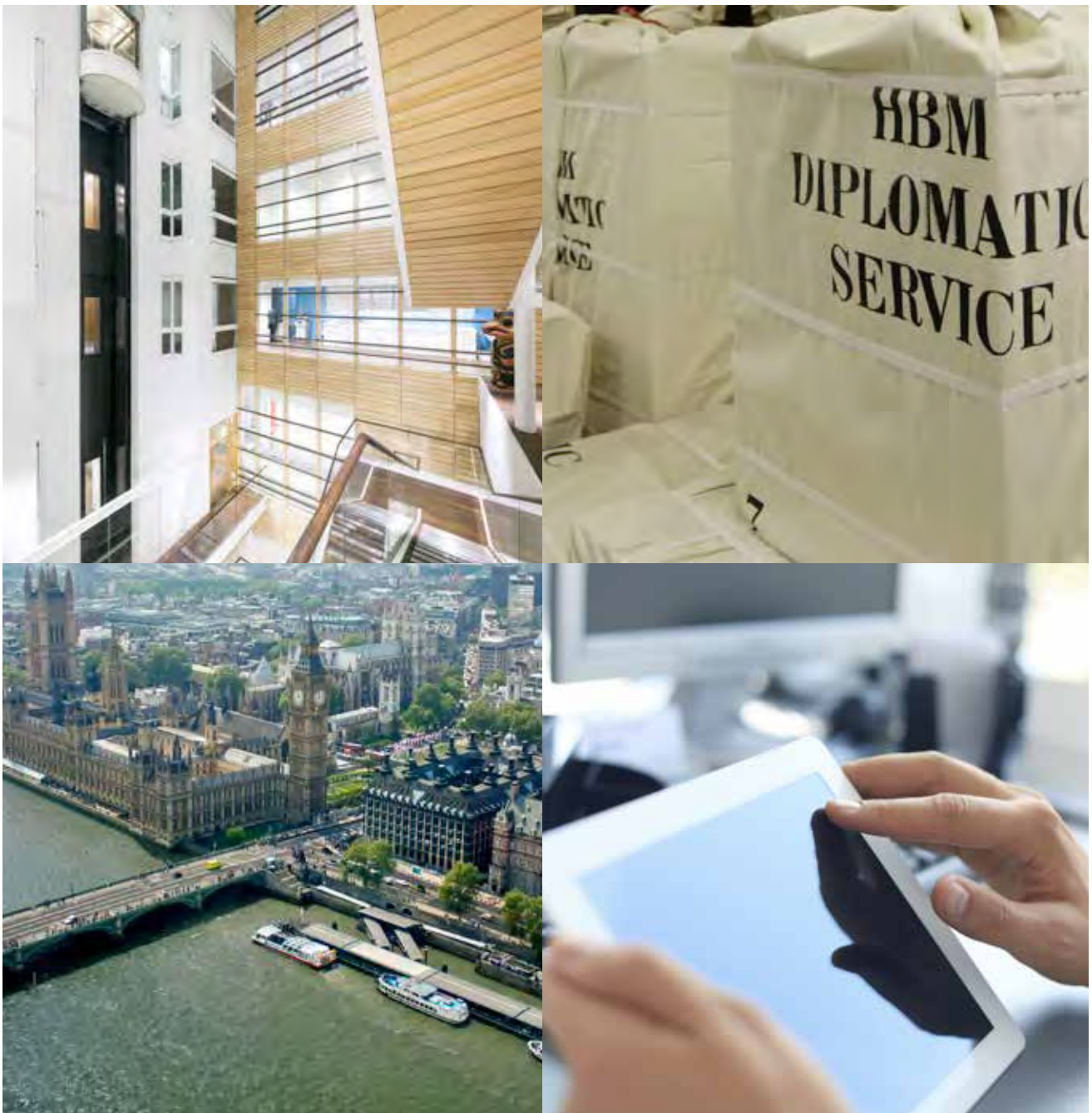


FCO Services

Annual Report and Accounts 2014/15

(for the year ended March 2015)



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Foreword by James Duddridge MP

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

Despite the strong recovery in the UK economy during 2014/15, this year has seen significant pressure on the budgets of FCO Services' customers, as Her Majesty's Government continued its strategy of reducing the deficit. There was an uncertain global and UK economic context which undoubtedly had an impact upon its main customers as they continued to operate under significant budgetary pressures. FCO Services has been fully aware of the challenges that their customers have faced, and have worked hard with them to create solutions which achieved efficiencies whilst maintaining – and even improving – service levels.

There are a number of central government initiatives which aim to transform UK government, with a focus on efficiency and modernisation. Working as an integral part of the Foreign Office and wider government, FCO Services is well placed to understand and support the government's priorities. For instance, it has been able to support the Cabinet Office – through close engagement with key stakeholders – in the achievement of key initiatives. FCO Services stands ready to use its experience to support the 'One HMG' initiative overseas, including bringing government departments together into single buildings in country. FCO Services' ICT products promote the government's TW3 ('The Way We Work') and Digital by Default agendas through enabling staff to work remotely, collaboratively and securely. It has also supported digital government by developing and managing the online electoral registration system. These significant roles are a testament to it being an enabler of government reform.

Turning to the international security situation, the current UK threat level is severe and security will continue to be at the forefront of government thinking in the coming years. FCO Services is well placed to use its expertise to support

the government in its aim to strengthen the country's security resilience against both physical attacks overseas and in the cyber arena.

During my travels throughout Africa, I've seen first hand how important the work of FCO Services is to the effective secure operation of the FCO and UK government overseas. Reflecting a year of strong global performance, Africa has seen the consolidation of the highly effective FCO Services technical support hub in South Africa, and inspections of the Department for International Development (DfID) estate by FCO Services experts in support of the aforementioned One HMG estates agenda.

There will be challenges ahead for FCO Services, but I am confident that its committed and highly-skilled staff, backed by their management board and senior management team, will continue the excellent progress that has been made in the last seven years.

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



Foreword by Helen Sullivan

Despite challenging trading conditions and an essential focus within government on securing best value for the public purse, FCO Services has managed to deliver another strong set of results. This year we have successfully maintained our revenue at the same level as last year, securing additional revenue in the provision of technology services to offset a reduction caused by the completion of large one-off projects in the previous year. All of this is testament to the strength of the strategy we have been pursuing, and shows that we have responded well to the challenges of austerity and the needs of our customers.

Our ultimate priority continues to be servicing the needs of our parent department, the Foreign and Commonwealth Office (FCO). During the course of the year we have supported the FCO's network of over 260 posts in 152 countries. Our regional engineers operate out of 42 overseas locations, delivering a diverse range of services from providing the British High Commission in Pretoria with technical and logistical support for the arrangements for Nelson Mandela's funeral, to supporting the FCO's Working Differently programme.

We have also been involved in the building and refurbishment of 30 embassies and high commissions, and have completed seismic inspections on 5,075 properties in 291 locations globally. In addition, we have enabled the FCO (and other government departments) to function and communicate securely, through our Queen's Messenger service (the world's oldest courier service, dating back some 800 years) delivering over 420,000 kg of accompanied diplomatic mail to 200 locations across the globe.

While supporting the FCO is at the core of our operations, we have also carried out vital work for wider government. For instance, our Technology Group has underpinned the new electronic electoral register, putting our work at the centre of the government's digital and constitutional agendas. We have also continued to work alongside the Home Office, providing vital support in the implementation of the capability for the issuing of biometric residency permits overseas.

Outside of UK government, we have continued to work closely with certain friendly foreign governments, including those of Canada, New Zealand and Australia. The work we do for these customers covers the same broad range of activities, including estates and architectural projects (such as providing expertise to

the team responsible for refurbishing the Canadian High Commission in London), and supporting aspects of their critical global IT infrastructure.

In order for the business to focus on front line delivery it is essential that our corporate functions provide efficient and cost effective support. Our HR, Finance and Commercial and Supply Chain groups continue to challenge the way in which that support is provided, looking at ways to improve processes and internal service delivery, while providing the appropriate governance framework.

We recognise that the organisation is undergoing a period of change. We recently said farewell to Chris Moxey, who had been the Chief Executive for over nine years. It was his vision and leadership that has made the Trading Fund the strong and successful organisation it is today. The recruitment process for his successor is well underway, and we expect he or she will be at the helm imminently. There have been several other changes within the Executive and Non-Executive community. Such changes can be unsettling for staff, and our Board has ensured, through good communication and well thought through transition plans, that their impact is being managed as carefully as possible.

Finally there is no doubt that although this year has been one of our most successful, FCO Services faces ongoing challenges as austerity measures continue to impact heavily on our parent department, and other customers within UK Government. We will also need to understand fully and respond quickly to the rapid changes in the secure Cloud market place, resulting from the Cabinet Office's new Government Classification Scheme.

I am confident that the Executive and our staff, under the direction of a new Chief Executive, will rise to these challenges with all their usual resilience and flair for innovation, to ensure the continuing success of this remarkable organisation.

Helen Sullivan
*Interim Chief Executive
and Accounting Officer*



Strategic Report

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

FCO Services is uniquely placed to provide global secure services that support the work of the government, both within the UK and overseas. We develop close customer relationships at all levels, aiming to exceed customer expectations and deliver services that offer excellent public value.

Who we are

We are an established Trading Fund of seven years with a history of effective service delivery, strong customer satisfaction, innovation and financial stability. We are an Executive Agency of the Foreign and Commonwealth Office (our parent), operating as a Trading Fund and domiciled in the UK. We provide a range of integrated, secure services worldwide to the FCO and other UK government departments, supporting the delivery of government agendas, including One HMG overseas.

How we are organised

We are committed to focusing on our central role of delivery and support to the FCO and operate through three specialist delivery groups:

Network Services Group provides key support to the global network. Security and Property Group focuses on the FCO's Estates and Security programmes as well as providing similar services for friendly foreign

governments. Technology Group supports FCO IT systems, works within the government sphere on wider market opportunities where our security credentials fit, and is set to play a key role in supporting the delivery of the FCO's future technology requirements.

Our corporate centre provides strategic direction and policy and the overarching corporate governance and frameworks to enable the organisation to achieve its corporate objectives as effectively and efficiently as possible.

What we do

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

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

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

Network Services Group: Supporting the network

Our Network Services Group delivers a first class service internationally to the FCO network, comprising of the Regional Technical Support Service (RTSS) and the diplomatic bag service. RTSS creates the cornerstone of our group and supports our strategy to provide multi-disciplinary technical, IT and logistical support. We also provide National Security Vetting, (participating in the government's vetting transformation programme), translation and interpreting, overseas vehicle procurement and logistics services, delivering excellent customer satisfaction.

Technology Group: Developing and expanding services for the digital age

Our Technology Group delivers secure Information, Communication and Technology (ICT) services that support the implementation of the UK government's Digital Strategy and enable our customers to communicate and collaborate securely anywhere in the world. We develop and manage solutions and services, and provide the security monitoring and networks that protect government assets to high security levels. We also offer specialist assurance and advice capabilities, acting as the UK National Authority for Counter Eavesdropping (UK NACE).

Security and Property Group: Supporting Diplomatic Excellence via world class security and property services

Our Security and Property Group designs, builds and services embassies and diplomatic residential property all over the world. We provide buildings for government staff to work in, ICT infrastructure that underpins secure communications and physical and technical security systems that keep people and information safe. As well as providing a full range of security and property services to the FCO and other internationally-based UK government departments, we continue to explore major opportunities with foreign governments worldwide.

What we aim to achieve and our priorities for the future

What we aim to achieve

In an economic climate that remains challenging for government, the need to control costs and manage spending is as great as ever. Reduction in spending remains a key focus for all government departments, and we aim to increase our efficiency yet further, delivering more for less and supporting government to achieve its objectives through the next phase of the economic cycle.

We continue to be well positioned to support the FCO in its core policy and security strategies of Diplomatic Excellence. As part of this core role, we will proactively seek every opportunity to strengthen support to the FCO at both operational and strategic levels. We will also continue to support the FCO's lead role and obligations in the wider government aspiration for One HMG and service consolidation overseas, and the specific Cabinet Office agenda on security.

While the FCO remains our top priority, we recognise a need to secure sufficient wider market business with security-related customers to smooth out the peaks and troughs of government work. By concentrating on a small number of key public sector customers, we lay the foundations to provide the operational resilience and flexibility that underpins our support of the FCO.

Our priorities for 2015/16 include:

Network Services Group

- We aim to become the recognised expert at providing overseas technical security, IT support, logistics and specialist support services to the network. We will expand the scope and accessibility of our services to offer the FCO and One HMG a more efficient and effective service through continuous improvement. In order to achieve this we will focus on our people strategy to deliver our priorities, developing a customer service culture, valuing diversity and encouraging learning and development.

Technology Group

- We will balance our primary objective of supporting the FCO by seeking measured growth with UK government customers whose priorities are aligned with those of the FCO. In relation to our ICT services we will maintain focus on achieving the investment returns from our Secure Digital Services platforms. A key element of that objective will be to leverage our Secure Digital Services to enable the FCO's technology transformation programme. We will also continue to innovate in the areas of cyber security and enhanced protective capabilities.

Security and Property Group

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

How we have performed: Our highlights 2014/15

Corporate Overview

At the core of our strategic aim was a renewed and strengthened commitment to enable the FCO to deliver its critical priorities, supporting their Diplomatic Excellence programme, significantly in the areas of security, networks and the 'One HMG' priority overseas. In the wider market, we promised to support the government's key agendas of prosperity and national security, developing strategic relationships with key customers.

This year we have delivered on our promise to move closer to the FCO, our owner and partner, by strengthening relationships at all levels. Customer satisfaction has further improved, reaching 86% this year, comfortably exceeding the 80% target, an outstanding result. This focus on the FCO has confirmed us as a key strategic ally, a firm basis from which to progress to a further strengthening of this relationship. We are well positioned to be the global rollout partner for the Technology Overhaul programme.

We remain a well-balanced organisation: Our Regional Technical Support Service to overseas posts has continued to perform strongly and meet or exceed customer expectations. The challenges of reshaping our IT business are well on the way to being met with its renewed focus on the FCO, UK government (including central departments, security agencies and police forces), and friendly overseas governments. Our overseas property and security services have found new business in addition to continued FCO demand.

The cumulative outcome for the year is a testament to the outgoing CEO. A set of results for our corporate performance targets that meet or exceed all targets, financial figures that exceed already

confident corporate plan expectations and a robust platform for future consolidation and expansion under new leadership.

None of the above would have been possible without our dedicated, focused and skilled workforce that has continued to deliver outstanding performance under difficult and challenging circumstances, not least ongoing pay restraint.

In our last Annual Report, we set out our business priorities for 2014/15.

Regional Technical Support Service

Last year we said we would continue to improve the RTSS by further embracing the logistical support service and widening our IT and Technical Support offerings to the overseas network. We also intended to widen our customer base to support the FCO's 'One HMG' agenda and assist our Security and Property Group in the delivery of secure solutions to other governments.

We have, as planned, ensured that our secure logistics model delivers a seamless part of the end to end service that we offer our customers. During 2014/15 this transition helped us to deliver a 4% increase in business as usual work. In a one-off project, we also repatriated 35.5 tonnes of passport application forms from the overseas network.

Our plans to widen our IT and technical support are being realised. To meet our customers' needs we have, informally, provided extensive IT and technical support outside of our normal workload. We plan to formalise these arrangements in 15/16.

We have continued to support colleagues in Security and Property Group to deliver secure projects.

Developing and evolving services for the digital age

Last year we said we would continuously improve our cloud computing capabilities, such as Cirrus360 (our secure version of Microsoft's office productivity, communications and collaboration tools), demonstrating a return on the investment in cloud-based solutions carried out over recent years.

Significant progress has been made over the year with our cloud computing capabilities now marketed as our Secure Digital Services. We now have in excess of 12,000 user accounts on our Cirrus360 platform from five UK government department clients. The majority of these are represented by our delivery to the Department of Energy & Climate Change (DECC) and the Department for Business, Innovation & Skills (BIS) but also includes the Ministry of Defence (MoD) and the FCO.

Our Ironbridge platform continues to provide service to the National Crime Agency (NCA) and the Nuclear Decommissioning Authority (NDA). The future of this solution will become clear as the Cabinet Office plans for the new Tier 2 security classification come to fruition.

In addition, this year we provided our Government Secure Application Environment (GSAE) platform to support the Cabinet Office led Individual Electoral Registration service. The business case for our investment in our Secure Digital Services remains strong and our market strategy continues to be centred on achieving those forecast returns on investment.

Strengthening our relationships globally

Last year we said we would expand our service offerings to friendly foreign governments and continue supporting the FCO and partners across government with the 'One HMG' agenda. We also planned to focus on enhancing our security lifecycle products, review our security capability and further invest in research and development with the aim of ensuring that we retained our competitive advantage in the security arena.

In an age of heightened security threat, our global partners continue to rely on our expert advice and capabilities. Our estates and protective security business has continued to grow, both with the FCO and with other governments. We have successfully won projects and delivered innovative solutions that meet our customers' operational issues. In line with our growth strategy we have continued to broaden our customer portfolio beyond the UK market by focusing on friendly foreign governments and partners across government, offering new products and services. We have been successful in securing several major international projects building on the agreements signed with foreign governments. We have developed and strengthened our relationships with other foreign governments with whom we are working on a number of co-location projects in the Middle East.

Alongside our work with our close allies in other governments, we continue to enjoy a close partnership with the FCO. Our project teams have successfully delivered over 800 projects all over the world, supporting diplomatic missions, and enhancing security for overseas staff. These include a new embassy in Santiago, Chile, and the British Deputy High Commission (BDHC) Chandigarh, India; space planning and creating compound development

options for the reuse of the government site in Oslo, Norway; and the full interior design and renovation of Her Majesty's Ambassador's residence and new embassy office in Asunción, Paraguay.

In line with our growth strategy we have continued to broaden our customer portfolio beyond the UK market by focusing on friendly foreign governments and partners across government, offering new products and services.

Network Services Group and Government Services

On 1 October 2014 the Regional Technical Support Service (RTSS) and Services and Logistics (S & L) merged to form Network Services Group with the remit to become the recognised expert at providing overseas technical security, IT, logistics and specialist support services to the network as the partner of choice for the FCO and friendly foreign governments.

Our highlights

Network Services Group transition programme

Network Services Group has brought together its component parts to form a strong service organisation. The international division provides a seamless, end to end service comprising secure diplomatic bag movements, technical security and secure IT services to the FCO's overseas network. The UK division, Government Services, provides high quality vetting, translation and interpreting, messenger services, reprographics and the overseas vehicle procurement service.

RTSS – working in collaboration with our customers

The RTSS has built on its solid foundation and is now a vital, embedded component of the FCO and One HMG's overseas operation, providing the overseas network with a secure environment in which to operate.

Through our annual structured interview process 144 Deputy Heads of Missions rated our service as having achieved a satisfaction rating of 83%.

Our teams pride themselves on delivering high quality services. This was most evident in the Americas where our regional team, in collaboration with our Technology Group, ensured that secure Wi-Fi was available at short notice for an important UN conference attended by the Foreign Secretary.

Mercury – identifying a global logistics partner

We concluded the re-procurement of the air freight and diplomatic bag contract and chose a new supplier – Hellmann Worldwide Logistics. The five year £30m plus contract was signed on the 30 June 2014 and was followed by an intensive 100 day implementation project. The transition went smoothly with the benefits of the new contract already evident, not only through meeting stretching service targets but also through a number of innovative service improvement activities.

Project Hermes – improving our tools and systems

The Logistics Transformation project, launched in 2013, took stock of a number of work-streams within our core logistics processes. We have made significant progress in many areas, which has resulted in improvements in both employee and customer engagement. The final stage of the transformation journey which will be implemented in the coming year, is to introduce a suite of best in class tools and systems, the 'Hermes' programme, to underpin these improvements as well as delivering still further performance and efficiency gains.

Translation and Interpreting

This year we have enhanced our flexible, high quality Translation and Interpreting service; we have successfully installed online translation memory software to improve efficiency and we are on course to complete a comprehensive competitive tendering

procedure for freelance translation services. As well as ensuring full compliance with EU and UK public procurement legislation, this will help us to deliver optimum quality and value for money. We have participated in two invitations to tender for framework translation contracts with EU institutions. One has been successful and we are currently awaiting the outcome of the other.

National Security Vetting

Building on a proven track record we have had a further year of significant growth. Our customer base has seen further high levels of growth and now stands at over 127, including major government departments, their private sector partners, police forces and transport hubs. We delivered some 45,000 vetting cases in 2014/15, an increase of almost 10% on the previous year.

Over the course of the last 12 months we have continued to reduce clearance times. For DV clearances, 97% were completed within the agreed timescale.

We have been at the forefront of working at policy level to streamline and standardise processes, piloting new technology to achieve greater efficiency and build higher levels of assurance to deliver a stronger vetting platform for the future. We will continue to build our customer base through rigorous focus on continuous improvement and customer engagement.

Technology Group

We continue to be aligned to the Cabinet Office ICT strategy, refreshing our ICT strategy accordingly this year. Our three key Secure Digital Services continue to be offered via the Digital Store in support of the 'Cloud First' policy. We are ideally placed to deliver secure services as the convergence of technologies continues and the UK government's Digital Strategy is implemented.

Our highlights

Key platforms

We now have three key Secure Digital Services platforms operating at scale in the market; Cirrus360 (our secure version of Microsoft's Office365 public cloud offering), Ironbridge (our secure platform providing Microsoft productivity suite and access to legacy systems at the old security impact tier of IL4) and GSAE (our Infrastructure and Platform As A Service offering). We continue to be completely aligned with the Cabinet Office ICT strategy for UK HMG and its evolution towards the 'Government-as-a-Platform' concept. We refreshed our ICT strategy specifically to assure alignment and obtained confirmation from Government Digital Services (GDS).

Enabling government by the deployment of Cirrus360

This year saw the adoption of our Cirrus360 platform (our secure version of Microsoft's Office365 public cloud offering) by two key government departments, DECC and BIS. Together the two departments represent over 10,000 user accounts on the platform. The deployment over the summer of 2014 was challenging but by the autumn implementation was successfully completed. We are proud to be an integral element of an outstanding technology transformation which has provided material cost savings to both DECC and BIS. In the same period we implemented some 'seed' deployments of Cirrus360 in the MoD. One of these initiatives saw Cirrus360 being part of the Ebola crisis response in Sierra Leone.

Contributing to the integrity of the UK's border

We continue to play a material role in the technological enablement of the government's immigration policy. In 2014 we deployed a new biometric system around the globe to underpin the issuing of UK visas and in early 2015 we successfully went live with a portfolio of technology change required by amendments to the Immigration Act. The year also saw us deliver a major upgrade in relation to UK passport production by the Crown Dependencies, which went live in April 2015.

UK Electoral Reform enacted

The Individual Electoral Registration service went live in June 2014 operating on our Secure Digital Services platform and the implementation was fully delivered to budget and deadline. The project and ongoing operational service led by the Cabinet Office was an effective collaboration with colleagues from Government Digital Services and the Department of Work and Pensions (DWP). The service was delivered during the intense period prior to the UK General Election in May 2015 and saw over four million registrations enacted effectively between January 2015 and May 2015.

Supporting the FCO's technology transformation initiatives

We continue to support the evolution of the Wi-Fi estate within the FCO, both in terms of solution provision but also from the UK NACE security assurance perspective on operational monitoring and security operating policy.

Over the course of the year we have engaged with FCO colleagues and their chosen external partners to help shape their major technology transformation initiative. We have completed successful pilots of our Cirrus360 solution and in the final months of the year a Cirrus360 Smartphone Proof of Concept which also provides access to a restricted set of legacy Firecrest services. Our focus has been to enable the technology change agenda within the FCO and offer all possible support and engagement. This will continue to be a key area of focus over the coming year.

Security assurance and policy guidance to HMG and beyond

UK NACE has continued to excel. This is both in its operational assurance activities for FCO and other government departments as well as its national authority role as a critical element of the UK's security landscape. Engagement with NATO has been a key delivery over the year, supporting the NATO Summit in the UK, as well as successful participation in the NATO Sweepstake event in Poland. UK NACE have delivered in excess of 1,500 training days with delegates from across HMG as well as friendly foreign nations. There have been over 36 visits hosted at the Cyber Convergence Centre during the year. The provision of security assurance services to the FCO around the globe continues to be a delivery focus. In the year the team completed seven 'rising building' security projects at overseas embassies and delivered service on the ground in 35 countries.

Government Security Classification

The Cabinet Office implementation of the new Government Security Classification represents a material threat to the ICT market place for HMG. We have enacted a measured response to understanding how it impacts on our market positioning. As a result our focus is to operate in the technology services arena where security is an imperative and where we have competitive advantages. We combine the ability to deliver secure ICT services with the specialist assurance and advice capabilities of the UK NACE.

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

Our highlights

Apprentices – our engineers of the future

Our long established 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.

Our programme achieved finalist status at the National Apprenticeship Awards 2014 in the Central Eastern BAE Systems Large Employer of the Year category; an accolade that recognises and rewards the achievements of the exceptional apprentices and the businesses that employ them, and of which we're proud.

Our first year apprentices beat peers from engineering professionals and graduates specialising in structural engineering from around the country to win the Institution of Engineering and Technology (IET) Engineering Challenge 2014.

Supporting the global FCO estate

We have expanded our technical works network overseas, to include DfID for 2015/16 ensuring consistency of standards on the overseas estate for One HMG. It strengthens the support service we provide to maintain a safe and suitable working environment and residential accommodation for not only FCO, but wider government staff.

In delivering a portfolio of global maintenance work to British embassies across the Americas - cost-effectively and with consistent quality - we have enabled our FCO partners to focus on their priority of front line delivery.

Secure communications

Our bespoke secure video conferencing network, SecView, has continued to transform secure communication across government and its diplomatic partners. Last year a further 24 installations were completed, primarily across the FCO estate but also expanding to include key partners across government and friendly foreign governments including New Zealand and Canada.

Installed in more than 200 locations worldwide, and with a healthy pipeline of proposals for installations for more friendly foreign governments, SecView continues to help government become more connected. Our product development focus will be on upgrading the core infrastructure and bringing SecView into line with the new government security guidelines.

Canada House

This year we were retained by the Canadian government to help return its flagship High Commission to its former glory. The high specification brief included the creation of a modern workspace to house 260 staff, an open plan function room on the 6th floor, reinstatement of historical roof lanterns and a double height library room in Canada House. Opened by Her Majesty the Queen, the revitalised, high profile building serves as a showcase for Canadian art and design and for the first time allows all High Commission staff to work in the same building. FCO Services' contribution to each stage ensured that the project was successfully delivered to a high standard of design and construction.

Giving new life to an ageing property

This year also saw the re-opening of the FCO Residence in The Hague after a year's refurbishment. The project – a collaboration between us and the FCO's Estates and Security Directorate – exemplifies investment in UK and international relations and improvements to the FCO's overseas estate. Our secure property and construction management specialists and interior design experts were briefed to bring the building up to current standards and refresh the interior to enable the FCO diplomatic mission to utilise the asset to maximum effect.

Our People

We aim to build a better place to work, by driving improved customer service, efficiency and performance through a more engaged workforce. Developing leadership and management capability is at the heart of delivering a One Team ethos and building a business that attracts, retains and motivates high calibre talent.

Workforce Planning and Recruitment

We are continuously improving our recruitment processes to attract a strong, diverse pool of candidates. Working within public sector pay constraints we continue to innovate to promote FCO Services reputation as an employer and our brand. We are implementing our updated resourcing strategy; streamlining recruitment processes so that it is easier to apply for jobs, timescales are reduced and to improve the candidate experience. Our careers website has recently been updated and we make more use of social media to attract candidates and promote our employee value proposition. We are currently developing our website's Green Room to stay in touch with new appointments as they go through the security vetting process, with the aim of reducing the number of candidates who withdraw their application.

Contractor and agency staff will continue to be an essential and valued component of our flexible and responsive workforce. However, since May 2013 we have implemented improvements and controls to ensure better management of contractors and to deliver efficiencies. By the end of 2014/15 we achieved savings of over £1m through the contractor review and replacement programme, and a further £1.5m efficiencies are in the pipeline. The effective skills transfer from contractors to employees remains a key challenge, and this will be given renewed focus in 2015/16 as we deliver workforce plans in our Corporate Plan 2015-18.

Staff Engagement and Leadership

Engaging, developing and motivating are at the centre of our HR strategy. In March 2015 we launched our One Team Inspiring Leadership programme aimed at developing the capability of our 50 most senior leaders. This incorporates Executive Team development and will be implemented over 18-24 months. The programme will focus on developing corporate and engaging leadership behaviours through general and bespoke individual

learning interventions, including targeted development for current and future high potential leaders identified through our talent management process. We want our leaders to build a better place to work, that encourages and supports innovation, expertise, customer service excellence and commercialism. We will involve the senior leadership team with developing our people values.

Talent Management

Closely aligned to the programme are our Personal Development Review (PDR), Talent Management and Succession Planning processes, which were both launched at the start of 2014/15. The PDR aims to improve the quality of objective setting, personal development plans, feedback and performance improvement and is supported by learning and development tools and resources. Between January and March 2015, groups

reviewed the potential of all employees using a process based on the civil service nine box model. We are now focusing on developing employees identified as high potential and matching them to succession management plans for business critical roles. Although in the early stages of what will become an annual cycle, this will help retain and motivate employees with aspirations and potential and reduce our reliance on contractors.

People and Skills

Our line managers also have a key role in engaging their teams. Inspired and coached by their senior leaders, we want our managers to give their teams a voice, be open to new ideas and innovation, fairly evaluate and manage performance, encourage flexible working and work-life balance and ensure that work is sufficiently challenging and interesting. Our corporate training programme has been updated to provide greater focus on effective line management skills, knowledge and behaviours, and is underpinned by our leadership and management development map that is aligned to the Civil Service Learning model and competency framework.

This is supplemented by bespoke management development for specific business areas. At the same time as building our leadership and management capability, we will continue with significant investment in all our employees to help them improve their performance, fulfil their potential and to maximise promotion and career development opportunities. From our award winning apprenticeship scheme, in-house technical skill development, improving core business skills and capabilities, through to supporting professional development, we will continue to invest over £1m in each of the next three years.

Better place to work

All parts of the business are committed to making FCO Services a better place to work and engaging our people. Each group owns and maintains its own staff engagement action plan that addresses specific team issues. These are monitored monthly through Operational Review Boards and quarterly at the Executive Committee.

We expect that these and other initiatives will improve staff engagement and support the growth of the business through better delivery and customer services. We are confident of maintaining our Investors in People status with the re-accreditation process starting in June 2015.

Our Corporate Areas

Customer Satisfaction

Our customers continue to be at the heart of our business, and ensuring that we deliver an excellent customer experience remains a key focus. This year we exceeded our ministerial target of 80% customer satisfaction. This achievement was made possible by improvements to our Customer Satisfaction Programme, the continued focus and commitment of our delivery teams and acting on improved levels of customer insight and feedback.

Our Customer Satisfaction Programme has continued to develop. It allows our diverse business areas to select a surveying package which can incorporate face to face, telephone interviews or traditional online surveys. This approach has resulted in record levels of participation from our customers, increasing from 6.8% to 35.4%.

We have continued our membership of the Institute of Customer Service (ICS). This allows us to benchmark ourselves against other organisations and presents us with opportunities to share best practice with organisations in both the public and private sector. During October we held a series of events to celebrate National Customer Service Week. This included recognising our people's and teams' outstanding achievements in delivering excellent customer service.

Over the next 12 months we will continue to develop our programme and build upon our improvement plans. We will consider how our customer satisfaction varies across our regions and take appropriate action to improve the service that we provide. Our focus will continue on developing our people to ensure they develop their skills further to meet the changing needs of our customers.

Procurement and Supply Chain

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

We have also completed the procurement of our 'Mercury 2014' programme. This contract has seen a new supplier take over the running of our secure global service for the movement of diplomatic material within an integrated logistics network. This contract was delivered to plan and is our largest contract by value.

In addition to these achievements we have:

- begun an Official Journal of the European Community (OJEU) procurement for a framework contract to provide a range of professional building services to support our worldwide construction and works projects;
- exceeded our target by delivering more than £1m in cost savings;

- continued to make extensive use of existing government framework contracts, saving our staff time and exploiting economies of scale for price;
- drafted new government-to-government Memorandums of Understanding (MOU) with friendly foreign governments and Service Level Agreements (SLA) with other government departments;
- supported and developed the introduction of a new commercial process within FCO Services.

Security and Information Assurance

Security and Information Assurance lies at the heart of all that we do and has done so since our formation as an Executive Agency in 2006. The FCO Board approved FCO Services' mandate, Secure Focus and Growth, which has under-pinned the organisation's development for over nine years. We deliver security advice and technical and physical security solutions for the FCO throughout the world and increasingly, for key partners of the British Government (e.g. Australia, Canada and New Zealand). Security is thus core to our brand and our organisational values. The conduct of our people and their compliance with security policies and best practice is vital to the organisation.

Security and Information Assurance falls under the governance of the Executive Committee and certain matters are delegated for the oversight of the Security Committee, chaired by the CEO. Close working arrangements are in

place between FCO Services and FCO's Estate and Security Directorate in regard to security matters at home and abroad.

The Corporate Knowledge and Security Group (CKS), which was formed in April 2014, is now bedding in. The group provides overall governance and assurance; sets standards, policy and procedures; embeds awareness; and ensures that health checks are completed, with action plans and follow ups taking place. CKS supports FCO Services' objectives and strategic principles by enabling its business to continue successfully in the face of ongoing cyber and wider security threats. This is being achieved through the delivery of a work programme to enhance the current culture and by working with the business to develop standards further and to manage and exploit information, while enabling the business to operate in a safe and secure environment.

Business Continuity Management

In May 2011, FCO Services was awarded the formal British Standards certification for Business Continuity Management (BS 25999). To maintain accreditation, our Business Continuity Management System is subject to regular annual British Standard Institute (BSI) compliance assessment audit reviews. In June 2014 BS 25999 was replaced by a new International Standard ISO 22301. To ensure our Business Continuity Management System was compliant with the rigorous requirements of this International Standard, a six day re-assessment audit was undertaken in February 2014. Following this re-assessment the BSI recommended transition from BS 25999

to ISO 22301, this recommendation was subsequently approved by the United Kingdom Accreditation Services (UKAS) and a Certificate of Registration was awarded on 2 June 2014 with an expiry date of 25 May 2017.

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

Public Interest Matters

Diversity and Community Engagement

We remain committed to promoting diversity and fair treatment of our staff. As a technical based organisation and with our prime location in Hanslope Park, we are faced with some difficult challenges in encouraging candidates from a wider spectrum of society. About 25% of our employees are female, compared to 53% in the Civil Service. However, our low female representation is mainly attributed to being a technical organisation and many of our roles are seen as non-traditional female roles.

Women make up only 13% of the UK workforce involved in Science Technology Engineering and Maths, so the recruitment pool is limited. We compare quite strongly with other technical organisations with our female representation between 2% and 11% higher.

As part of our resourcing strategy we have developed our employer value proposition to promote FCO Services as an employer of choice. We continue to tailor our recruitment campaigns to be more appealing to a wide group of applicants, with particular emphasis on females, not just in terms of words but in terms of imagery and where and how we reach our audience. We actively encourage and promote a wide range of flexible working options including part time, compressed hours and term-time working. Our roles are advertised as open to alternative working patterns unless there are specific operational reasons preventing this. Our Dignity at Work policy emphasises fairness for all and encourages people to challenge inappropriate behaviour. We also strongly encourage and recommend completion of unconscious bias training in our policies and have recently mandated this for new starters.

Raising Concerns

We are committed to dealing professionally and responsibly with any concern our staff may have about possible malpractice. We encourage them to report any acts they encounter in the course of their work that they believe to be illegal, improper or unethical. All such approaches are taken seriously and treated in confidence.

We do not tolerate the victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace.

During the year we have promoted our FCO Services' Ethical Code and our joint FCO and FCO Services Raising Concerns Policy. We have also taken steps to raise awareness about our Nominated Officers to whom individuals can speak in confidence if they have concerns relating to the Civil Service Code. The Nominated Officers enable individuals to receive impartial advice from someone outside their management chain. We also have three further FCO Services' contacts for staff wishing to raise a concern over Fraud and Theft, Data Handling and Conduct.

Health and Safety

We are committed to ensuring the health, safety and welfare of our employees, contractors, customers. We meet our obligations through the use of comprehensive safety governance and management systems.

The delivery of safe working, safe environments and safe products and services is facilitated by a workforce who receive specialist safety training and guidance to meet the risks associated with their activities. We provide our managers and supervisors with safety management training accredited by the British Safety Council and the Institution of Occupational Safety and Health. Our staff have access to a suite of skill specific training to facilitate competency in high risk activities and working with hazardous substances.

Legislative and best practice compliance is reviewed through a schedule of audits and inspections with 27 audits completed during 2014/15. An internal audit of FCO Services health and safety management systems awarded

an overall rating of substantial assurance.

The challenge of diverse hazards is subject to a process of risk assessment, reduction and management. Whether a team is working at height or in an area where a biological hazard is present, the risks are managed to support effective and safe delivery of products and services. For example, we identified the safety and business risks associated with the Ebola outbreak in West Africa and by using practical risk management were able to ensure staff safety and business continuity.

Communication, consultation and co-operation are key elements which support positive safety behaviour and we demonstrate these through our framework of health and safety committees and our partnership approach to safety with customers and others. Working with the East of England Ambulance Service, the Health and Safety Team presented a campaign to promote the use of automated external defibrillators.

Correspondence from the public

During the 2014/15 financial year we received ten FOI requests, all of which were answered within statutory deadlines (including issuing extensions if required).

Payment of suppliers

FCO Services supports the government target of paying 80% of supplier invoices within five working days of receipt of a valid invoice, actually achieving 86% in the financial year ending March 2015.

Sickness absence

The average number of working days lost per employee due to sickness absence was 4.5 in 2014/15. This compared to 4.9 days in 2013/14 and 7.3 days across the public sector. The improvement was due to proactive management of absence and, in particular, a focus on stress related and long-term absences.

Sustainability Report

FCO Services continues to be fully committed to reducing the impact we have on the environment, as well as promoting and supporting sustainability in all aspects of our activities.

This report, for the year ended 31 March 2015, is produced in line with public sector reporting requirements and our obligation to the Greening Government Commitments (GGC). We aim to reduce costs and make efficiencies, where possible. Sustainability performance is monitored regularly on an ongoing basis, and is reported on to senior management. This is a key part of demonstrating that commitment, as well as increasing transparency, and accountability of our performance against government targets.

Strategy and Governance

1. We are only reporting on buildings and assets for which we have an element of control.
2. The government's commitment to sustainable development and the sustainability agenda means that FCO Services recognises the importance of reducing its environmental impact. Reporting on GGC targets and carbon offsetting is compulsory for all government departments.
3. FCO Services continues to work with the FCO towards the achievement of the GGC target, and performance against these targets is monitored in conjunction with the FCO, through working groups. The GGC targets apply to the FCO's UK operations only, but also cover the sustainability impact of FCO Services and Wilton Park Conference Centre.

4. As tenants of the FCO, FCO Services is committed to aligning to these targets, and supporting the FCO by meeting its contribution to these targets. The methodology for the split has been fully agreed with the FCO and uses headcount as a basis for calculating the respective elements and to apportion the effects accordingly.

Summary of performance

1. This report covers the environmental impacts within the scope of the GGC targets and carbon emissions. These are aligned to the ministerial policy that departments purchase offsets for international flights originating in the UK.
2. The GGC data applies to FCO Services UK operations only, and non-wider market impacts.
3. All sustainability performance figures in this report relate to FCO Services' only. This performance measurement is also normalised to allow comparison between years and across departments and other public bodies. Financial figures relate to FCO Services' proportionate share and related impact as well as expenditure in some areas.

4. We have continued to make good progress in meeting our contributory share of the FCO's targets. Greenhouse Gas Emissions reduced by 12% in 2014/15 (after adjustments for the wider market impacts). The number of domestic flights rose by 52%, with a total of 29 flights for the year; however a large proportion of these were to support a British passport project in the Channel Islands. Waste arising has decreased by 8%. Office paper procurement decreased by 21% and water consumption fell by 28%. Measures to enhance biodiversity continue at our Hanslope Park site.
5. One of the most significant events of the year, which will support future performance data, has been the installation (in January) of a Containerised Data Centre (CDC). As a responsible organisation, we actively seek out opportunities to improve the environment, and the way in which we do business. The new data centre has considerable performance credentials (maximum PUE = 1.3, which equates to very efficient), and utilises free air cooling 95% of the time.
6. As a registered participant in the EU Code of Conduct for Data Centres; the acquisition of our 'green' data centre reinforces our commitment to the Greening ICT Programme that aligns to the government's ICT greening strategy. In addition, the rigorous reporting and compliance requirements give the relevant assurances to our customers, stakeholders, suppliers and employees; as well as making long term energy and cost savings.
7. Our vehicle fleet is the other main source of our travel emissions within FCO Services. We aim to reduce the environmental impact of road travel through continued investment in our fleet. Although we did not purchase or replace any additional fleet vehicles during this financial year, we already have five ultra low emission vehicles on order from the pan government initiative for reducing emissions. Three vehicles will be utilised within London and two at Hanslope Park. This will help to reduce our in house fleet CO₂ carbon foot print. In addition, we reviewed our current Regional Technical Support Services (RTSS) European (road) route with a view to investigating possible efficiencies to include the reduction of fuel consumption and CO₂ emissions.
8. We have documented our contribution of the GGC targets for Greenhouse Gas (GHG) Emissions, paper and waste reduction. The three scopes for GHG emissions are:
 - **Scope 1** – Direct GHG Emissions (including gas usage, fuel oil, LPG and fuel from vehicles owned and operated by FCO Services).
 - **Scope 2** – Energy Indirect Emissions (usage of electricity supplied to FCO Services).
 - **Scope 3** – Other Indirect Emissions (includes business travel by air, rail, and hire/private car use).

The following table provides a summarised breakdown of performance in the key areas; performance is against the SOGE targets:

| Impact | 2014/15 Performance | FCO Target for 2014/15 (unless other year stated) FCO Services contributes to these targets | On/Off track to meet target |
|---|--|---|-----------------------------|
| Greenhouse Gas Emissions | | | |
| Greenhouse gas emissions from UK estate, vehicles and domestic train and air travel | 2089 | 14,426 tCO ₂ e (a reduction of 25% on 2009-10 emissions) | Met target |
| Estate energy expenditure | £503,003 | | |
| CRC Energy Efficiency Scheme expenditure | £29,991 (£72,561 provision made in accounts. See Note 10) | | |
| Flights | | | |
| No. of domestic flights | 29 | 588 flights (a 20% reduction on 2009/10 flights by 2015) | Missed target |
| Vehicle and domestic train and air travel expenditure | £444,892 | - | - |
| Expenditure on GCOF carbon offsets for UK originated international flights | £3,562 | - | - |
| Emissions associated with those international flights | *3,425 tCO ₂ [*See Note 9] | - | - |
| Water | | | |
| Office water consumption | 8.6 cubic metres per Full Time Equivalent | >6m ³ per FTE = poor practice 4m ³ – 6m ³ per FTE = good practice <4m ³ per FTE = best practice | Missed target |
| Office water expenditure | £8,107 | - | - |
| Paper | | | |
| Paper consumption | 4,991 A4 reams equivalent | 35,036 A4 reams equivalent (a reduction of 10% on 2010/11 consumption). | Met target |
| Waste | | | |
| Waste arising | 128 tonnes | 947 tonnes (a reduction of 25% on 2009/10 waste arising) | Met target |
| Total waste disposal expenditure | £26,432 | - | - |

**This refers to the amount of carbon FCO Services purchased to offset its international flights. The actual amount is 1,986 tCO₂ excluding wider markets and 3,425 tCO₂ altogether. FCO Services offsets the total figure of 3,425 tCO₂.*

Normalised Performance

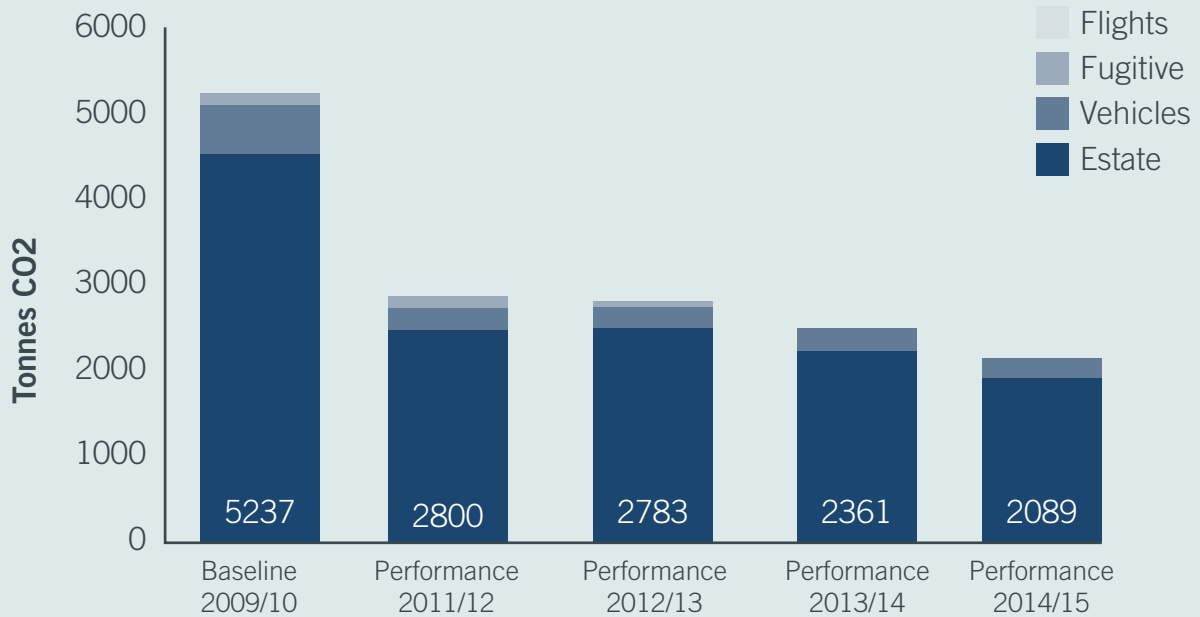
1. As a Trading Fund, FCO Services' emissions will always be predominantly driven by customer demand for its services. This may inevitably result in increased effects on the environment if customer demand drives additional activity in the future. This was addressed in the latter half of 2012-13 financial year following an exemption case to the Department for Environment Food & Rural Affairs (Defra) which now means that these emissions are not included in our formal reporting.

2. To allow like-for-like comparison between years and organisations, all data has been re-baselined (from 2009/10) on this basis. In addition, environmental impacts have been normalised by dividing consumption by headcount; this produces simple indicators of like-for-like comparison for future years.
3. The expenditure figure is derived from FCO Services' total spend, excluding wider market impacts. The Full Time Equivalent (FTE) staff number, excluding wider market impacts, equals 656; this includes contractors and agency personnel as well as staff working on FCO premises in the UK plus FTE visitors to UK premises.

| Impact | Per full time equivalent (FTE) 2014/15 | Per full time equivalent (FTE) 2013/14 |
|--------------------------|---|---|
| Greenhouse gas emissions | 3.2 tonnes of CO ₂ e per FTE | 3.0 tonnes of CO ₂ e per FTE |
| Office water consumption | 8.6 cubic metres per FTE | 9.4 cubic metres per FTE |
| Waste arising | 195 kg per FTE | 180 kg per FTE |

| Greenhouse Gas Emissions | kWh/miles/no. | tCO ₂ | GBP (£) |
|-----------------------------|--------------------------------|------------------|----------|
| Electricity (Non-Renewable) | 3,303,863 | 1776 | £376,815 |
| Electricity (Renewable) | 0 | 0 | 0 |
| Gas | 216,780 | 40 | £7,835 |
| Heating Oil | 49,239 | 13 | £463 |
| Biodiesel | 302,351 | 1 | £26,149 |
| Biomass | 75,958 | 0 | 0 |
| District Heating | 525,250 | 140 | £91,741 |
| Fugitive | - | 2 | - |
| Domestic flights | 4,763 | 1 | £3,459 |
| Train | 32,883 | 3 | £22,300 |
| Private mileage | 249,913 | 82 | £104,127 |
| Fleet | 46,875 | 15 | £81,442 |
| Chauffeur Service | 1,022 | 1 | £24,525 |
| Car Hire | 26,015 | 8 | £23,614 |
| Taxis | 24,974 | 7 | £185,425 |
| TOTALS: | 4,473,411 kWh 386,445 Miles | 2089 | £947,895 |

Graphical Analysis: Total CO2e



PERFORMANCE COMMENTARY (Including Targets)

FCO Services' Greenhouse Gas emissions fell by a further 12% in 2014/15, compared with last year (15%). This fall could be partially attributed to the mild winter.

The increase (11%) in the carbon factor of grid electricity has meant that fall in % emissions is not as great as it might have been.

CONTROLLABLE IMPACTS COMMENTARY

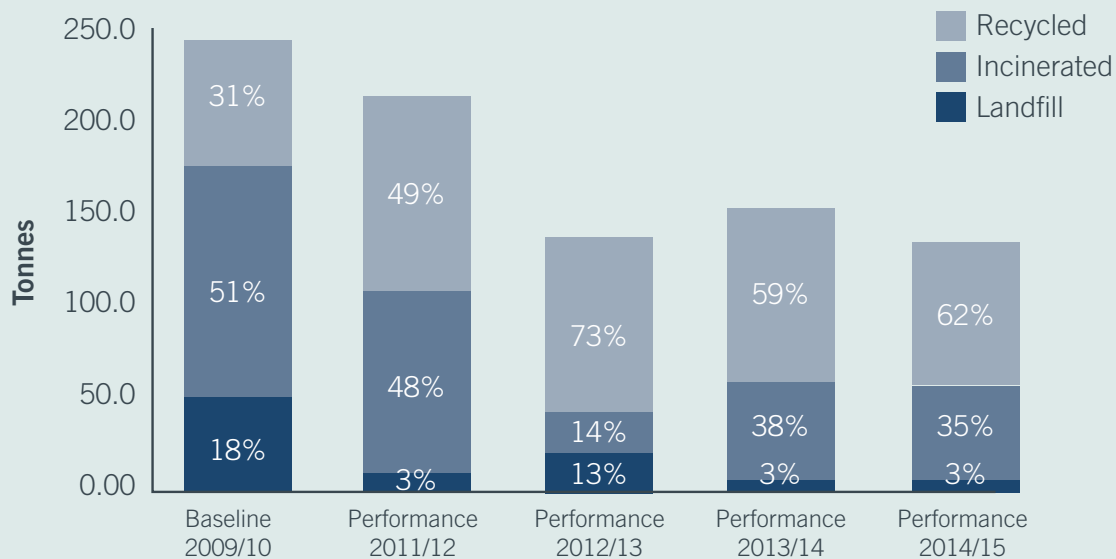
FCO Services direct impacts are mainly from fossil fuels and electricity. These are being reduced through a combination of energy efficiency measures and the heating of the Hanslope Park site with 100% biodiesel from waste and second generation oils. In addition, the continued review, investment and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

FUTURE MEASURES

The FCO is continuously reviewing possibilities for greater efficiencies. Further energy efficient equipment such as LED lighting and the virtualisation of their data centre will significantly cut emissions from 2015/16. Longer term renewable energy options at the Hanslope Park site are being explored.

| WASTE | 2014/15 | |
|--|---------|---------|
| | Tonnes | GBP (£) |
| Total Waste | 128 | £26,432 |
| Hazardous Waste | 3 | £2,220 |
| Total waste by method of disposal | | |
| Landfill | 4 | £0 |
| Reused/Recycled | 79 | £15,122 |
| Incinerated (without energy recovery) | 1 | £2,653 |
| Incinerated (energy from waste) | 45 | £8,656 |

Graphical Analysis: Total Waste



PERFORMANCE COMMENTARY

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

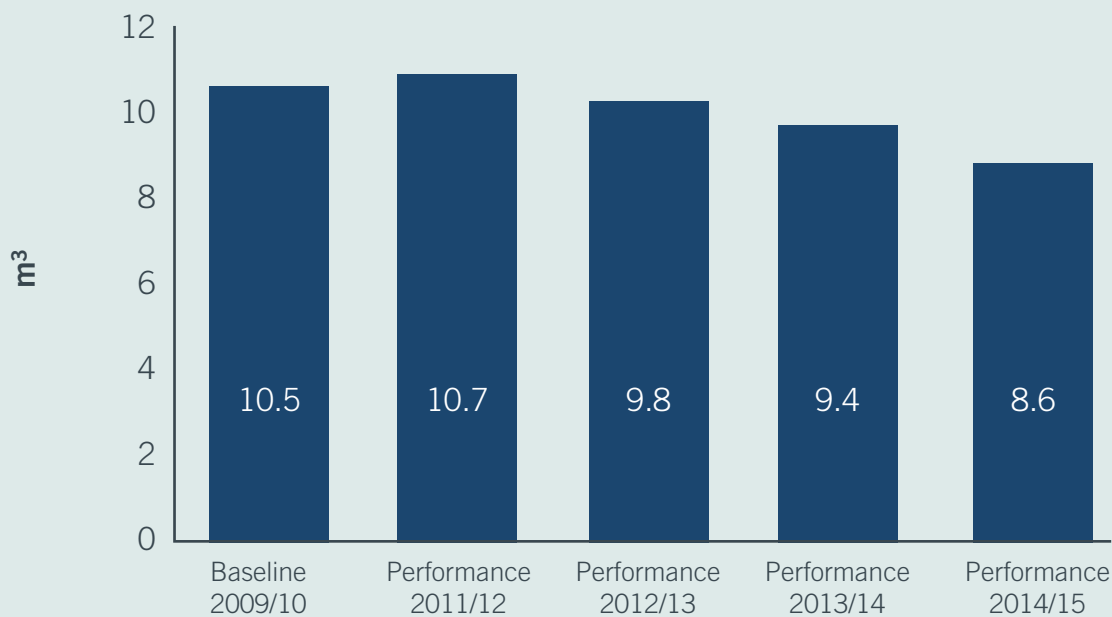
CONTROLLABLE IMPACTS COMMENTARY

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

FCO Services (Secure Disposals) recycled 3,680 printer cartridges; the cartridges were reused and the cardboard recycled. The total weight diverted from landfill equates to between 3,680-5,520kg (based on boxed cartridges weighing between 1-1.5kg). This raised £12,016 which was distributed to various local charities.

| FINITE RESOURCE CONSUMPTION – WATER (SUPPLIED) | Cubic metres | GBP (£) |
|--|--------------|---------|
| Office Water Consumption | 5,248 | £8,107 |
| Non-Office Water Consumption | 1,820 | £2,753 |
| Total | 7,069 | £10,860 |

Graphical Analysis: Office Water Consumption all Buildings (m³ per person)



PERFORMANCE COMMENTARY

Office water consumption decreased from 9.4m³ per FTE to 8.6m³ per FTE; however consumption remains high, above the target and benchmark (between 4-6m³/FTE is considered good practice).

CONTROLLABLE IMPACTS COMMENTARY

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

Corporate Social Responsibility

We take our responsibilities seriously; the activities and performance improvement during the year, shows our commitment to these responsibilities. As a responsible organisation, we respect the interests of our stakeholders, principally the FCO, our employees, and customers.

Registered participant status in the EU Code of Conduct for Data Centres, being awarded the Carbon Trust Standard for Greenhouse Gases and Waste Management confirms our commitment to making both energy and cost savings and improving the robustness of our environmental operations.

In addition, collaboration with the Woodland Trust in the Carbon Mitigation Programme has led to staff participation in tree planting initiative events at Heartwood Forest, the largest new native forest in England, with more activities and events planned.

Biodiversity and the natural environment

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

We have no direct influence on the estate, as tenants. However, there are some points worthy of noting; the FCO's improved commitment to biodiversity in 2014/15 through a positive management approach to existing habitats, species and landscaping at its Hanslope Park site. There is active vegetation management with designated areas for wild flowers; in addition, an arboriculture survey is conducted annually. Tree maintenance is an ongoing activity, and ecological surveys are carried out prior to any works on site. Our on site nursery continues to promote habitats for birds and insects and staff in the wood workshops are involved in building bird feeding tables on site.

Sustainable Procurement

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

The sustainability credentials of relevant suppliers are examined and reviewed in the selection process. FCO Services also reviews the ongoing compliance with sustainability requirements by its suppliers; for example, Forest Stewardship Council chain of custody certification in respect of timber procurement is monitored. The emissions of our freight and private hire contractors are regularly reviewed as part of our ongoing contract management activity.

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

- a move from a sustainability compliance approach to a sustainability performance approach with supply chain partners;
- a Sustainability Action Plan against the Defra flexible framework to set targets for sustainable procurement has also been developed;
- training on ethical and sustainable procurement that will be rolled out to key staff over 2015-16;
- a Sustainable Procurement Checklist is being embedded within existing procurement guidance to ensure sustainability is considered throughout the procurement cycle;

People and Initiatives

- sustainability KPIs have also been developed and will be introduced into relevant contracts to enable performance management of sustainable procurement.

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

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

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

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

Notes

1. FCO Services (along with Wilton Park) are included in the figures of the FCO report because they are included in the FCO's sustainability targets. The sustainability impacts of FCO Services (or the FCO's) overseas operations are not included.
2. Fugitive emissions refer to the air conditioning, refrigerants and cooling systems for data centres.
3. The respective costs for energy, water and some waste are not paid for by FCO Services, but form part of our tenancy with the FCO. The tables in the report reflect FCO Services' proportion of these, as well as our carbon impact; this equates to 13% after allowing for wider market impacts.
4. The greenhouse gas figures exclude carbon emissions associated with one wider market server hosting service at the FCO's Hanslope Park site. With the agreement of Defra, DECC and OGC, responsibility for reporting those emissions was contractually passed to the customer. Estate electricity consumption includes electricity consumed in charging FCO Services owned electric vehicles. Some emissions from official train and underground, bus or coach travel have not yet been base-lined or reported.
5. Defra conversion factors have been used to calculate carbon emissions. Some totals include estimates where actual readings could not be taken. The methodology and calculations for each estimate is documented.
6. The greenhouse gas emission figures are non-weather corrected.
7. The expenditure figures relate to FCO Services' UK operations only and include VAT. FCO Services purchase fuel for the fleet (except electricity for electric vehicles).
8. The expenditure figure used for normalising the sustainability data includes all FCO Services' wider market (non FCO) revenue; this equates to £66.1m.
9. Expenditure on GCOF carbon offsets represents carbon offsets to be purchased to offset FCO Services' air travel originating in the UK in 2014/15. The actual amount is 1,986 tCO₂, excluding wider markets and 3,425 tCO₂ total.
10. Under CRC Energy Efficiency Scheme rules, the FCO must purchase CRC allowances for all CRC qualifying emissions on its estate, including the emissions of its tenants. As a tenant FCO Services has made a provision to reimburse the FCO £29,991 for 2014/15 (plus £13,788 accrued for 2013/14, £10,602 accrued for 2012/13 and £18,180 accrued for 2011/12) CRC allowance costs.

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015

Directors' Report

Review of our Financial Performance

Now in its seventh year as a Trading Fund, FCO Services has again delivered a strong performance, meeting all its formal Ministerial targets against a backdrop of challenging trading conditions. Although the ongoing focus within Government on securing best value for money continues to drive pressure on both pricing and margin, the business has responded well in continuing to deliver quality services at the best possible price for our customers.

At the same time, we recognise that if we are to derive further benefits for our customers, we need to continue to invest in new products, services, process reviews, and business application tools. This year we have invested £5.5m in capital expenditure, of which circa £4.0m relates to the continued development of our Cloud Services' capability.

Financial Outturn 2014/15

Total revenue achieved in 2014/15 was £157.3m, broadly in line with revenues in the previous year of £157m. However this seemingly flat level of performance disguises the underlying growth in the year: the baseline revenue dropped by some £13m, due to the transfer of a service contract to a third party and the completion of several major projects at the end of the previous financial year. This entrance point reduction has been offset in the main by new contract wins within the Technology and Security and Property Groups.

It should be noted that in 2014/15 we have reported 'Other Income' of £0.4m. This relates to contract termination charges levied in the year (2013/14 £0m).

On a year on year comparison, our revenue associated with our services delivered to the FCO has reduced by £6.2m (6.3% on last year's revenue), while non-FCO business has increased by £6.5m (10.9%). Of the £6.2m reduction in FCO revenues, £3.8m related to the transfer of the above mentioned service contract to a third party. The non-FCO revenue uplift is attributable to contract wins within the Technology and Security and Property Groups.

FCO Services achieved a gross surplus before operating expenses of £32.1m, a return of 20.4% on revenue. This compares with a gross surplus last year of £31.3m, a return of 19.9%. Within the constraints of our ability to increase prices, this result reflects the focus on making the delivery of our services more efficient while maintaining or improving the quality, one such example being the successful tendering of our global logistics provider, which has delivered sustainable benefits in the year.

Operating expenses of £27.8m show an increase of £0.4m from the previous year, and represent 17.7% (2013/14 17.5%) of revenue. Although showing a slight uplift of 0.2% this represents in real terms (after considering inflationary factors) a solid performance and reflects our continued focus on managing our overhead costs.

Overall FCO Services achieved an operating surplus, before financing and Voluntary Exit Scheme (VES) cost, for 2014/15 of £4.7m, a return of 3.0% on revenue. Included within this result is the provision of £0.4m relating to the recent Employment Appeals Tribunal ruling on the revision of holiday pay calculation.

This compares with a surplus before financing for 2013/14 of £3.8m, a return of 2.4%.

As part of the ongoing efficiency effort FCO Services ran a VES programme, which resulted in 33 agreed departures from the business, at a cost of £1.8m.

The segmental performance analysis in note 3 to the Accounts reflects the performance of the newly created service delivery groups, following the major organisation re-structure of the business, at the start of the financial year.

The Security and Property Group generated an additional £1.5m of revenue in the current year, despite strong pricing pressures from its customers. Notwithstanding the increase in revenues, the cost of the voluntary exit scheme, price reductions and a provision against potential contract losses resulted in an operating loss of £0.7k, compared to a surplus of £2.2m in the previous year. The benefits of the restructuring will flow through in 2015/16.

After adjusting for non-recurring projects (the transfer of a contract to a third party of £3.8m), the Technology Group improved its underlying revenue primarily by winning new contracts with non-FCO customers. Gross surplus performance has improved by 5.7% due to a focus on resource management and the selling of new products at higher margins. This has meant that, despite the absorption of the cost of a voluntary exit scheme of £0.8k, the benefits of which will be seen next year, there has been a significant improvement on the 2013/14 performance.

The Network Services' Group delivered another strong trading performance in line with the previous year. This was underpinned by the successful delivery of the Regional Technical Support Services activity and also, as in the previous year, due to continuing high volumes of bag services provided to non-FCO customers. The small decline in margin is due to the cost of the voluntary exit scheme for this Group. Again the benefits of this will flow next year.

Financing income and costs

Interest of £63k was earned in the year from cash on deposit with the Government Banking Service, compared to £102k in 2013/14.

Financing costs of £84k (2013/14 £99k) relate to interest on loans from the FCO, and also includes finance lease charges of £27k (2013/14 £3k). The year on year reduction arises from the repayments of the Vesting Day Loan.

The resulting net finance charge is £21k, compared to a net finance income of £3k in 2013/14.

Surplus for the year

After taking into account the net financing income and VES cost, FCO Services produced a surplus before dividend of £2.9m, (2013/14 £3.8m), a return of 1.8% on revenue. After deduction of the statutory dividend of £1.1m (2013/14 £1.0m) there was a retained surplus for the financial year of £1.8m (retained deficit of £2.2m in 2013/14).

No discretionary dividend was paid in this financial year (2013/14 £5m).

Net Assets

At 31 March 2015, FCO Services' Statement of Financial Position showed total net assets of £32.4m against an opening year position of £30.5m. This positive movement of £1.9m is driven by the retained surplus of £1.8m for this financial year.

The net assets comprise: non-current assets £14.7m (2013/14 £12m); inventories £1.0m (2014/14 £2.8m); cash and cash equivalents £15.2m (2013/14 £25.5m); and other net assets of £1.5m (2013/14 £9.8m liabilities).

Cash Generation

The level of cash of £15.2m at 31 March 2015 is a reduction of £10.3m from the end of the previous financial year. This reduction in cash, together with the cash inflow generated from the surplus and other non-cash items of £6.0m funded a net investment in net current assets of £8.6m; a net investment in non-current assets (mainly development assets) of £5.7m; repayment of £1.0m of FCO loans and the payment of a statutory dividend of £1.0m.

Cash Management

The effective credit management of customers has remained a focus for FCO Services throughout the year. Debtor days outstanding were 22 days at the end of March 2015 (2013/14 26 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 2014/15, FCO Services achieved an average success rate in meeting this target of 86% (2013/14 86%).

Effective cash management ensured that liquidity remained strong, with a quick ratio of 1.7 at the end of March (2013/14 1.5).

Performance against Formal Ministerial Targets 2014/15
Long term goal

| Long Term Goal | Short term Objective | Key Performance Indicator | Target 2013/14 | Result |
|---|---|--|--|--------|
| To 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% | 1.8% |
| | | Return on Capital Employed | A Return on Capital Employed of at least 3.5% (weighted average) | 9.2% |
| To put the customer at the heart of everything we do, driving innovation and delivery | To continually improve customer satisfaction in all aspects of our products and service delivery. | Customer satisfaction rating derived from an internal surveying package | Customer satisfaction rating of at least 80% | 86% |
| To have processes driving efficient and effective operations | 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 7% | 5.3% |
| | 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% | 76% |
| People | To continually invest in staff to build a high performance, customer focussed and innovative culture | Employee engagement in FCO Services using Civil Service survey | Achieve a staff survey employee engagement score of more than 57% | 58% |

Financial Performance targets

FCO Services' financial performance in 2014/15 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 1.8% (2013/14 2.4%).

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 9.2% (2013/14 12.0%) compared against a weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service based, non-capital intensive nature of the business (other than in Technology Group), ROCE is likely to remain higher than 3.5%.

Non Financial Performance targets

Customer satisfaction: Target achieved

Our new Customer Satisfaction Programme allows our diverse business areas to select a surveying package which can incorporate face to face, telephone interviews or traditional online surveys.

Efficiency of Corporate Functions: Target achieved

The target cost of FCO Service's corporate functions as being no more than 7% of revenue has been achieved, with the cost of corporate areas representing 5.3% of revenue in 2014/15.

Utilisation rate: Target achieved

Our utilisation rate target of a rate of between 75% and 80% has been met, with an average over the year of 76% utilisation being achieved by revenue earning staff. Staff compliance with the prompt and accurate completion of time

– recording has remained a focus of attention throughout the year.

Employee Engagement: Target achieved

Our engagement score increased by 1% from the previous year to 58%, in line with our Ministerial target.

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 73. The total audit fee for 2014/15 is £95k (2013/14 £95k).

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.

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015

Lead Non-Executive Director's Report

Sir Richard Stagg, Chair of the FCO Services Board

2014/15 continued the theme of austerity which has shaped the government environment in the wake of the financial crisis. The pressure to reduce costs remained acute. Despite this, however, FCO Services achieved its highest level of sales ever and delivered a satisfactory profit. This was, in my eyes, a major tribute to the organisation's commercial effectiveness and maturity.

In addition to monitoring the delivery of the 2014/15 Corporate Plan, the Board made strengthening the relationship with the FCO our top priority. Although the year was not without its challenges – as recorded in the Annual Report – I believe it saw the FCO/FCO Services relationship develop into one increasingly shaped by a sense of partnership – even if this remains work in progress. The review of this relationship concluded that the existing broad framework is appropriate, but recommended a series of changes designed to improve the way the two organisations work together. The review formed the backdrop to our 2015-18 Corporate Plan which is deliberately more cautious than in previous years, particularly in the technology area.

I attended the October FCO Board, which considered the review and the wider FCO/FCO Services relationship. It was one of the most thorough discussions of FCO Services at the Board and it laid the foundations for an even more productive relationship in future. Certainly FCO Services sees delivering for its owner and principal customer as the critical challenge in the years ahead. That said, pressures on the FCO budget mean that we will need to continue to seek out appropriate opportunities, elsewhere in HMG or with friendly foreign governments.

The last year was one of change on the Board. We learned, with regret, that Chris Moxey had decided to stand down after over nine years as CEO. He has played a central role in creating the FCO Services which we know today. I believe he can be proud of the legacy he leaves behind and I wish him all success in the future. Recruitment of a new CEO to succeed Chris is well advanced and an appointment

should be made this Summer, after a selection process supervised by the Civil Service Commission.

Last year also saw three Non-Executive Directors leave the board. Both David Kogan and Wendy Barnes had been at the heart of the transformation of FCO Services since 2008; and David was closely involved in the decision to create the Trading Fund. Andrew Mitchell had links with FCO Services dating back over a decade and was a vital bridge to the main FCO. I am grateful for their sustained contribution to FCO Services and wish them all a happy and productive future. I am delighted to welcome their successors to the Board: Glyn Smith; Stephen Barrett; and Hugh Elliott (representing the FCO). They will ensure that the Board continues to have a broad base of skills and experience, well designed to allow us to provide support and constructive challenge to the new CEO and his or her executive team.

I believe that the Board continued to make a significant contribution to FCO Services' progress and development. We engaged closely on the review of the organisation's work in the technology area, developing an approach which reflected the FCO's appetite for risk. This then became one of the central planks of our Corporate Plan for 2015-2018, which the Board signed off in March. Our Audit and Risk Assurance Committee provided assurance to both Chris Moxey and the Board – under Glyn Smith's chairmanship since January.

On a personal note, I am delighted to have been asked to continue chairing the FCO Services Board, although I retired from the FCO at the end of April. I remain confident that the organisation will prosper in the future – above all because of the quality, skills and commitment of those who work for it, whether in London, Hanslope or overseas.

Sir Richard Stagg
Chair, FCO Services Board



Remuneration Report

This report provides details of the remuneration, compensation payments, service contracts and pensions of FCO Services Board members for the year ended 31 March 2015. The Board is comprised of both Non-Executive and Executive Directors and the relevant disclosures of each are set out below.

Remuneration policy for senior civil servants

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- government policies for improving the public services, including the requirement on departments to meet the output targets for the delivery of departmental services;
- likely funds available to FCO Services from its trading relationship with the FCO and wider markets and the need to provide appropriate levels of service to customers in accordance with SLA and contractual agreements;
- the requirement to meet agreed efficiency or headcount targets;
- 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). His appointment was extended on 6 February 2014 to 31 May 2015. From 24 January he also assumed the role of Interim Technology Group Director. He left under Voluntary Exit terms on 31 May 2015.

Helen Sullivan (Finance Director) holds an open-ended appointment until retirement. Appointed Interim Chief Executive, Accounting Officer and Interim Technology Group Director on 1 June 2015 until a permanent appointment is made, Helen holds the position of Accounting Officer at the time of signing the Annual Report and Accounts.

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

Andrew Coller (Commercial and Supply Chain Director) holds an open-ended appointment until retirement.

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

Daniel Payne (Security and Property Group Director) holds an open-ended appointment until retirement.

David Williams (Technology Group Director) left under Voluntary Exit terms on 30 November 2014. In the interim, David Smith assumed leadership of the Technology Group whilst a new Director was recruited.

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

Employment contracts for Executive Directors who are not civil servants

Philip Colley (Interim Commercial Director) was appointed as Interim Commercial Director on 20 February 2012 for 120 days. Philip worked part time during this period so the 120 day contract took him to 14 October 2012. Badenoch and Clark provided the services of Philip Colley during this period. On 15 October 2012 he was transferred to a two year Fixed Term Contract. The contract termination notice period of four weeks ran from 30 September 2014, he resigned on 31 October 2014.

Neil Masom OBE (Interim Network Services Director) resigned on 9 March 2014 as Interim Deputy Chief Executive. On 1 October 2014 he was appointed as Interim Network Services Director until 31 March 2015, during which period he was a member of the Board and Executive Committee. LA International Computer Consultants Ltd provided the services of Neil Masom during this period.

David Smith (Interim Technology Group Director) was appointed on 28 July 2014 for six months; he resigned on 23 January 2015. LA International Computer Consultants Ltd provided the services of David Smith during this period.

No compensation is payable for early termination.

Executive Members' and Key Management Personnel Remuneration and Pensions

| | Salary £000 | | Performance Related payment £000 | | Pension Benefits (to nearest £000) (Note 1) | | Total £000 | |
|--|---|--|--|---------|---|---------|---|---------|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| Sarah Cevro (Note 2) | 100-105 | 100-105 | Nil | Nil | 32 | 31 | 130-135 | 130-135 |
| Andrew Coller (Note 3) | 95-100 | 100-105 (95-100 full year equivalent) | Nil | Nil | 30 | 24 | 125-130 | 125-130 |
| Philip Colley (until 31 October 2014) (Note 4) | 60-65 (105-110 full year equivalent) | 105-110 | Nil | Nil | 20 | 34 | 80-85 (125-130 full year equivalent) | 140-145 |
| Neil Masom OBE (from 1 October 2014) (Note 5) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Nigel Morris (Note 6) | 65-70 | 80-85 | Nil | Nil | 6 | 4 | 70-75 | 80-85 |
| Christopher Moxey (Note 7) | 135-140 | 135-140 | 10-15 | 10-15 | 30 | 35 | 175-180 | 180-185 |
| Daniel Payne (Note 8) | 120-125 | 105-110 | 5-10 | 5-10 | 41 | 35 | 170-175 | 150-155 |
| David Smith (from 28 July 2014 to 23 January 2015) (Note 9) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Helen Sullivan | 95-100 | 75-80 | Nil | 5-10 | 18 | 19 | 110-115 | 105-110 |
| David Williams (until 30 November 2014) (Note 10) | 75-80 (110-115 full year equivalent) | 110-115 | Nil | Nil | 42 | 41 | 120-125 (155-160 full year equivalent) | 150-155 |

| | 2014/15 | 2013/14 |
|---|---------|---------|
| Band of Highest Paid Director's Total Remuneration (£'000) | 185-190 | 175-180 |
| Median Total Remuneration £ | 35,900 | 36,963 |
| Ratio (Note 11) | 5.2 | 4.8 |

Compensation for loss of office

David Williams left under Voluntary Exit terms on 30 November 2014. He received a compensation payment of £55k-£60k and compensation in lieu of notice of £30k-£35k. The cost of buying out the balance of the actuarial reduction on his pension was £20k-£25k.

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

Note 2. Benefits in kind were received by Sarah Cevro to the value of £1,488 for Salary Sacrifice Child Care vouchers. (2013/14 benefits in kind were received by Sarah Cevro to the value of £1,488 for Salary Sacrifice Child Care vouchers). The values for Salary Sacrifice Child Care vouchers are already included in her remuneration value for both financial years. MyCSP, the public sector pension administrator, has restated the pension benefit figure for 2013/14, following a retrospective update to salary data.

Note 3. Pension benefit values for Andrew Collier include a preserved award. (During 2013/14, Andrew Collier, received remuneration of £0k-£5k that related to 2012/13, the value disclosed in 2012/13).

Note 4. MyCSP, the public sector pension administrator, has restated the pension benefit figure for Philip Colley for 2013/14, following adjustments to inflation values in 2013/14 which should not have been included.

Note 5. LA International Computer Consultants Ltd provided the services of Neil Masom OBE. Neil was appointed on 1 October 2014 until 31 March 2015. The total fees paid amounted to £55k-£60k which would equate to £190k-£195k for a full year. The total fees stated here includes the additional element relating to the agency fees paid to LA International Computer Consultants Ltd, producing the variance from the band used in the ratio calculation in the table above for the total remuneration paid to the director. (2013/14 Neil Masom was appointed Interim Deputy Chief Executive on a Fee Paid Contract for 104 days from 4 December 2012. On 22 July 2013 this was extended by 52 days to 156 days and on 1 November 2013 by a further 52 days to 208 days until his resignation on 9 March 2014. His payments were processed through the FCO Services' payroll. The total fees paid amounted to £135k-£140k (which included £10k-£15k for 2012/13 and £0k-£5k was accrued for 2013/14). This would equate to £175k-£180k for a full year).

Note 6. Nigel Morris partially retired on 30 September 2014 and stood down from the Board. He continued in the role of Government Services Director and is a member of the Executive Committee.

Note 7. Pension benefit values for Christopher Moxey include a preserved award.

Note 8. MyCSP, the public sector pension administrator, has restated the pension benefit figure for Daniel Payne for 2013/14, following adjustments to inflation values in 2013/14 which should not have been included.

Note 9. LA International Computer Consultants Ltd provided the services of David Smith in the role as Interim Technology Group Director. The total fees paid amounted to £75k-£80k, which would equate to £185k-£190k for a full year.

Note 10. MyCSP, the public sector pension administrator, has restated the pension benefit figure for David Williams for 2013/14, following adjustments to inflation values in 2013/14 which should not have been included.

Note 11. The basis for the median pay calculation for both financial years is based on the requirements specified in the Hutton Review of Fair Pay – Implementation Guidance. The guidance requires the calculation to be based on the pay of full-time equivalent staff (including contractors in line positions and excluding the highest paid director) of FCO Services, at the reporting end date, on an annualised basis. The annualised remuneration of staff includes, salary, non-consolidated performance-related pay, benefits in kind, allowances etc. matching the remuneration report disclosures for the directors. The 2014/15 median pay ratio increased by 8.3% from 2013/14 due to two reasons. The median of total remuneration of staff reduced by £1,063 due to a reduction in the ratio of contractors to staff across the two financial years. In addition the midpoint of the highest paid director increased by £10k. The remuneration of the same director was used for the ratio calculation for both financial years. In 2013/14 the director was paid on a Fee Paid basis and in 2014/15 on a contractor basis.

The above table and notes have been subject to audit.

Salary

'Salary' includes gross base salary; overtime, location allowance; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made to members of the FCO Services Board and key management personnel and thus recorded in these accounts.

Performance Related Payments

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

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

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

For performance related pay, line managers are asked for a judgement about the jobholder's delivery of clear, stretching and specific outcomes in year. They should take into account factors like stretch, complexity, challenging environment and availability and quality of resources. Following validation, 25%

of SMS staff can be allocated a bonus. The levels of bonuses awarded to the top 25% are set as £9,600 (SMS 1), £11,250 (SMS 2), £13,500 (SMS 3).

The table above shows the performance related payments paid in 2014/15.

Benefits in kind

The monetary value of benefits in kind covers any taxable benefits not given to the individual as cash. Other than detailed above, no other executive member or key management personnel received any benefits in kind in 2014/15 (For 2013/14 no other executive member or key management personnel received any benefits in kind).

Executive members' and key management personnel pension benefits

| | Accrued pension at pension age as at 31/03/15 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/03/15 | CETV at 31/03/14 | Real increase in CETV | Employer contribution to partnership pension account |
|--|--|--|------------------|------------------|-----------------------|--|
| | £000 | £000 | £000 | £000 | £000 | Nearest £000 |
| Sarah Cevro (Note 1) | 15-20 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 245 | 205 | 23 | - |
| Andrew Coller (Note 2) | 15-20 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 248 | 209 | 22 | - |
| Philip Colley (until 31 October 2014) (Note 3) | 0-5 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 75 | 54 | 17 | - |
| Nigel Morris | 30-35 plus a lump sum of 100-105 | 0-2.5 plus a lump sum of 0-2.5 | 736 | 732 | 5 | - |
| Christopher Moxey (Note 4) | 20-25 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 399 | 346 | 27 | - |
| Daniel Payne (Note 5) | 15-20 plus a lump sum of nil | 2.5-5.0 plus a lump sum of nil | 143 | 112 | 14 | - |
| Helen Sullivan | 10-15 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 256 | 234 | 17 | - |
| David Williams (until 30 November 2014) (Note 6) | 30-35 plus a lump sum of nil | 0-2.5 plus a lump sum of nil | 460 | 411 | 30 | - |

Note 1. MyCSP, the public sector pension administrator, has restated the CETV at 31/03/14 for Sarah Cevro, following a retrospective update to salary data.

Note 2. The pension disclosure for Andrew Coller includes a preserved award.

Note 3. MyCSP, the public sector pension administrator, has restated the CETV at 31/03/14 for Philip Colley, following adjustments to inflation values in 2013/14 which should not have been included.

Note 4. The pension disclosure for Christopher Moxey includes a preserved award. MyCSP, the public sector pension administrator, has recalculated the CETV at 31/03/14 for Christopher Moxey.

Note 5. MyCSP, the public sector pension administrator, has restated the CETV at 31/03/14 for Daniel Payne, following adjustments to inflation values in 2013/14 which should not have been included.

Note 6. MyCSP, the public sector pension administrator, has restated the CETV at 31/03/14 for David Williams, following adjustments to inflation values in 2013/14 which should not have been included.

The above table has been subject to audit.

Civil Service Pensions

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

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase Legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website: www.civilservicepensionscheme.org.uk

New Career Average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme.

Further details of this new scheme are available at: <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>

Cash Equivalent Transfer Values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Non-Executive Directors

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

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

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

No pay or pension costs are included in FCO Services' accounts in respect of Sir Richard Stagg, Andrew Mitchell or Hugh Elliott, 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, Andrew Mitchell and Hugh Elliott) are paid through the FCO Services payroll.

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

Wendy Barnes (Chair of the Audit and Risk Assurance Committee), appointed on a three year contract commencing on 1 September 2009 as a Non-Executive Director which was extended to 31 December 2014 when Wendy left the Board at the end of her contract.

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

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

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

David Kogan OBE, appointed on a three year contract commencing on 1 March 2008 as a Non-Executive Director which was extended to 10 July 2014 when David left the Board at the end of his contract.

Andrew Mitchell CMG, appointed on a three year contract commencing on 1 September 2011 as a Non-Executive Director which was extended to 31 December 2014 when Andrew left the Board at the end of his contract.

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

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

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

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

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

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

Remuneration payments to Non-Executive Directors

| | 2014/15 | 2013/14 |
|---|--|---------------------------------------|
| | £000 | £000 |
| Sir Richard Stagg KCMG (note 1) | - | - |
| Andrew Mitchell CMG (until 31 December 2014) (note 1) | - | - |
| Hugh Elliott (from 1 March 2015) (note 1) | - | N/A |
| Michael Attenborough-Cox (note 2) | 5-10 | 0-5 (5-10 full year equivalent) |
| Wendy Barnes (until 31 December 2014) | 10-15 (15-20 full year equivalent) | 15-20 |
| Stephen Barrett (from 1 November 2014) | 5-10 (15-20 full year equivalent) | N/A |
| Stephen Hawker CB (note 3) | 15-20 | 15-20 |
| David Kogan OBE (until 10 July 2014) | 0-5 (15-20 full year equivalent) | 15-20 |
| Glyn Smith (from 1 September 2014) | 5-10 (15-20 full year equivalent) | N/A |

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

Note 2. (During 2013/14 Michael Attenborough-Cox received remuneration of £0k-£5k and £0k-£5k was accrued for 2013/14, which equates to £5k-£10k for a full year).

Note 3. During 2014/15 Stephen Hawker also took part in Director Recruitment; his fees in respect of this amounted to £0k-£5k (2013/14 Stephen Hawker also chaired the G2G Interim Board; his fees in respect of this amounted to £5k-10k).

The above table and notes have been subject to audit.

Helen Sullivan

Interim Chief Executive and Accounting Officer

25 June 2015

Annual Governance Statement and Risk Assessment

1. Scope of responsibility

As Accounting Officer (from 1 June 2015) I have consulted Chris Moxey, the outgoing Accounting Officer, in the drafting of this statement.

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

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

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

2. The governance framework

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

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

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

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

The Board, under the direction of the Chair, has established an annual performance management process to evaluate its overall performance and effectiveness, as well as the performance and contribution of Board members. This self-assessment format was agreed in 2008 and is conducted annually, measuring both behaviours and processes on a numerical scale with the option for further subjective views.

The Board has undertaken its annual review. There was recognition that the Board is continuing to develop and is now operating at an enhanced level of maturity. With this maturity comes further challenge, in particular continuing to improve the ways in which it operates that can capitalise further on the contribution of both Executive and Non-Executive directors.

The quality of the information presented to the Board is under regular review. This year attention has been focused on developing a corporate dashboard in a readily digestible format to enable the Board to understand important issues in the areas of staff management, customer relationships, financial performance and operational delivery. The corporate risk report has also been refreshed to provide a concise overview of the status of each of our nine risk categories, highlighting both current and emerging risks and issues.

The Audit and Risk Assurance Committee supports the Board and Chief Executive in the management of risk, internal control, and assurance and governance. Meetings are undertaken at least four times per year. Its membership consists of three Non-Executive Directors (increased to four in February 2015), one serving as Chair and a Finance representative from the FCO. The Chair of the Committee formally changed on 1 January 2015 with the outgoing chair hosting her last meeting in December 2014. Three of the current Non-

Executive Directors are also Board members. Those in the following roles have a standing invitation to attend: FCO Head of Internal Audit; the National Audit Office; Finance Director; Accounting Officer; all Non-Executive Directors formally appointed to the Board and the Chair of the Board. Members of the Executive Committee attend by invitation as required.

In February 2013 the Board established the FCO Services Government to Government (G2G) Oversight Sub-Committee, and this provided governance and management oversight and advice to the FCO Services Board and Chief Executive on G2G opportunities. With no large-scale programmes of work in existence, this Sub-Committee was wound up in January 2015. Cross-government discussions have been taking place about how government to government work can be managed in future, and which department should maintain oversight.

The Executive Committee usually meets bi-weekly; it consists of me (in the role of Chief Executive) and the Executive Directors. Its primary purpose is to support the Chief Executive by taking ownership of our day-to-day management and performance against our agreed business plan. The Committee manages resources and delivery of our performance targets set out in our business plan and any key delivery risks. In addition to this, monthly Operational Review Boards, which I chair, have been in place since 1 April 2014.

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

FCO Services' Board Attendance (April 2014 to March 2015 inclusive)

| Board Member | Possible Board Attendance 2014/15 | Actual Board Attendance 2014/15 |
|--|-----------------------------------|---------------------------------|
| Sir Richard Stagg KCMG, Non-Executive Director and Chair | 7 | 7 |
| Wendy Barnes, Non-Executive Director (until 31 December 2014) | 5 | 5 |
| Stephen Hawker CB, Non-Executive Director | 7 | 7 |
| David Kogan OBE, Non-Executive Director (until 10 July 2014) | 1 | 1 |
| Andrew Mitchell CMG, Non-Executive Director (until 31 December 2014) | 3 | 3 |
| Glyn Smith, Non-Executive Director (from 1 September 2014) | 4 | 4 |
| Stephen Barrett, Non-Executive Director (from 1 November 2014) | 3 | 3 |
| Hugh Elliott, Non-Executive Director (from 1 March 2015) | 1 | 1 |
| Chris Moxey, Chief Executive and Accounting Officer | 7 | 7 |
| Helen Sullivan, Finance Director | 7 | 6 |
| Neil Masom OBE, Interim Network Services Director, (1 October 2014 to 31 March 2015) | 2 | 2 |
| Danny Payne, Security and Property Group Director | 7 | 7 |
| David Williams, Technology Group Director (until 30 November 2014) | 2 | 2 |
| Nigel Morris, Government Services Director | 4 | 4 |
| Phil Colley, Commercial Group Director (until 31 October 2014) | 4 | 4 |
| Sarah Cevro, Human Resources Director | 7 | 7 |
| Andrew Coller, CSCG Director | 7 | 7 |
| David Smith, Interim Technology Group Director (from 28 July 2014 to 23 January 2015) | 3 | 3 |

FCO Services' Board Attendance (April 2014 to March 2015 inclusive)

| Audit and Risk Assurance Committee Member | Possible Audit & Risk Assurance Committee Attendance 2014/15 | Actual Audit & Risk Assurance Committee Attendance 2014/15 |
|---|--|--|
| Wendy Barnes, Chair and Non-Executive Director (Out-going Chair, last meeting December 2014) | 4 | 4 |
| Glyn Smith Chair and Non-Executive Director (Incoming Chair, first meeting February 2015) | 1 | 1 |
| Stephen Hawker CB, Non-Executive Director | 5 | 5 |
| Michael Attenborough-Cox Non-Executive Member (Audit Committee Member from 1 August 2013) | 5 | 5 |
| Susan Graham, FCO Deputy Finance Director & Finance representative | 5 | 4 |
| Stephen Barrett, Non-Executive Director (first meeting February 2015) | 1 | 1 |

3. Report of the Audit and Risk Assurance Committee

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

- to ensure that an appropriate framework of internal controls exists and has been in operation throughout the year;
- to ensure that an appropriate framework for risk management is in place and has been embedded effectively throughout the organisation;
- to agree an audit strategy and an annual audit plan and to monitor progress both of the audit work and management actions agreed in response to audit findings;
- to review the reports of the internal auditor and the Anti Fraud & Corruption Unit (AFCU);

- to monitor progress against management action plans;
- to review the annual accounts and recommend adoption to the Board.

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

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

In total, 11 new internal audits were undertaken during the year, plus one follow-up audit. Of these, we have had two audits rated as providing a Substantial level of assurance; seven rated as having a Moderate opinion, one for which the level

of assurance is Limited and two where the level of assurance was Unsatisfactory.

This reflects the same overall assurance level of Moderate as last year, but this year identifies a sustained rather than an improving trend of risk management as confirmed by the Head of Internal Audit.

It has been agreed by the Committee, the Executive Management Team and the Head of Internal Audit, that FCO Services would adopt a model of annual audit planning. This replaces the previous process of setting plans for a three year period. The annual plan is supported with a mid-year review to confirm the business and assurance requirements. These reviews are conducted and led by the Head of Internal Audit.

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

The Anti Fraud & Corruption Unit (AFCU) provided the Committee with valuable advice and reports on matters relating to the investigation and prevention of fraud, and continued to represent FCO Services on the

Government's 'Counter-Fraud Champions' Network. There have been four investigations undertaken by AFCU on behalf of FCO Services during this period. Two have been concluded with proportionate action undertaken. The remaining cases are being managed by the AFCU to my satisfaction.

FCO Services has developed an Assurance Map which is a formal part of the risk management assurance model, with scheduled Executive review recognised. In addition the Executive Committee reviews all outstanding actions and audit recommendations on a regular basis, as an integral part of performance management. This is scheduled for three times a year.

Managing Information Risk continued to receive management attention during the year. In consultation with the FCO, FCO Services has decided to undertake a 'light' version of the Information Asset Maturity Model (IAMM). This decision was taken on the basis that in 2013 FCO Services achieved a full level 3 maturity across all areas from a self assessment supported by The National Technical Authority for Information Assurance, CESG. Third Party suppliers continue to be evaluated annually against their compliance with information management requirements and now the Cyber Essentials Scheme.

The change in organisational structure to three Service Delivery Groups and four Corporate Groups has, over the last six to twelve months, brought some project delivery challenges to the Risk Management framework. These have been addressed during the year. The Committee is confident that the Executive have demonstrated that they will resolve any residual issues in line with the high standard of risk management and control demanded of a Government Trading Fund.

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. First published in 2008 (when FCO Services became a Trading Fund), the Framework Document was reviewed in April 2014, and remains the overarching statement of the Trading Fund's governing principles, from which stems all agreements and arrangements between the FCO and FCO Services.

In addition to this, FCO Services' Corporate Governance Document sets out the Corporate Governance applied within FCO Services (set out in section 2 above) - the design of which has drawn upon the guiding principles published in, 'The Corporate Governance Code' and 'The Audit and Risk Assurance 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 published in July 2013. 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 sets out clear responsibilities through the organisation, defines what is meant by risk and risk management and outlines the key principles underpinning our approach to the management of risk.

All identified risks are managed within the business enabling recognised ownership at Group level and shared accountability at corporate level.

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

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

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

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

6. The Risk and Control Framework

6.1 Risk management framework

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

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

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

Our risk management approach is designed to achieve a cost-effective balance between mitigation and acceptance of risk. 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 manner.

Following on from an internal Risk Management review the Finance Director has assumed the responsibility of Chair to the monthly Joint Risk Review Management Panel. The quarterly Executive Risk Review panel is chaired by me

as Accounting Officer. Both of these forums provide oversight and scrutiny to Business Group risk reporting. Business Group reports are summarised by the Executive into a Corporate Risk Report. The purpose of this report is to inform, provide assurance and to escalate potential risk to the FCO Services Board. The report is subsequently reviewed by the Audit and Risk Assurance Committee and the Owner Board.

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

I am not aware of any evidence to suggest major deficiencies in our risk management process. We have addressed the early issues attributed to moving the organisation to Service and Corporate delivery groups. Overall, we 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 me as the Accounting Officer in maximising the organisation's performance, monitoring performance at corporate level, ensuring that the management and controls required to ensure effective governance and control are in place and to provide support, advice and constructive challenge to the executive team in the execution of their duties;
- the Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks;
- the Audit & Risk Assurance Committee, which considers all aspects of internal control including the consideration of reports from the internal and external auditors and regular reports from Directors and senior managers on operational and financial aspects of their activities;
- the Executive Risk Review meetings, which are held three times a year with a business group Joint Risk Review Management Panel hosted in the intervening months;
- the Business Continuity Management Steering Group (BCMSG) meets quarterly and sits above the monthly BC Champion Management Group (BCCM);
- the Health and Safety Committee which meets a minimum of four times a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation;
- an annual process of target and budget setting through the Corporate Plan process, covering both Operational and Capital investment requirements;
- a quarterly revised annual planning process;
- monthly monitoring of key performance measures and indicators, including comprehensive financial and HR data and project reports;
- project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools;
- a system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports;
- individual approval of capital (including research and development) expenditure projects, supported by appropriate business cases, by the Executive;
- annual letters of assurance provided by members of my Executive Team, supported by assurances from their senior managers and information asset managers, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these;

- a programme of internal audits delivered to Public Sector 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) which provides internal control comments in its management letters and other reports;
- internal reviews utilising the Managing Risk of Financial Loss (MRoFL) toolkit, with reports and recommendations issued to the Executive Committee;
- achievement of the British Standards Institute (BSI) ISO 9001 certification in April 2011 for our Quality Management Systems in delivering Perimeter and Protective Security, Secure Disposals, the commercial process and supporting activities around them. These define and control the processes used to deliver these services to our customers; they are audited (internally and externally) to identify continuous improvement opportunities. In March 2014 FCO Services achieved recertification of the current scope, and in 2015 (January and March respectively) two new areas, part of the ISO 9001 Extension Programme, came into scope; the Billing, Invoicing and Credit Management processes (Finance: BUSS – Business Unit Support Services) and the provision of Service Desk Management and IT Service Management related processes (Technology: ICT Operations). A total of eighteen processes across our key operational and functional areas are now formally recognised for their effectiveness;
- a number of security focussed governance groups, notably the Security Committee which meets quarterly and is chaired by myself as the Accounting Officer. The terms of reference have recently been reviewed

and updated in light of changes in threat and to take a more holistic view of security in the organisation;

- other specific risk reviews, including Health and Safety reviews and commissioned third party reviews of particular policies and processes, as appropriate.

6.3 Management of information risk

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

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

A further review of FCO Services Information Assurance (IA) in the organisation has been completed, with implementation now well underway. The Cyber Security Steering Group has been re-invigorated, and IA and associated training relevant to each IA role instigated.

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

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

Further to this, FCO Services is engaged in delivering a comprehensive IA training programme to all IA appointed roles. The training includes the provision of formal IA reporting mechanisms at all levels of the organisation. This includes The National Archives who will be delivering Data Protection courses to the FCO Services IA community and those areas within the organisation that deal with personal information.

During 2015, further awareness and education will be delivered through our strengthened relationship with the University of Warwick.

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

All internal systems within FCO Services have been accredited to HMG IA1/IA2 standards or are being risk managed.

FCO Services hosts a wide range of environments that are formally accredited at local level and Pan Government. All systems are reviewed on an annual basis, or when significant change occurs and are subject to regular vulnerability assessments and IT Health Checks. In addition, FCO Services operates a Security Operations Centre (SOC) to ensure a protective monitoring capability across hosted environments. All new systems or services are subject to an accreditation process where FCO Services undertakes an appropriate and proportionate risk management approach. FCO Services' internal governance process is supported by a number of workgroups and boards that manage IA from group to corporate level.

Priorities for 2015 include review of the accreditation process and tools. In addition, a review of Crypto holdings will take place. A compliance tool (BEATO) will be trialled and – if successful – used to monitor compliance within the organisation against ISO27001 and the 10 Steps to Cyber Security. Further reviews of functionality across the business will be undertaken to look at how this tool might be extended.

The IA governance of the FCO Services hosted GSAE and Cirrus360 platforms has been reviewed by the Public Services Network (PSN) and the Pan Government Accreditation Panel (PGA) with the FCO Services hosted systems meeting the requirements for PSN Code of Connection compliance and PGA accreditation.

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

A revised suite of Information Assurance policies has been created, in line with ISO27001. These have been reviewed by senior Executives at an Extraordinary Security Committee. A communications plan is now being used to deliver awareness of these new policies.

The annual review of the Corporate Knowledge strategy has been undertaken and revised to include the introduction of an electronic document records management system (EDRMS).

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.

People

Staff engagement

Staff engagement is essential to our being able to operate as a successful organisation. The underlying risk is that poor staff engagement and motivation levels impact overall business delivery and customer satisfaction levels, so positive engagement underpins future performance. We are committed to making FCO Services a better place to work and will continue to focus on the implementation of local engagement action plans to address leadership and management issues that are specific to business areas.

We recognise that attracting the right people into the organisation, developing our talent and engaging our workforce are fundamental to delivering business growth through improved performance and customer service. To address related key risks we have focused on four main areas: improving recruitment, managing talent, improving staff engagement and more effective management of contractors.

In 2014/15 we implemented a new resourcing strategy, which included streamlined recruitment processes, the development of our employer value proposition and the introduction of social media. Despite continued public sector pay constraint, we continued to be successful in our recruitment with effective and targeted campaigns and the use of allowances to attract to shortage skill groups.

Following the introduction of a new appraisal scheme at the start of 2014/15, we have implemented a new talent management and succession planning process based on the civil service model. This was completed in April 2015 and forms the basis for developing our high potential employees and succession plans in 2015/16.

Aligned to the development of high potential employees is the implementation of our One Team Inspiring Leadership programme that was launched in March 2015. The programme is our key initiative for improving staff engagement across the business and supplements our corporate and local Staff Engagement Action Plans, which are monitored through Operational Review Boards. We will also start the re-accreditation process for Investors in People in June using the new national standard, and this will provide additional feedback on areas to build engagement levels.

Personnel changes at senior level

There have been several changes at Executive and Board level during 2014/15. Although these changes could have presented a risk to the stability of the business, they have been carefully managed to ensure their impact was minimised. Moreover, we have taken this opportunity to further strengthen and optimise our Executive and Non-Executive leadership. During this period these changes encompassed: three new Non-Executive Directors; two new Executive Directors; the engagement of an interim Executive Director and, moving into 2015/16, a change of Accounting Officer.

Contractors and agency staff

FCO Services utilises the skills of a significant number of contractors and agency staff to deliver its broad range of services, supplementing both the skill set and capacity of permanent staff. As an essential part of our workforce, interims provide flexibility for the development of new business bids, the delivery of projects and covering key vacancies, as well as sourcing specialist 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 actively to manage contractor replacement and the internal transfer of skills. Since May 2013 we have replaced over 50 contractors with employees, delivering significant business efficiencies of over £1m. Employee recruitment is underway that should realise further savings in the region of £1.5m in early 2015/16 and more is being planned. The real challenge continues to be to transfer knowledge from interim staff to employees to support future business delivery and our talent management and engagement aims. Contractor reductions are also one of the mitigations for managing our key new people risk in 2015/16: identifying workforce efficiencies to support the delivery of our new corporate plan.

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

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

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

Table 1: For all off-payroll engagements as of 31 March 2015 for more than £220 per day and that last for longer than six months.

| | FCO Services |
|--|--------------|
| No. of existing engagements as of 31 March 2015 | 211 |
| Of which... | |
| No. that have existed for less than one year at time of reporting. | 44 |
| No. that have existed for between one and two years at time of reporting. | 51 |
| No. that have existed for between two and three years at time of reporting. | 46 |
| No. that have existed for between three and four years at time of reporting. | 30 |
| No. that have existed for four or more years at time of reporting. | 40 |

Note: We have a number of contractors whose contracts have been extended to provide specialist skills or to maintain continuity on long term customer projects.

Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months

| | FCO Services |
|--|--------------|
| No. of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015 | 73 |
| No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations | 73 |
| No. for whom assurance has been requested | 73 |
| Of which... | |
| No. for whom assurance has been received | 68 |
| No. for whom assurance has not been received | 5 |
| No. that have been terminated as a result of assurance not being received. | 5 |

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015.

| | FCO Services |
|--|--------------|
| No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year. | 2* |
| No. of individuals that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both off-payroll and on-payroll engagements. | 2* |

* The Board members were Neil Masom and David Smith

Sales

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

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

These changes that were implemented across FCO Services at the end of 2013/14 have now bedded in successfully and we continue to give priority to how we manage our relationships with customers. We have developed and introduced enhanced customer satisfaction surveys, action plans and feedback to address issues with our

delivery. Similarly, we are making changes to our commercial process to increase our oversight of business opportunities and any associated risks in pursuing them.

The intent of the Cabinet Office is to open up the majority of the government market to suppliers operating a lower tier than where FCO Services is most competitive, therefore the preferred market strategy for Technology Group has been reviewed and amended. The revised strategy is focused on delivering secure digital services to a more focused and niche customer base. The primary focus is to service the FCO's technology requirements and thereafter our existing customer base whilst seeking new opportunities in the wider market with our existing product portfolio and in specific targeted sectors.

The new financial year contains uncertainty for FCO Services. In particular a watching brief is necessary on the outcome and potential impact of the governmental 2015/16 spending review. Scenario modelling has been developed to consider the potential impacts. In addition to this, the volatility of working with foreign governments in the wider market is recognised and understood.

Financial and Governance

The effective use of public money remains an important focus for the Trading Fund. We are keen to ensure that business processes are fit for purpose, but at the same time provide the necessary controls against the risk of financial loss or fraud. This year we have carried out detailed internal reviews of the controls around two key financial processes: Order to Cash, and Purchase to Pay. Remedial action plans have been put in place to address areas for improvement, working not only with internal stakeholders, but with external customers to improve process and eliminate bottlenecks. The Purchase to Pay review was broadly positive, but highlighted a need to clarify the documentation required to support delivery of goods or services.

Following the review of the Government Procurement Card process last year, whose findings were confirmed by an internal audit with limited assurance this year, we have issued updated guidance to ensure approvers understand their responsibilities in approving expenditure. The review of payroll processes indicated some confusion around where certain responsibilities lay, and we are working to address this. More controls around transaction areas, such as overtime, are also being defined. An internal audit of our pricing policy and processes has also just been completed. We are still reviewing its findings and will implement any remedial action plan early in the new financial year.

Last year we reported that we had updated our Raising Concerns Policy. There are signs that this initiative has been successful, with a number of concerns being investigated by nominated officers in the year. We are currently developing another communications plan to keep awareness of this important policy at a high level among our staff.

Management of cash and working capital has been an area of particular attention this year. Ensuring that we can bill our customers in as timely a manner as possible has been a key focus of the Order to Cash review.

We have developed update reports around all elements of our billing process, to help identify bottlenecks and areas requiring action. These reports are included in a monthly 'Compliance Report' which is reviewed by the Executive Committee. More work is still needed to ensure all business areas are aware of the need to understand the cash implications of commercial contracts.

Health and Safety and Duty of Care

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

Health and Safety (H&S) within FCO Services continues to be a priority for the organisation given the scope of our work and the locations in which our staff have to operate. Further work has been undertaken in the past year to improve our internal management of this area and a complete policy and guidance review of all our documents has begun. We also review the effectiveness of our health and safety systems by carrying out an annual internal audit against the benchmark of the British Safety Council 5* Audit system.

Accidents (27) and incident (8) occurrences have remained at comparable levels to previous years. Although potential exposures to asbestos (2) have reduced, we continue to recognise this as a significant hazard especially when undertaking work overseas. HSE compliant management and working

processes have been developed, and will be introduced early next year. In the interim there are restrictions in place relating to work which may involve asbestos.

We recently developed a policy for the duty of care obligations to our employees and contractors, particularly in 'hostile and challenging environments'. This incorporates a Duty of Care Framework. We aim to ensure all staff and contractors are afforded the same support when working for non-FCO customers as they receive when working at Post.

Similarly, in response to lessons learned from recent incidents, a new Duty Officer rota has been created, with associated procedures, to respond to any emergencies around the world that may involve our staff.

The Regional Technical Support Services (RTSS) model has been operational since 2013 with the scope of work continuing to expand in year. Overstretch, in terms of resource utilisation, has been of concern and monitored throughout. A global support team has been introduced to mitigate the risk and ensure that we meet our duty of care obligations.

Project Delivery

We operate in excess of one thousand projects globally, and recognise the paramount importance of effective programme governance, which if not in place, could result in reputational damage and financial loss.

FCO Services has an established Programme, Portfolio and Project Management Office (P3MO) to ensure that all projects are managed according to Association for Project Management (APM) accredited project management standards, by qualified Project and Programme Managers (PRINCE2, MSP), supported by trained project control specialists.

A portfolio of high profile and critical ICT projects have been delivered in the year to a range of government departments. Examples of projects completed include the delivery of the passport production service for the Crown Dependencies and the Individual Electoral Registration (IER) solution for the Cabinet Office. The IER solution forms part of the Electoral Reform Transformation Programme (ERTP) for the Cabinet Office. The service went live to budget, deadline and quality in June 2014. It has operated successfully since inception and performed as required during the extremely high profile period in the lead up to the recent General Election.

In April 2014 we were engaged, along with other suppliers, to provide a desktop solution for two government departments within a challenging timeline. Although the technical solution was ultimately delivered successfully, the potential exposure of both the FCO and FCO Services to reputational risk became evident. The FCO Services Board commissioned two in-depth reviews: a Risk Management Review and a Major Projects Review. The Risk Management Review focused on a detailed examination of our risk management framework. Several key areas for improvement were identified within the delivery units, and corporate oversight strengthened in some areas. Progress on the resultant action log has been subject to regular review by the Executive, and the Audit and Risk Assurance Committee. All the remedial actions were completed by the end of the year.

The Major Projects Review focused on the governance, monitoring and reporting of all projects of significance in terms of size or reputational impact. Actions were identified to improve and strengthen the project management process. The majority of these actions have now been implemented, including specific focus on 'On Watch' projects through the Operational Board Review forum, enabling management to identify issues effectively and take prompt action.

In June of last year, FCO Services awarded the new contract for the global delivery of the Diplomatic Bag to Hellmann Worldwide Logistics Ltd following the successful conclusion of the 'Mercury' re-procurement project. With the contract going 'live' in November 2014, FCO Services, working closely with Hellmann Worldwide, have managed a successful transition between the outgoing supplier (DHL) and Hellmann, with many Posts reporting an improvement in the levels of service they receive. FCO Services and Hellmann are continuing to work harder and smarter to build upon this success and ensure that all our customers benefit from the new levels of service this contract affords.

FCO Relationship

In 2011 a formal review was commissioned by the FCO Board to look at the relationship between ourselves and the FCO. The review made it clear that we are an important part of the FCO but it also recognised that the relationship could be improved.

A follow up review was undertaken in Autumn 2014. This made a number of recommendations covering both the performance of FCO Services and its relationship with the FCO, with a particular emphasis on realigning our priorities and risk appetite to those of our parent department. Many of these recommendations have already been implemented. The FCO Owner and Customer Boards have been reshaped and refocused, and there is an improved understanding between the two organisations.

The Regional Technical Support Service (RTSS) continues to attract positive comment from the FCO and PAG (Partners across Government) overseas networks. The consolidated service, embracing Secure IT support, Technical Security and the escorted element of the Diplomat Bag, has resonated extremely well with

recipients of the service. Posts are keen to see the service expand and opportunities are being explored in collaboration with the FCO and PAGs under an Extend & Optimise programme.

Operational Delivery

During the period, investment has been approved to improve the market competitiveness of FCO Services' Secure Digital Services delivery model. This includes expenditure on a new data centre at Hanslope Park to enhance our service resilience. The deployment and migration into the new data centre was completed to deadline, budget and quality in March 2015.

In fulfilling our service to the FCO and our wider customer base there is a requirement to arrange for the transport of lithium-ion batteries. In meeting this requirement we continue to monitor the revisions to the IATA regulations and develop business solutions accordingly to enable compliance and delivery of service.

During the year we experienced failures in components of the Hanslope Park campus power infrastructure. These issues resulted in reduced power resilience supporting our data centres on this site. In this period there were no instances where that reduced resilience combined with National Grid power supply disruption, to create a loss of service to our customers. However, in April 2015, maintenance work to replace the failing components did cause service disruption. These components were repaired as an interim measure and successfully replaced in June 2015.

FCO Services has undertaken the transition from BS 25999 to ISO 22301 and received a certificate of accreditation on 24 April 2014. Certification provides evidence of a proven, robust resilient Business Continuity

Management System, protects our brand, image and reputation, and demonstrates good corporate governance, providing confidence across government and other customers. One of the main tenets of this standard is the importance of ensuring we have a proven, robust, resilient Business Continuity Management System in place and that we have plans and procedures to manage a coordinated incident response.

We have undertaken a thorough review of our critical business activities and have instigated an annual exercise programme to test the adequacy of such plans regularly. In addition we also have in place an annual internal audit schedule, with all audits undertaken by the Business Continuity Manager based on a risk based approach. The scope of this activity has now been extended to encompass internal audits of our critical suppliers.

Having visibility of the volumes of activity flowing through our supply chain is critical if we are to ensure we can meet customer demand, and avoid inefficient bottlenecks. We have therefore initiated a project to review end-to-end supply chain management across the organisation. This project, due to be completed in 2015/16, will define a core spine of process in line with best practice, and recommend changes to business application tools and process as required

Management Information and Response

Having appropriate management information is key to effective decision making, and it is also vital that we have the right tools to produce the information we need as quickly and accurately as possible.

This year, with the introduction of monthly Operational Review Boards for the three Delivery Groups, we have developed a standard

reporting template, which feeds into a refreshed performance dashboard reviewed by the FCO Services Board.

Having visibility of the volumes of activity flowing through our supply chain is critical if we are to ensure we can meet customer demand, and avoid inefficient bottlenecks. We have therefore initiated a project to review end-to-end supply chain management across the organisation. This project, due to be completed in 2015/16, will define a core spine of process in line with best practice, and recommend changes to business application tools and process as required.

Security and Information Assurance

FCO Services has taken appropriate measures to ensure its personnel and property are adequately protected. We work closely with our colleagues in the FCO to ensure we have a co-ordinated response to threats, not least those that are current, such as an Armed Incursion or an over-flight by an Unmanned Aerial Vehicle.

In addition, as we are a global organisation, we ensure we receive timely information about threats to overseas Posts that allow us to provide suitable warning and alerts to our teams who are working in affected parts of the world.

We continue to ensure that staff with specific information assurance roles, especially Information Asset Owners and Information Asset Managers, fully understand their responsibilities, through regular training and briefings.

Work remains ongoing to ensure the completeness and integrity of our information asset registers so we may be certain that all business critical assets have been identified and have the appropriate level of protection and availability.

8. Overall Summary

There has been considerable focus on Risk Management within FCO Services in 2014/15 with the development and enhancement of the following:

- Risk Management Framework and Governance Process;
- Risk Appetite Statement;
- Risk Assurance Map.

The management of risk is now embedded throughout the organisation at all levels and this gives me confidence that FCO Services is proactively understanding its major risks and has the process and procedures in place to manage them in a timely and considered manner.

The underlying risks remain constant from last year and high on the executive agenda: customer relationships, revenue pipeline, staff engagement and duty of care continue to be managed closely and with an increasing level of maturity.

In response to any other major risks (in particular in the IT operational areas) FCO Services has ensured a thorough review has been undertaken and any lessons learned incorporated in future processes and procedures. The strengthening of key risk principles and management controls has now ensured that the business has a robust escalation process which is clearly understood and adhered to. This facilitates the early detection of emerging risks and hence effective management at an early stage.

The Head of Internal Audit has reported to me that a satisfactory level of internal control has been maintained. FCO Services is committed to working with our internal audit colleagues to identify those areas of potential risk and provide assurance to its key stakeholders through early mitigation.

In undertaking this review and forming my view as Interim Accounting Officer (from 1 June 2015) I have taken considerable guidance from Chris Moxey, the outgoing Accounting Officer with responsibility for FCO Services for 2014/15. This valuable guidance, together with the reports received from the Head of Internal Audit and the Chair of the ARAC, provide me with assurance that FCO Services continues to make positive progress in identifying and managing effectively its internal and external risks.

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015

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

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

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

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

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015

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 2015 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 2015 and of its surplus for the year then ended;
- 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;
- the information given in the 'Strategic Report' and the 'Directors' Report' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

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

1 July 2015

Financial Statements

Statement of Comprehensive Income for the year ended 31 March 2015

| | Note | 2014/15 £000 | 2013/14 £000 |
|--|------|-----------------|-----------------|
| Revenue | 2 | 157,340 | 157,036 |
| Cost of sales | 5 | (125,230) | (125,752) |
| Gross surplus | | 32,110 | 31,284 |
| Other Income | 2 | 348 | |
| Operating expenses | 5 | (27,789) | (27,458) |
| Operating surplus | | 4,669 | 3,826 |
| Profit/(loss) on disposal of property, plant and equipment | | 17 | (26) |
| Surplus / (deficit) for the financial year before voluntary exit scheme | | 4,686 | 3,800 |
| Voluntary exit scheme | 4(c) | (1,791) | - |
| Surplus before financing | | 2,895 | 3,800 |
| Financing income | 6 | 63 | 102 |
| Financing costs | 6 | (84) | (99) |
| Net financing | | (21) | 3 |
| Surplus for the financial year | | 2,874 | 3,803 |
| Dividend | 7 | (1,081) | (6,047) |
| Retained surplus / (deficit) for the financial year | | 1,793 | (2,244) |
| Other comprehensive net income | | | |
| Net gain on the revaluation of property, plant and equipment | | 85 | (29) |
| Total comprehensive income for the financial year | | 1,878 | (2,273) |

All income and expenditure are derived from continuing operations.

The notes on pages 79 to 107 form part of these accounts.

Statement of Financial Position

as at 31 March 2015

| | Note | 2014/15 £000 | 2013/14 £000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Intangible assets | 8 | 455 | 435 |
| Property, plant and equipment | 9 | 14,204 | 11,601 |
| Total non-current assets | | 14,659 | 12,036 |
| Current assets | | | |
| Inventories | 10 | 1,025 | 2,774 |
| Trade and other receivables | 11(a) | 26,462 | 28,981 |
| Cash and cash equivalents | 12 | 15,222 | 25,546 |
| Total current assets | | 42,709 | 57,301 |
| Total assets | | 57,368 | 69,337 |
| Current liabilities | | | |
| Trade and other payables | 13(a) | (23,356) | (37,060) |
| Total current liabilities | | (23,356) | (37,060) |
| Total Assets less current liabilities | | 34,012 | 32,277 |
| Non-current liabilities | | | |
| Other Payables | 14(a) | (327) | (160) |
| Provisions due after one year | 16 | (1,276) | (635) |
| Financial liabilities | 17 | - | (951) |
| Total non-current liabilities | | (1,603) | (1,746) |
| Assets less liabilities | | 32,409 | 30,531 |
| Taxpayers' equity | | | |
| Public dividend capital | | 4,981 | 4,981 |
| General reserve | | 332 | 253 |
| Revaluation reserve | | 197 | 191 |
| Income and expenditure account | | 26,899 | 25,106 |
| Total taxpayers' equity | | 32,409 | 30,531 |

The notes on pages 79 to 107 form part of these accounts.

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015

Statement of Cash Flows

for the year ended 31 March 2015

| | Note | 2014/15 £000 | 2013/14 £000 |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Surplus on ordinary activities before dividend payable | | 2,874 | 3,803 |
| Adjustments for non-cash transactions | 18 | 3,181 | 2,638 |
| Net interest payable / (receivable) | 6 | 21 | (3) |
| Decrease in inventories | | 1,749 | 49 |
| Decrease / (increase) in trade and other receivables | | 2,519 | (7,967) |
| less movements in receivables relating to items not passing through the income statement | | | |
| - Accrued deposit interest | | (1) | (2) |
| (Decrease) / increase in trade and other payables | | (13,537) | 6,934 |
| less movements in payables relating to items not passing through the income statement | | | |
| - Dividend payable | | (34) | (102) |
| - Accrued loan interest | | 19 | 19 |
| Reversal of provisions | | - | - |
| Increase in provisions | | 641 | 429 |
| Net cash inflow from operations | | (2,568) | 5,798 |
| Cash flows from investing activities | | | |
| Purchases of intangible assets | 8 | (194) | (293) |
| Purchases of property, plant and equipment | 9 | (5,551) | (5,110) |
| Disposals of property, plant and equipment | | 26 | 12 |
| Net cash outflow from investing activities | | (5,719) | (5,391) |
| Cash flows from financing activities | | | |
| Loans repaid to FCO | | (951) | (951) |
| Interest paid | | (103) | (118) |
| Interest received | | 64 | 104 |
| Dividend paid | | (1,047) | (5,945) |
| Net financing | | (2,037) | (6,910) |
| Net decrease in cash and cash equivalents in the period | | (10,324) | (6,503) |
| Cash and cash equivalents at the beginning of the period | 12 | 25,546 | 32,049 |
| Cash and cash equivalents at the end of the period | 12 | 15,222 | 25,546 |

The notes on pages 79 to 107 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2015

| | 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 2013 | 4,981 | 152 | 321 | - | 27,350 | 32,804 |
| Changes in taxpayers' equity for 2013/14 | | | | | | |
| Unrealised net surplus on revaluation of property, plant and equipment | | | (29) | | | (29) |
| General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis | | 101 | (101) | | | - |
| Retained surplus for the financial year | - | - | - | - | (2,244) | (2,244) |
| Total recognised income and expense for 2013/14 | - | 101 | (130) | - | (2,244) | (2,273) |
| Balance at 31 March 2014 | 4,981 | 253 | 191 | - | 25,106 | 30,531 |
| Changes in taxpayers' equity for 2014/15 | | | | | | |
| Unrealised net surplus on revaluation of property, plant and equipment | | | 85 | | | 85 |
| General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis | | 79 | (79) | | | - |
| Retained surplus for the financial year | - | - | - | - | 1,793 | 1,793 |
| Total recognised income and expense for 2014/15 | - | 79 | 6 | - | 1,793 | 1,878 |
| Balance at 31 March 2015 | 4,981 | 332 | 197 | - | 26,899 | 32,409 |

The Public Dividend Capital Reserve records the investment made in the Trading Fund by the Secretary of State for Foreign and Commonwealth Affairs. The General Reserve is used to account for movements on reserves which do not pass through the income and expenditure account. The Revaluation Reserve records the unrealised profit on the cumulative indexation and revaluation adjustments to non-current assets. The Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund.

Notes to the Accounts

2014/15

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 2014, 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 2014/15 Government Financial Reporting Manual (FRoM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

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

1.2 Accounting Convention

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

1.3 Revenue

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

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

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

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

1.4 Dividend

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

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

1.5 Value added tax

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

1.6 Leases

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

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

Leases are regarded as finance leases, when substantially all risks and rewards of ownership of a lease are borne by FCO Services.

At the commencement of the lease term, finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used is the higher of the real rate and rate intrinsic in the lease.

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

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

Finance charges are recognised and expensed as a Financing Cost.

1.7 Inventories, Work in Progress and Contracts

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

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

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

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

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

1.8 Property, plant and equipment

Property, plant and equipment are stated at fair value at the Statement of Financial Position date using appropriate indices or at valuation. Depreciation is restated proportionately with any change in the gross carrying amount so that the carrying amount after revaluation equals its revalued amount. The minimum level for capitalisation of a single 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. This represents a change to the asset life for fixtures for 2014/15 from 25 years to between 10 and 25 years. This reflects a more realistic asset life for this business:

| | |
|------------------------|----------------|
| Information technology | 2 to 5 years |
| Transport equipment | 2 to 8 years |
| Plant and machinery | 5 to 20 years |
| Fixtures | 10 to 25 years |

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

1.9 Intangible assets

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

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

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

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

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

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

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

1.10 Research and development

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

1.11 Government grants

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

1.12 Bad debts provision

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

1.13 Provisions

FCO Services provides for legal and constructive obligations which are of uncertain timing or amount at the Statement of Financial Position date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rates in real terms (reference PES (2014) 09):

| | | |
|--------------|--|--------|
| Short-term* | Between 0 and up to and including 5 years from the statement of financial position date (SOFP) | -1.50% |
| Medium-term* | After 5 years and up to and including 10 years from the SOFP date | -1.05% |
| Long-term* | Exceeding 10 years from the SOFP date | 2.20% |

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

1.14 Pension Costs

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

1.15 Foreign exchange gains and losses

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

1.16 Contingent liabilities

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

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

2. Revenue

2a. Total Revenue / Other Income

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Foreign and Commonwealth Office* | 91,217 | 97,400 |
| Other UK government bodies and other UK and International organisations | 66,123 | 59,636 |
| Other Income** | 348 | |
| | 157,688 | 157,036 |

* Normal Trading Fund revenue

** Charges relating to contract termination

2b. Construction Contracts

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Contract revenue recognised in the period | 3,795 | 1,995 |
| Costs incurred and recognised profits (less losses) to date | 7,151 | 446 |
| Advances received | - | - |
| Retentions | - | - |

3. Segmental Reporting

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

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

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

Network Services Group delivers the RTSS and Queen's Messengers services across the UK and internationally, vetting, translation and interpreting and logistics.

| Analysis of Operating Surplus by Service Delivery Group* | Security & Property | Technology | Network Services | Total |
|---|--------------------------------|-------------------|-------------------------|------------------|
| | £000 | £000 | £000 | £000 |
| 2014/15 | | | | |
| External revenue | 50,430 | 60,706 | 46,204 | 157,340 |
| Internal revenue - Charged to Security and Property | - | 16 | 2,601 | 2,617 |
| Internal revenue - Charged to Technology | - | - | 414 | 414 |
| Internal revenue - Charged to Network Services | - | 117 | - | 117 |
| Internal revenue - Charged to Corporate Areas | - | 488 | 30 | 518 |
| Total revenue | 50,430 | 61,327 | 49,249 | 161,006 |
| Cost of sales | (38,288) | (48,285) | (35,576) | (122,149) |
| Depreciation | (67) | (2,641) | (267) | (2,975) |
| Amortisation | (6) | (88) | (12) | (106) |
| Impairments | - | - | - | - |
| Internal cost charges | (2,617) | (414) | (117) | (3,148) |
| Total cost | (40,978) | (51,428) | (35,972) | (128,378) |
| Gross surplus | 9,452 | 9,899 | 13,277 | 32,628 |
| Other Income** | 348 | - | - | 348 |
| Operating expenses | (10,323) | (10,406) | (8,720) | (29,449) |
| Allocated internal cost charges | (167) | (199) | (152) | (518) |
| Depreciation | (15) | (17) | (13) | (45) |
| Amortisation | (22) | (27) | (20) | (69) |
| Total Operating Expenses | (10,179) | (10,649) | (8,905) | (29,733) |
| Surplus before financing | (727) | (750) | 4,372 | 2,895 |

* The composition of the reportable segments has changed because of changes in the structure of FCO Services. Analysis of Operating Surplus for 13/14 has been restated to reflect these changes.

**Additional line added for Other Income disclosure, this was not required in 2013/14.

3. Segmental Reporting (continued)

| Analysis of Operating Surplus by Service Delivery Group* | Security & Property £000 | Technology £000 | Network Services £000 | Total £000 |
|--|-----------------------------|--------------------|--------------------------|---------------|
| 2013/14 | | | | |
| External revenue | 48,745 | 61,350 | 46,942 | 157,036 |
| Internal revenue - Charged to Security & Property | - | 424 | 1,217 | 1,640 |
| Internal revenue - Charged to Technology | 188 | - | 1,383 | 1,571 |
| Internal revenue - Charged to Network Services | - | 3 | - | 3 |
| Internal revenue - Charged to Corporate Areas | - | 226 | 34 | 259 |
| Total revenue | 48,933 | 62,001 | 49,575 | 160,510 |
| Cost of sales | (35,405) | (51,987) | (35,786) | (123,178) |
| Depreciation | (136) | (1,511) | (311) | (1,958) |
| Amortisation | (87) | (112) | (26) | (225) |
| Impairments | - | (389) | - | (389) |
| Internal cost charges | (1,652) | (1,561) | (3) | (3,216) |
| Total cost | (37,280) | (55,560) | (36,125) | (128,966) |
| Gross surplus | 11,653 | 6,441 | 13,450 | 31,544 |
| Operating expenses | (9,391) | (9,231) | (8,851) | (27,473) |
| Allocated internal cost charges | (81) | (102) | (78) | (260) |
| Depreciation | (3) | (5) | (1) | (9) |
| Amortisation | (1) | (1) | - | (2) |
| Total Operating Expenses | (9,475) | (9,339) | (8,930) | (27,744) |
| Surplus before financing | 2,178 | (2,898) | 4,520 | 3,800 |

3. Segmental Reporting (continued)

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

| Analysis of Assets less Liabilities by Service Delivery Group** | Client Delivery £000 | Operations £000 | Services & Logistics £000 | Corporate £000 | Total £000 |
|--|-------------------------|--------------------|---------------------------------|-------------------|---------------|
| 2013/14 | | | | | |
| Segment Assets | | | | | |
| Intangible assets | 51 | 68 | 23 | - | 142 |
| Intangible additions in year* | 6 | 59 | - | 228 | 293 |
| Property, plant and equipment | (305) | 6,195 | 775 | 19 | 6,684 |
| Property, plant and equipment additions in year* | 1,016 | 3,183 | 296 | 422 | 4,917 |
| Inventories | 1,794 | 341 | 639 | - | 2,774 |
| Trade and other receivables | 13,396 | 8,084 | 3,299 | 4,202 | 28,981 |
| Cash and cash equivalents | - | - | - | 25,546 | 25,546 |
| Segment Liabilities | | | | | |
| Current liabilities | (9,994) | (14,348) | (2,458) | (10,260) | (37,060) |
| Non current other payables | - | - | - | (160) | (160) |
| Non current provisions | - | (500) | - | (135) | (635) |
| Non current financial liabilities | - | - | - | (951) | (951) |
| Segment assets less liabilities | 5,964 | 3,082 | 2,574 | 18,911 | 30,531 |

*Additions in the year, for 2014/15 and 2013/14, are gross. Depreciation/amortisation related to the additions is shown on the related disclosure line.

** The composition of the reportable segments has changed because of changes in the structure of FCO Services. Prior year comparison of Assets less Liabilities is not possible due to the necessary information not being available and the cost to develop it would be excessive.

4. Staff numbers and costs

4(a) Staff numbers

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

| Staff numbers | | | 2014/15 |
|----------------------------|------------|------------|--------------|
| | Permanent | Other* | Total |
| Service Delivery | 828 | 268 | 1,096 |
| Sales and Marketing ** | 1 | 6 | 7 |
| Corporate Services | 116 | 29 | 145 |
| Total Staff Numbers | 945 | 303 | 1,248 |
| Capitalised Staff *** | (3) | (6) | (9) |
| Net Staff Numbers | 942 | 297 | 1,239 |
| | | | 2013/14 |
| | Permanent | Other* | Total |
| Service Delivery | 765 | 330 | 1,095 |
| Sales & Marketing ** | 26 | 33 | 59 |
| Corporate Services | 95 | 49 | 144 |
| Total Staff Numbers | 886 | 412 | 1,298 |
| Capitalised Staff *** | (3) | (17) | (20) |
| Net Staff Numbers | 883 | 395 | 1,278 |

*Other comprises agency staff and fee paid officers.

**The majority of Sales & Marketing staff have been absorbed into the Service Delivery Group areas, therefore, there is no direct comparison to 2013/14.

*** 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** | Other* | 2014/15 Total |
|---|---------------|---------------|------------------|
| | £000 | £000 | £000 |
| Salaries / agency staff and fee paid officers | 40,676 | 28,568 | 69,244 |
| Social security costs | 2,993 | 21 | 3,014 |
| Other pension costs | 5,814 | 11 | 5,825 |
| Total staff costs | 49,483 | 28,600 | 78,083 |
| Capitalised staff costs | (135) | (628) | (763) |
| Total net staff costs | 49,348 | 27,972 | 77,320 |
| | | | 2013/14 |
| | Permanent** | Other* | Total |
| | £000 | £000 | £000 |
| Salaries / agency staff and fee paid officers | 38,123 | 33,857 | 71,980 |
| Social security costs | 2,816 | 51 | 2,867 |
| Other pension costs*** | 5,431 | 17 | 5,448 |
| Total staff costs | 46,370 | 33,925 | 80,295 |
| Capitalised staff costs | (178) | (2,079) | (2,257) |
| Total net staff costs | 46,192 | 31,846 | 78,038 |

*Other comprises agency staff and fee paid officers.

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

*** For 2013/14 reconciling items equal to £13,563 for accruals and invoice payment for staff transferring in from an OGD.

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

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

| Exit Package Cost Band | Number of Compulsory Redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | |
|--|-----------------------------------|---------|-----------------------------------|---------|--|---------|
| | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| <£10,000 | - | - | - | - | - | - |
| £10,000 - £25,000 | - | - | 7 | - | 7 | - |
| £25,000 - £50,000 | - | - | 10 | - | 10 | - |
| £50,000 - £100,000 | - | - | 12 | - | 12 | - |
| £100,000 - £150,000 | - | - | 4 | - | 4 | - |
| £150,000 - £200,000 | - | - | - | - | - | - |
| Total number of exit packages by Type | - | - | 33 | - | 33 | - |
| Total resource cost (£'000) | - | - | 1,791 | - | 1,791 | - |

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 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2014/15, employers' contributions of £5,816,136 were payable to the PCSPS (2013/14 £5,445,045) at one of four rates in the range 20% to 24.5% 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 2014/15 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 £19,601 (2013/14 £16,672) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,070 (2013/14 £933), 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 (2013/14 £nil). Contributions prepaid at that date were £nil (2013/14 £nil).

In the 12 months to March 2015 one individual (2013/14 no individual) retired early on ill health grounds; the total additional accrued pension liability in the year amounted to £2,710 (2013/14 £nil).

5. Cost of sales and operating expenses

| | Cost of sales | Operating expenses | 2014/15 Total | Cost of sales | Operating expenses | 2013/14 Total |
|---|----------------|--------------------|----------------|---------------|--------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Net staff costs | 30,507 | 18,841 | 49,348 | 28,733 | 17,459 | 46,192 |
| Net Agency staff and fee paid officers* | 24,607 | 3,365 | 27,972 | 28,017 | 3,829 | 31,846 |
| Training and recruitment | 435 | 452 | 887 | 550 | 572 | 1,122 |
| Travel | 11,868 | 898 | 12,766 | 11,995 | 876 | 12,871 |
| Professional services* | 3,093 | 548 | 3,641 | 2,821 | 515 | 3,336 |
| Legal Services | 168 | 30 | 198 | 192 | 34 | 226 |
| Communications | 828 | 688 | 1,516 | 1,301 | 639 | 1,940 |
| Other supplies, services & facilities management | 2,478 | 186 | 2,664 | 2,319 | 372 | 2,691 |
| Management charges from the FCO | 1,853 | 243 | 2,096 | 1,845 | 230 | 2,075 |
| IS Hardware | 4,414 | 306 | 4,720 | 6,878 | 381 | 7,259 |
| IS Software | 16,007 | 47 | 16,054 | 20,879 | 205 | 21,084 |
| Other Machinery and Equipment Under £3k | 938 | 483 | 1,421 | 1,057 | 251 | 1,308 |
| Security Equipment | 8,833 | 61 | 8,894 | 4,662 | 33 | 4,695 |
| Freight | 7,417 | - | 7,417 | 7,132 | - | 7,132 |
| Maintenance | 7,862 | 369 | 8,231 | 3,938 | 961 | 4,899 |
| Operating leases - land & buildings | - | 18 | 18 | - | 18 | 18 |
| Operating leases - other | - | 3 | 3 | - | 8 | 8 |
| Accommodation charges** | 438 | 686 | 1,124 | 439 | 686 | 1,125 |
| Loss on currency exchange | - | 19 | 19 | - | 2 | 2 |
| Other | - | 253 | 253 | - | 209 | 209 |
| Insurance | 411 | 73 | 484 | 395 | 70 | 465 |
| Depreciation | 2,975 | 56 | 3,031 | 1,959 | 9 | 1,968 |
| Amortisation of intangible assets | 105 | 69 | 174 | 223 | 4 | 227 |
| Impairment losses on fixed assets | (7) | - | (7) | 417 | - | 417 |
| Auditors' remuneration and expenses (no non-audit work) | - | 95 | 95 | - | 95 | 95 |
| Total costs | 125,230 | 27,789 | 153,019 | 125,752 | 27,458 | 153,210 |

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

** Accommodation charges are payable to the FCO.

The total amount of research and development expenditure recognised as an expense during the period was £20,000 (2013/14 £31,011). This includes staff costs and an appropriate recovery of overheads.

6. Financing income and costs

| | 2014/15 £000 | 2013/14 £000 |
|-------------------------------------|-----------------|-----------------|
| Financing income | | |
| Government Banking Service interest | 63 | 102 |
| | 63 | 102 |
| Financing costs | | |
| Working Capital Loan interest | - | - |
| Vesting Day Loan interest | (57) | (96) |
| Finance Lease Charges | (27) | (3) |
| Other Interest Payable | - | - |
| | (84) | (99) |
| Net financing | (21) | 3 |

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

7. Dividend

| | 2014/15 £000 | 2013/14 £000 |
|------------------------|-----------------|-----------------|
| Statutory dividend | 1,081 | 1,047 |
| Discretionary dividend | - | 5,000 |
| Dividend payable | 1,081 | 6,047 |

The dividend is payable to the Foreign and Commonwealth Office.

8. Intangible assets

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

8. Intangible assets (continued)

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

9. Property, plant and equipment

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

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

All assets have been revalued at 31 March 2015 using appropriate indices.

**Reclassification of prior £120k impairment to Cost brought forward*

9. Property, plant and equipment (continued)

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

10. Inventories

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------------|-----------------|-----------------|
| Raw materials and consumables | 1,025 | 2,557 |
| Work in progress | - | 217 |
| | 1,025 | 2,774 |
| Amount of inventory write down | (4) | (28) |

11. Trade receivables and other current assets

11(a) Analysis by type

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Amounts falling due within one year: | | |
| Trade receivables | 9,426 | 11,200 |
| VAT | 4,193 | 4,262 |
| Other receivables | 52 | 97 |
| Prepayments and accrued income | 12,791 | 13,422 |
| | 26,462 | 28,981 |

Included within prepayments and accrued income is £7,719,000 relating to the FCO (2013/14 £7,744,000).

Included within prepayments and accrued income is £846,248 relating to construction contracts (2013/14 £120,603).

11. Trade receivables and other current assets (continued)

11(b) Intra-Government balances

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Foreign and Commonwealth Office | 10,755 | 11,909 |
| Other central government bodies | 11,152 | 11,414 |
| Local authorities | 127 | 135 |
| Public Corporations | 22 | 31 |
| <i>Subtotal: intra-government bodies</i> | 22,056 | 23,489 |
| Balances with bodies external to government | 4,406 | 5,492 |
| Total trade receivables and other current assets | 26,462 | 28,981 |

12. Cash and cash equivalents

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Balance at 1 April | 25,546 | 32,049 |
| Net change in cash and cash equivalents | (10,324) | (6,503) |
| Balance at 31 March | 15,222 | 25,546 |

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

13. Trade payables and other liabilities

Trade payables and other current liabilities

13(a) Analysis by type

| | Note | 2014/15 £000 | 2013/14 £000 |
|---|------|-----------------|-----------------|
| Amounts falling due within one year: | | | |
| Trade payables | | 3,243 | 2,211 |
| Accruals * | | 14,166 | 17,467 |
| Payments on account ** | | 3,244 | 15,036 |
| Other payables *** | | 671 | 348 |
| VAT | | - | - |
| Dividends payable | | 1,081 | 1,047 |
| Loans repayable in one year | 17 | 951 | 951 |
| | | 23,356 | 37,060 |

* Included within accruals is £4,619,000 (2013/14 £4,375,000) due to FCO in respect of payroll.

** Included within payments on account is £2,412,000 from the FCO (2013/14 £4,569,000).

*** Included in other payables is £582,000 (2013/14 £320,000) due to FCO in respect of management charges and accommodation.

*** Included in other payables is £326,577 finance lease creditor (2013/14 £203,292)

13(b) Intra-Government balances

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Foreign and Commonwealth Office | 12,637 | 12,235 |
| Other central government bodies | 230 | 2,952 |
| Local Authorities | 7 | 12 |
| Public Corporations | - | 2 |
| Subtotal: intra-government bodies | 12,874 | 15,201 |
| Balances with bodies external to government | 10,482 | 21,859 |
| Trade payables and other current liabilities | 23,356 | 37,060 |

14. Trade payables and non current liabilities

14(a) Analysis by type

| | 2014/15 £000 | 2013/14 £000 |
|--|-----------------|-----------------|
| Amounts falling due after one year: | | |
| Finance Lease | 327 | 160 |

14(b) Intra-Government balances

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Foreign and Commonwealth Office | - | - |
| Other central government bodies | - | - |
| Local Authorities | - | - |
| Public Corporations | - | - |
| <i>Subtotal: intra-government bodies</i> | - | - |
| Balances with bodies external to government | 327 | 160 |
| Trade payables and other non current liabilities | 327 | 160 |

15. Commitments under leases

15(a) Operating Leases

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

Obligations under operating leases comprise:

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Buildings | | |
| Expiry within one year | 4 | - |
| Expiry after 1 year but not more than 5 years | - | 84 |
| Expiry thereafter | - | - |
| | 4 | 84 |
| Other: | | |
| Expiry within one year | 6 | 4 |
| Expiry after 1 year but not more than 5 years | 20 | 17 |
| Expiry thereafter | - | - |
| | 26 | 22 |

There are no obligations under operating leases for land.

15(b) Finance Leases

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

Obligations under finance leases comprise:

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Buildings | | |
| Expiry within one year | - | - |
| Expiry after 1 year but not more than 5 years | - | - |
| Expiry thereafter | - | - |
| Less interest element | - | - |
| Present Value of obligations | - | - |
| Other | | |
| Expiry within one year | - | - |
| Expiry after 1 year but not more than 5 years | 432 | 203 |
| Expiry thereafter | - | - |
| Less interest element | 28 | 23 |
| Present Value of obligations | 404 | 181 |

Present Value of obligations under finance leases comprise:

| | 2014/15 £000 | 2013/14 £000 |
|---|-----------------|-----------------|
| Buildings | | |
| Expiry within one year | - | - |
| Expiry after 1 year but not more than 5 years | - | - |
| Expiry thereafter | - | - |
| Total Present Value of obligations | - | - |
| Other | | |
| Expiry within one year | - | - |
| Expiry after 1 year but not more than 5 years | 404 | 181 |
| Expiry thereafter | - | - |
| Total Present Value of obligations | 404 | 181 |

There are no obligations under finance leases for land.

16. Provision for liabilities and charges

| | 2014/15 £000 | 2013/14 £000 |
|---------------------------------|-----------------|-----------------|
| Balance at 1 April | 635 | 206 |
| Provided in the year | 700 | 500 |
| Provisions reversed in the year | (59) | (71) |
| Balance at 31 March | <u>1,276</u> | <u>635</u> |

17. Financial liabilities

| | 2014/15 £000 | 2013/14 £000 |
|--------------------------------|-----------------|-----------------|
| Loans | | |
| Repayable in under a year | <u>951</u> | 951 |
| Repayable in one to two years | - | 951 |
| Repayable in two to five years | - | - |
| Repayable after five years | - | - |
| | <u>-</u> | <u>951</u> |

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

Loans comprise:

| | Total outstanding £000 | Interest rate % | Date Drawn | Due within 12 Months Note 13(a) £000 | 2014/15 Due after 12 months £000 |
|----------------------|------------------------------|--------------------|---------------|---|--|
| Loans | | | | | |
| Vesting Day Loan | 951 | 4.03% | 01/04/08 | 951 | - |
| Working Capital Loan | - | 4.01% | 01/04/08 | - | - |
| | <u>951</u> | | | <u>951</u> | <u>-</u> |

18. Adjustments for non-cash transactions

| | Note | 2014/15 £000 | 2013/14 £000 |
|--|-------|-----------------|-----------------|
| (Profit)/Loss on disposal of property, plant and equipment | | (17) | 26 |
| Amortisation | 8 | 174 | 227 |
| Depreciation | 9 | 3,031 | 1,968 |
| Impairment of tangible assets | 5 & 9 | - | 406 |
| Revaluation Impairment of tangible assets | 5 | (7) | 11 |
| Impairment of intangible assets | 8 | - | - |
| | | 3,181 | 2,638 |

19. Capital commitments

Contracted capital commitments not provided in these accounts

| | 2014/15 £000 | 2013/14 £000 |
|-------------------------------|-----------------|-----------------|
| Property, plant and equipment | 1,049 | 560 |
| Intangible assets | 13 | - |
| | 1,061 | 560 |

20. Other financial commitments

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

21. Contingent liabilities disclosed under IAS 37

At 31 March 2015 contingent liabilities existed in respect of employment £40,000 (2013/14 £50,000). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

22. Financial instruments

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

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

Credit risk

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

Liquidity risk

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

Interest rate risk

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

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

Foreign currency risk

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

23. Losses and special payments

23(a) Losses Statement

| | 2014/15 | 2013/14 |
|------------------------|---------|---------|
| Total number of losses | 9 | 8 |
| | £000 | £000 |
| Total value of losses* | 343 | 13 |
| Claims Abandoned | 105 | - |
| Store Losses | 8 | - |
| Fruitless Payments | 230 | 4 |
| Other | - | 9 |

* There were no individual losses over £300,000 in either 2014/15 or 2013/14.

23(b) Special Payments

In 2014/15 the costs falling into the category special payments was £nil (2013/14 £nil).

24. Related party transactions

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

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

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

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

25. Events after the reporting period

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

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

Helen Sullivan

Interim Chief Executive and Accounting Officer
25 June 2015



FCO SERVICES

Part of the Foreign and Commonwealth Office

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