

**MOD Service Children's Education  
Annual Report and Accounts 2005/06**

**Session 2005/2006**

HC 1361

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**CORRECTION**

Please note the following corrections:

Page 31, Operating Cost Statement,

Other Operating Costs remove 51,124 replace with 51,173  
Net Operating Cost remove 112,210 replace with 112,259

Page 40, Note 3 – Other Operating Costs

Other Administration Expenses insert Legal Fees 2005-06 49 2004-05 0  
Other Administration Expenses, sub-total, remove 25,139 replace with 25,188  
Other Operating costs, total, remove 51,124 replace with 51,173

Page 45, Note 10 – General Fund

Net Operating Cost remove (112,210) replace with (112,259)  
General Fund as at 31 March remove 22,880 replace with 22,831

Page 46, Note 13 - Reconciliation of Operating Cost to Operating Cash Flows

Net Operating Cost remove 109,548 replace with 112,259  
Adjustment for Non-Cash Transactions remove (21,820) replace with (24,610)

*April 2007*

**LONDON: THE STATIONERY OFFICE**

**SERVICE**  
**CHILDREN'S**  
**EDUCATION**



**ANNUAL REPORT  
AND ACCOUNTS**

**2005/2006**



## ANNUAL REPORT & ACCOUNTS 2005/2006

Preamble:

The Annual Report and Accounts of Service Children's Education will be of interest to:

Members of Parliament  
Central Government Departments  
The Royal Navy, Army, The Royal Air Force  
Customers of Service Children's Education  
Personnel of Service Children's Education

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# ANNUAL REPORT & ACCOUNTS 2005/2006



## ANNUAL REPORT & ACCOUNTS 2005/2006



Presented to Parliament in pursuance to the  
Government Resources and Accounts Act 2000

Ordered by the House of Commons  
to be printed 19 July 2006

# ANNUAL REPORT & ACCOUNTS 2005/2006

## AGENCY MISSION STATEMENT

**The Agency aims to:**

**Provide an effective and efficient education service, from Foundation Stage through to sixth form, for dependant children residing with MOD personnel serving outside the United Kingdom and;**

**enable those children to benefit from their residence abroad.**

**In order to achieve this Mission:**

*We will strive to:*

- *be the best.*
- *do the best for all pupils and students by seeking to ensure that all achieve their full potential in every aspect of school life whilst with SCE.*
- *do the best for our teaching, support and office staff in all locations by offering comprehensive, relevant and timely training opportunities for their own professional and career development to enrich their work with children or in support of the Agency.*
- *raise aspiration as well as achievement.*

# ANNUAL REPORT & ACCOUNTS 2005/2006



## CONTENTS

## Page

Chief Executive's Foreword	4
Background to the Agency	5
SCE School Locations	5
SCE Pupils	6
SCE Personnel	6
SCE Headquarters	6
The Executive Board	7
Achievements	9
Owner's Board	15
Performance against Key Targets 2005/06	16
Key Targets 2006/07	19
Remuneration Report	20
2005/2006 Statement of Accounts	22

## ANNUAL REPORT & ACCOUNTS 2005/2006

### CHIEF EXECUTIVE'S FOREWORD TO THE ANNUAL REPORT

The Financial Year 2005/06 saw a huge amount of activity within Service Children's Education. At Headquarters level, much effort has been concentrated on taking forward the delivery of the HQ SCE Post-OfSTED Action Plan (including the initial planning work to restructure the Agency Headquarters from September 2006) and on maintaining the support network for children affected by Operational Deployments. Work has also proceeded to prepare the ground for adjustments to the Military "Footprint" brought about through the Future Army Structure (FAS) process and in reacting to the procedural changes that the introduction of Project ALEXANDER and other initiatives on Resource Management, including the centralisation of budgets, will bring.

Despite this change SCE continued to deliver a very high standard of education to the children it serves. Notable achievements include a sustained performance across the Educational Key Stages, where SCE exceeded the National Average in ten of the twelve sub-elements, delivered above average results at GCSE and "A"-Level, improved significantly the development of Gifted & Talented Children (rising from four sub-elements in 04/05 to ten sub-elements in 05/06) and achieved some excellent individual School OfSTED Inspection Reports.

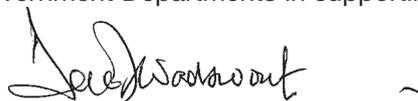
2005/06 also saw the start of construction for a new Secondary School to replace the ageing Gloucester School in Hohne and the provision of additional classroom facilities at a number of SCE's Primary Schools. Work continued on the development of a web-based Grid for Learning, which will revolutionise the way in which SCE communicates internally and with its schools and other stakeholders.

And on a broader front, we have continued to work with other agencies to develop the systems and structures required to allow British Forces overseas to mirror, as far as is practicable, the Every Child Matters agenda and to play an active part in constructing appropriate and workable Children and Young People Plans.

The House of Commons Defence Committee visited Service Children's Education on 23rd March 2006 as part of their review into the education of Service children, both at home and overseas, focusing to a large extent, on the difficulties that the "turbulence" of Service life brings to children. The overseas element of their enquiry directly involves the performance and service delivery of SCE and the Agency looks forward to engaging with them over the coming months.

The Health of Financial Systems return and Statement of Internal Control reflect the clear progress made in successfully delivering change and improvement across the Agency. This also reflects our progress in developing formal Performance Management systems linked directly to SCE's Corporate Plan, Annual Management Plan and overall Risk Management Strategy, all of which are reviewed on a regular basis by the Agency Executive Board and Corporate Governance (Audit) Committee.

Finally I would wish to place on record my personal appreciation of the efforts made by all SCE staff, pupils, parents, the Adjutant General and his staff and military and civilian colleagues across the three Services, MOD, DfES and other Government Departments in supporting the work of the Agency.



DAVID G. WADSWORTH  
CHIEF EXECUTIVE  
SERVICE CHILDREN'S EDUCATION

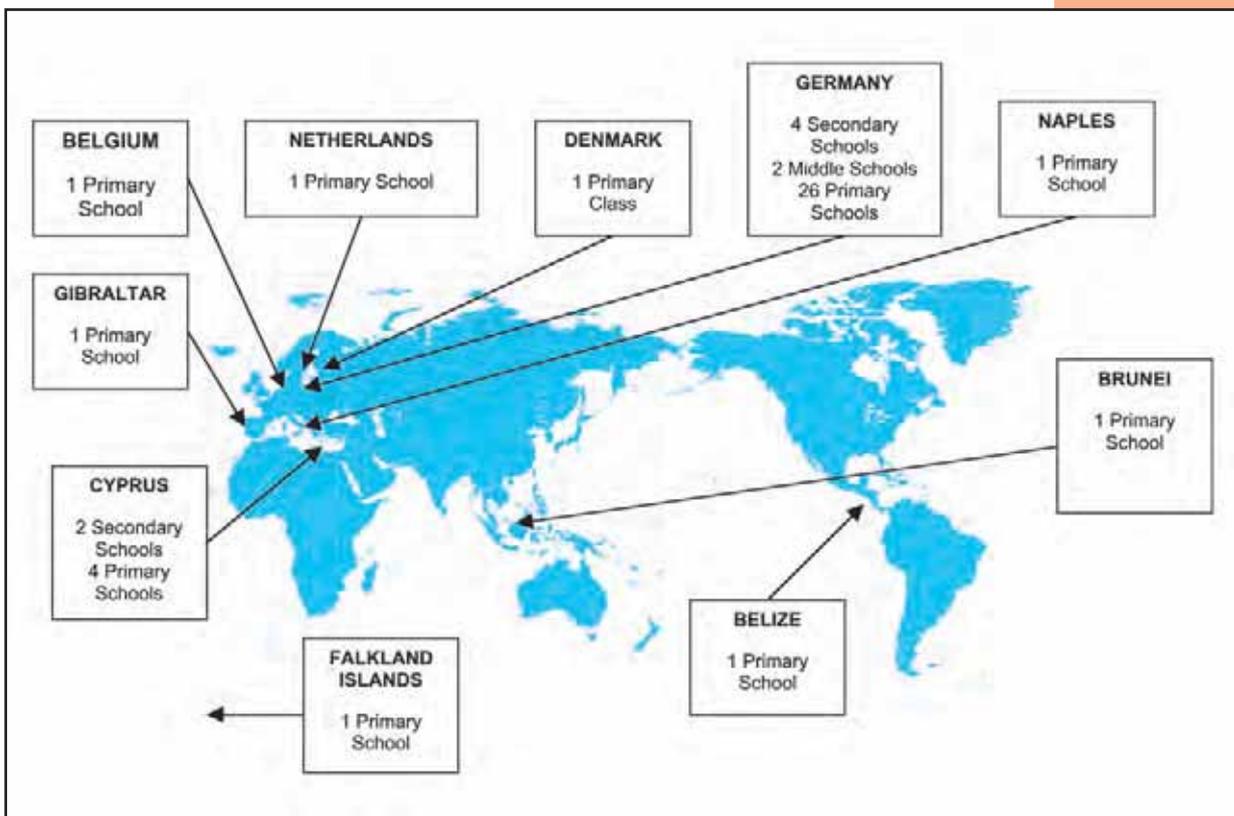
## BACKGROUND TO THE AGENCY

### SCE SCHOOLS AND PRE-SCHOOLS AROUND THE WORLD

As at 31 March 2006, Service Children's Education provided education in 43 schools in 9 countries around the world and a class in Viborg (Denmark), which is scheduled to close at the end of the current academic year. The schools ranged from a small primary school of less than 10 pupils, to a large secondary school, with boarding facilities, of over 750 pupils. Provision for three-year olds is made in Foundation Stage classes (formerly known as "pre-schools"), each of which is firmly linked to an SCE first or primary school. At 31 March 2006, there were 41 Foundation Stage classes.

Of the 43 schools, 36 are located in Germany and Cyprus, with larger Garrisons having up to six primary schools and a secondary school. The remaining schools support detachments of personnel around the world, from the Falkland Islands to Belize. 2005/06 saw no closures of SCE schools.

**SCE schools are located in the following countries:**



## ANNUAL REPORT & ACCOUNTS 2005/2006

### SCE PUPILS

On 31 March 2006 some 10,500 pupils were being educated in SCE schools, over 9,000 of whom were in Germany and Cyprus. SCE schools follow the National Curriculum in England and pupils pursue GCSE, A level and GNVQ courses in exactly the same way as their UK-educated counterparts. In addition, SCE pupils also sit National Curriculum Tests (NCTs) at ages 11 and 14.

SCE also meets the cost of entitled children's education in certain overseas locations not served by SCE schools, notably in the Gibraltar secondary schools. The cost of the ISODET nursery allowance is also met from SCE funds.

### SCE PERSONNEL

SCE employed over 2200 personnel around the world, including some 800 teachers; the remainder being MOD Civil Servants, specialist educational staff and locally engaged support staff.

Service Children's Education is fully accredited as an Investor in People organisation and strives at all times to provide suitable opportunities for Continuing Professional Development for staff working across the Agency and its schools.

### SCE HEADQUARTERS

Service Children's Education has its headquarters in Wegberg, Germany with satellite offices at Bielefeld (Germany) and Episkopi (Cyprus). Child Guidance Centres are located in Cyprus and at Fallingbostel, Sennelager, Osnabruck and Rheindahlen in Germany.

# ANNUAL REPORT & ACCOUNTS 2005/2006



## THE EXECUTIVE BOARD

### **DG WADSWORTH**

David Wadsworth took over as Chief Executive of Service Children's Education in January 1997. He commenced his career as a secondary school teacher. He has subsequently held a variety of educational administration and management posts with Leeds City Council, Northumberland County Council and prior to being appointed Chief Executive of Service Children's Education was Chief Education Officer of Bedfordshire County Council.

### **MJ SMITH**

Mike Smith has worked for the Ministry of Defence since 1977 in a wide range of administrative posts both in England and Germany. His most recent appointment was as an Assistant Director in the Directorate of Management and Consultancy Services. He took up his appointment as Deputy Chief Executive of Service Children's Education in September 2002 and has lead responsibility for managing the operation of the HQ, driving business change and improvement, corporate communications, and customer and stakeholder services.

### **P NIEDZWIEDZKI**

Paul Niedzwiedzki was appointed Assistant Chief Executive (Operations) in April 1995. He commenced his career in education in 1979 and has held a variety of educational administration and management posts with North Yorkshire County Council and Lincolnshire County Council and prior to being appointed Assistant Chief Executive (Operations) was the Education Inspector (Assessment) for Lincolnshire County Council. He is responsible for SCE's Recruitment, Human Resources and Child Guidance operations.

## ANNUAL REPORT & ACCOUNTS 2005/2006

### **K FORSYTH**

Kathryn Forsyth was appointed to Service Children's Education as a Senior Inspector Adviser in September 2000. She was previously the Director of the Inspection Agency which was part of the Education Development Unit (EDU) at St Martin's College in Ambleside, Cumbria. Before moving to the EDU Kathryn had experience of headship in a primary school in Sunderland. During this time the school was identified as a centre of excellence for pupil centred learning and assessment for learning. She has overall responsibility for SCE's educational policy and standards, school effectiveness, inclusion, performance management and continuing professional development. She took her appointment of Assistant Chief Executive (Schools Effectiveness) in January 2005.

### **LS BERRIMAN**

Les Berriman was appointed Assistant Chief Executive (Corporate Affairs) in September 2003. He commenced his career with the Ministry of Defence in 1981. He has held a variety of finance, secretariat and estate posts in London, Salisbury, Hong Kong and Germany. Prior to being appointed Assistant Chief Executive (Corporate Affairs) he was Manager Army Works in the Army Estate Organisation, as well as Parent Governor and Chair of Finance at his children's primary school in the UK. His duties as Assistant Chief Executive (Corporate Affairs) include responsibility for SCE's Planning & Budgetary regime, ICT and the gamut of Facilities Management activity including Estates, Health & Safety, Commercial and Contract monitoring.

## ACHIEVEMENTS

The past year again saw a great deal of activity, focused directly on the establishment of a culture of continuous improvement to the quality and standard of education provided to the children attending SCE schools. All of the various work-strands involved are supported by SCE's seven Key Themes:

- Raising Achievement
- Developing, refining and implementing our Strategic Plan for Inclusion
- Improving Curriculum and Administrative Information and Communication Technology
- Working Together and strengthening our Partnerships
- Enhancing Performance Management and Continuing Professional Development
- Extending and Supporting Local Management
- Improving Strategic Planning

### Academic Performance

Performance against the Agency's Key Targets was as follows:

Target	Achievement
<p>Key Target 1</p> <p>(a). Sustain threshold level performance at each of the Key Stages 1,2 and 3 by matching national (England) achievement in all subject elements and exceeding it by 3% in a majority of the 12 subject elements.</p> <p>(b). Sustain the percentage of pupils obtaining 5 or more A*-C at GCSE as a three-year rolling average.</p> <p>(c). Sustain the percentage of pupil entries obtaining A-E at "A" Level as a three-year rolling average.</p>	<p>The target was met in full with the Agency matching the National (England) achievement in all twelve sub-elements and exceeding it by the required 3% in ten of them.</p> <p>The target was met in full with 61% (1.6% above the requirement) of students obtaining the required number of A*-C grades in their examinations.</p> <p>The target was met in full with 95.9% (0.7% above the requirement) of students obtaining the required number of A-E grades in their examinations.</p>
<p>Key Target 2</p> <p>Sustain SCE's notional position in the English Local Education Authority league tables, within the leading 25 (of 150) LEAs at each of Key Stages 1, 2 and 3.</p>	<p>The target was met in two of the three Key Stages, with SCE placed 6th at Key Stage 3 and 15th at Key Stage 1. Although Key Stage 2 saw SCE at 38th position, the Agency did outstrip National (England) achievement in all subject areas, by an average of 9%.</p>

## ANNUAL REPORT & ACCOUNTS 2005/2006

Target	Achievement
<p>Key Target 3</p> <p>At the higher levels of attainment (i.e. level 3+ at Key Stage 1, level 5+ at Key Stage 2, level 6+ at Key Stage 3) match national level of performance in 8 of the 12 subject elements.</p>	<p>The target was met in full with SCE matching or exceeding the national level of performance in nine of the twelve subject elements.</p>
<p>Key Target 4</p> <p>For GCSE, sustain performance in Average Points' scores by achieving a score within 10 points of the England "capped" upper quartile figure.</p>	<p>The target was met in full. The England "capped" figure for 2005 was 316.2 with SCE achieving a score of 309.1.</p>
<p>Key Target 5</p> <p>To achieve Grade 4 or above (on the OfSTED seven point scale) in at least 85% of schools inspected, in each of the following areas:</p> <p>Overall effectiveness of the school.</p> <p>Overall standards achieved.</p> <p>Pupils' attitudes, values and personal qualities.</p> <p>The quality of education provided by the school.</p> <p>The leadership and management of the school.</p>	<p>The target was met in full, with 100% of the schools inspected achieving Grade 4 or above at each of the component areas.</p>
<p>Key Target 6</p> <p>To demonstrate customer satisfaction with SCE schools through a result of 85% or greater "satisfaction" from NFER Parental Survey.</p>	<p>The target was met in full, with 90% of respondents expressing satisfaction with SCE schools.</p>

## Further Educational Developments

### 14-19 Provision

During the course of last year, we have made significant progress in extending the academic and work experience opportunities available to 14-19 year-olds

- We have extended the workplace opportunities available to students in both Germany (with the assistance of the British Chamber of Commerce) and the United Kingdom. These include areas of work not normally found in a Military environment, such as Hotel and Leisure, Law, Retailing, Banking and Civil Engineering.
- We have broadened the availability of "A"-Levels in Law, Psychology and Philosophy in most SCE secondary schools through the use of Video-Conferencing.
- We have introduced a range of BTEC courses in subjects such as Sport & Recreation, Public Services, Business Studies and Leisure & Tourism.
- We have upgraded to management of Careers Guidance and Work-Experience placements.
- We are seeking to increase the number and type of apprenticeships on offer with NAAFI, starting in the area of Customer Services.

### Continuing Professional Development (CPD)

- CPD continues to be a key priority given the high levels of mobility within our school populations. This reflected in the Agency successfully maintaining its Investors in People (IiP) accreditation.

### The SHARE Project - Family Learning In Action

- The Share Project is a DfES supported scheme which encourages the parents to visit schools and sit-in on classes. In this way parents can obtain a better insight into what their child is learning and are therefore better placed to assist them with their education. With the support of SHARE UK, the scheme continues to thrive in three-quarters of SCE schools and the Agency continues to encourage more SCE schools to take part in the project.

### Performing Arts

- SCE schools continue to make advances in this area of the curriculum. The partnership with the UK initiative 'Big Arts Week' continues and this year SCE celebrated their second Big Arts Week with more schools actively taking part. The involvement in the UK Creative Partnerships Arts Council Initiative saw two of our schools funded to work with professional artists for two terms. Artsmark applications from SCE schools have increased due to the work of the team.

## ANNUAL REPORT & ACCOUNTS 2005/2006

- A pilot scheme for a Gifted and Talented Arts Summer School, based in London theatres and art galleries, is in preparation for Summer 06.

### Physical Education

- PE is attracting an increasingly high profile within the National Curriculum and over the past year SCE schools have made significant enhancements to the opportunities on offer to students.
- Swimming is now well established in all schools where it is possible to access swimming pools.
- We have increased the number of appropriately qualified Learning Assistants working alongside the P.E. Curriculum Development Teachers (CDTs).
- The teaching of gymnastics has been enhanced by the provision of a number of courses and staff training events delivered by P.E. CDTs and gymnastic coaches from the UK. Twenty teachers and Learning Assistants are now qualified to run extra curricular gym clubs following a course run by a British Gymnastics regional coach.
- An increased awareness of health related fitness has led to a number of schools pursuing the Activemark qualification aided by CDT led workshops. In some areas CDTs are leading and supporting schools in achieving the Healthy Schools Award. A strong partnership has developed with schools, P.E. CDTs, the Outdoor Education Adviser and various field centres to provide high quality residential visits of a sporting nature.

### Modern Foreign Languages (MFL) - [German and Greek]

- All SCE primary schools in Germany and Cyprus continue to benefit from regular visits from the team of 6 full time Curriculum Development Teachers for MFL. All children in Key Stage 2 and many in Key Stage 1 are receiving regular instruction in German or Greek. In addition children in Gibraltar receive instruction in Spanish from a visiting part-time instructor and 3 schools in Germany are visited weekly by part time local instructors.
- Primary Foreign Languages continue to be popular with children, parents and teachers at all schools. Host Nation Links have been both strengthened and developed with most children enjoying contact with other children from their host nation local community.
- Team members have assisted schools on residential trips helping them to better exploit language learning and cultural opportunities whilst also reducing organisational difficulties associated with language.
- Successful cross discipline work with other CDT teams, in particular P.E have been very successful and will be further developed in the future.

## School Networks

As part of the Continuous Improvement agenda, we have developed several School Networks. A wide range of cross-working has been initiated, which has resulted in shared training days, leadership discussion groups, shared staff meetings, and exchange visits between teachers and pupils. This is already making a difference to 'whole-school' motivation, innovation and the sharing of effective practice. Additional funding from SCE has been available to support this. The use of advanced skills teachers and advisory teacher support is also helping to facilitate the planning and review of these activities.

## Outdoor education

- The Parity-funded Outdoor Education Adviser, Mr Richard Simpson, has been a great success and the postholder has given confidence to colleagues that worries and threats about litigation and negligence claims should be secondary to the learning needs of our children. It is becoming apparent that teachers are more positive about organising educational visits than they were previously.
- The Autumn Term 2005 saw the training of Educational Visits Coordinators (EVCs) in each of our schools. The EVC is the person in a school who is trained and able to oversee educational visits from that school. They have an important role in ensuring that good value is to be gained from the visit and that it is safely and well organised.

## Other Issues and Activities

**Future Army Structure (FAS) Germany** – The Agency continues to engage fully with UKSC (G) on the Army's future Basing Strategy in Germany, which is likely to see significant changes to the existing "footprint", particularly within Category C Estate (principally Osnabruck Garrison (Munster and Osnabruck Stations)). SCE have already undertaken a great deal of work on planning for the changes that the re-roll and repatriation of 4 Armd Bde will bring to SCE and its schools, both in Osnabruck Garrison and elsewhere in Germany.

**Deployment of HQ ARRC to Afghanistan** – The end of the financial year has seen the initial deployment of members of the Allied Rapid Reaction Corps to Afghanistan in support of Peacekeeping Operations in that country. This has, and will, impact directly on a number of schools within the JHQ area and substantial support work has already been undertaken to provide a suitable package of measures to help and assist parents directly affected by this deployment. In conjunction with other welfare and support agencies we intend to offer the highest possible level of support to the families concerned, a significant number of whom are foreign nationals from the ARRC sending states.

**External Governance of SCE** – Following on from and in response to the HMI Inspection Report on HQ SCE, we have now made clear progress in the area of external governance of HQ SCE and its schools. The Executive Committee of the Owner's Board is now firmly established and met for the first time in March 2006; the externally-chaired SCE Scrutiny

## ANNUAL REPORT & ACCOUNTS 2005/2006

Committee continues its work in monitoring the Agency Post-OfSTED Plan (the remaining elements of which will be subsumed within the 2006/07 Management Plan) and Terms of Reference of local School Governance Committees have now been agreed and come into force at the start of the next School Year.

**Children Act** – The Agency continues to work alongside AG Command Secretary and others in developing the MOD's strategy for mirroring (as far as is practicable) the enhancements to child welfare and protection outlined in the act.

**Op TELIC** – The ongoing deployment of large numbers of troops from Germany and Cyprus based Garrisons in support of the Operation has continued to impact on a number of SCE schools. The Agency continued to maintain a comprehensive support package for all of the schools involved.

**Project ALEXANDER** – Significant work took place throughout the year to agree and put into place suitable arrangements that will allow for the smooth transfer of responsibility for Capital Works and Property maintenance to a centralized Defence Estates Organisation.

**Corporate Governance and Risk Management** – SCE has continued to further develop and refine its overall approach to Corporate Governance and Risk Management. The Agency Management Plan 2005/06 and associated Balanced Scorecard are subject to full and formal review and update by the SCE Executive Board on a quarterly basis, thus directing the energies and resources of the Agency in a more coherent and targeted manner. SCE, in line with all AG Management Groups, continued to report performance against the overall AG Command Plan 2005 on a quarterly basis, thus providing the Command with regular and timely updates on the main issues facing the Agency, throughout the year. Overall Performance Management is subject to external review and governance by the SCE Scrutiny Committee and Executive Committee of the SCE Owner's Board.

The Agency Corporate Governance (Audit) Committee met on a quarterly basis and is developing its overarching role of directing and monitoring the overall approach to assurance within SCE and its schools.

Internal audit activity continued, touching on Travel & Subsistence, Allowances, Educational Entitlement, Boarding Administration & Home Savings Contributions and Verification of Academic Key Targets (prior to formal Defence Internal Audit validation).

The AG Business Assurance Team visited HQ SCE in February 2006 to carry-out a Compliance Audit, the formal Report on which is awaited.

The NAO visited HQ SCE in November to carry out some initial work prior to production and certification of the 2005/06 Agency Accounts in advance of the Parliamentary Summer Recess in 2006.

# ANNUAL REPORT & ACCOUNTS 2005/2006

## OWNERS BOARD MEMBERSHIP

**Chairman:** Adjutant General

**Membership:** Command Secretary/Adjutant General  
Chief of Staff/Adjutant General  
Representative of CinC Land Command  
Representative of Air Member for Personnel  
Representative of 2SL/CNH  
DETS (A)  
Representative of HQ UKSC( G)  
Representative of HQ BF Cyprus  
Representative of DPS (A)  
Representative of DG SP Pol  
Member of DfES  
Member of OfSTED  
Representative of Chief Education Officers

**In Attendance:** Chief Executive



## ANNUAL REPORT & ACCOUNTS 2005/2006

### PERFORMANCE AGAINST KEY TARGETS 2005/2006

The Key Targets for SCE for 2005/2006 were announced in Parliament on 19 May 2005. The outcomes of the Key targets are shown below:

#### Key Target 1

- a. Sustain threshold level performance at each of the Key Stages 1, 2 and 3 by remaining at least 3% ahead of national (England) achievement.
- b. Sustain the percentage of pupils obtaining A\*-C at GCSE as a three-year rolling average.
- c. Sustain the percentage of students obtaining A-E at "A" Level as a three-year rolling average.

#### Sub-Elements:

Subject/Target	Outcome	Achieved/ Not Achieved
Key Stage 1 Reading (level 2+) 87%	88%	<b>Yes</b>
Key Stage 1 Writing (level 2+) 85%	87%	<b>Yes</b>
Key Stage 1 Mathematics (level 2+) 93%	94%	<b>Yes</b>
Key Stage 2 English (level 4+) 81%	83%	<b>Yes</b>
Key Stage 2 Reading (level 4+) 86%	88%	<b>Yes</b>
Key Stage 2 Writing (level 4+) 66%	65%	No*
Key Stage 2 Mathematics (level 4+) 77%	75%	No
Key Stage 2 Science (level 4+) 89%	89%	<b>Yes</b>
Key Stage 3 English (level 5+) 74%	80%	<b>Yes</b>
Key Stage 3 Mathematics (level 5+) 76%	84%	<b>Yes</b>
Key Stage 3 Science (level 5+) 69%	79%	<b>Yes</b>
Key Stage 3 ICT (level 5+) 70%	80%	<b>Yes</b>
GCSE – 60%	61%	<b>Yes</b>
"A"-Level – 96%	96%	<b>Yes</b>

\* Marginal Miss - within 2% of Key Target

# ANNUAL REPORT & ACCOUNTS 2005/2006



## Key Target 2

Sustain SCE'S notional position in the English Local Education Authority league tables, within the leading 25 (of 150) LEAs at each of Key Stages 1, 2 and 3.

Subject/Target	Notional Position	Achieved/ Not Achieved
SCE Notional Position in English Local Education Authority (of 150 LEAs) League Tables:		
Key Stage 1	15	<b>Achieved</b>
Key Stage 2	38	<b>Not Achieved</b>
Key Stage 3	6	<b>Achieved</b>

## Key Target 3

At the higher levels of attainment (ie level 3+ at Key Stage 1, level 5+ at Key Stage 2, level 6+ at Key Stage 3) match national level of performance in 50% of the 12 subject elements in 2004, rising in equal steps to 66% in 2006.

### Sub-Elements:

Subject/Target	Outcome	Achieved/ Not Achieved
Key Stage 1 Reading (level 3+) 27%	29%	<b>Yes</b>
Key Stage 1 Writing (level 3+) 15%	18%	<b>Yes</b>
Key Stage 1 Mathematics (level 3+) 23%	25%	<b>Yes</b>
Key Stage 2 English (level 5+) 27%	29%	<b>Yes</b>
Key Stage 2 Reading (level 5+) 43%	47%	<b>Yes</b>
Key Stage 2 Writing (level 5+) 15%	15%	<b>Yes</b>
Key Stage 2 Mathematics (level 5+) 30%	30%	<b>No*</b>
Key Stage 2 Science (level 5+) 47%	45%	<b>No*</b>
Key Stage 3 English (level 6+) 35%	29%	<b>No</b>
Key Stage 3 Mathematics (level 6+) 53%	64%	<b>Yes</b>
Key Stage 3 Science (level 6+) 37%	38%	<b>Yes</b>
Key Stage 3 ICT (level 6+) 25%	29%	<b>Yes</b>

\* **Marginal Miss - within 2% of Key Target**

## ANNUAL REPORT & ACCOUNTS 2005/2006

### Key Target 4

For GCSE, show improvement in Average Points' scores by achieving a score within 10 points of the England "capped" upper quartile figure

SCE Performance/Target	Key Target	Outcome	Achieved Not Achieved
		316.2	309.1

### Key Target 5

To achieve Grade 4 or above (on the OfSTED seven point scale) in at least 85% of schools inspected, in each of the following areas:

1. Overall effectiveness of the school
2. Overall standards achieved
3. Pupils' attitudes, values and personal qualities
4. The quality of education provided by the school
5. The leadership and management of the school

**The target was successfully achieved, with 100% of the schools inspected achieving Grade 4 or above at each of the component areas - (1), (2), (3), (4) and (5).**

### Key Target 6

To demonstrate customer satisfaction with SCE schools through a result of 85% or greater "satisfaction" from NFER Parental Survey.

**Achieved - 90%**



# ANNUAL REPORT & ACCOUNTS 2005/2006



## KEY TARGETS 2006/2007 & BEYOND

The Chief Executive of Service Children's Education has been set the following Key Targets for 2006/07 onwards, the majority of which have been refined in order to better mirror current educational practice in the United Kingdom:

### Key Target 1

- Sustain threshold level performance at each of the Key Stages 1,2 and 3 by matching national (England) achievement in all subject elements and exceeding it by 3% in a majority of the 12 subject elements.
- Sustain the percentage of pupils obtaining 5 or more A\*-C at GCSE as a three-year rolling average.
- Sustain the percentage of pupil entries obtaining A-E at "A" Level as a three-year rolling average.

### Key Target 2

- Sustain SCE's notional position in the English Local Education Authority league tables, within the leading 25 (of 150) LEAs at each of Key Stages 1, 2 and 3.

### Key Target 3

- At the higher levels of attainment (i.e. level 3+ at Key Stage1, level 5+ at Key Stage 2, level 6+ at Key Stage 3) match national level of performance in 8 of the 12 subject elements.

### Key Target 4

- For GCSE, sustain performance in Average Points' scores by achieving a score within 10 points of the England "capped" upper quartile figure.

### Key Target 5

- To achieve an overall parental customer satisfaction rating of at least 85% in the 2006/07 parental survey.

## ANNUAL REPORT & ACCOUNTS 2005/2006

### REMUNERATION REPORT

#### SUMMARY

The salary of the Chief Executive is determined at national level by the MOD's Senior Staff Management Directorate. In addition he can receive a bonus of up to 13% of his salary based upon the successful achievement of the Agency Key Targets. Each year's performance is audited by Defence Internal Audit (DIA) who submits their findings to the Command Secretary Adjutant General (AG) who tasks the AG Business Management Team (AG BMT). They consider the DIA evidence and calculate the appropriate bonus to be paid. This is based upon the pro-rata achievement of the targets set and approved by the Under Secretary of State for Defence annually. The AG BMT recommendation is then submitted to AG for approval, via the Command Secretary. The bonus recommendation for FY 05/06 has not yet been resolved.

The salaries of the other Civil Service Board members were determined by negotiation between the Ministry of Defence and Civil Service Trades Unions in line with Ministry of Defence guidelines. The salaries of Board Members who are on Soulbury Staff terms and conditions are also set nationally by the Soulbury Committee on behalf of all Local Educational Authorities.

#### DETAILS

The total remuneration of the Chief Executive for the period of these accounts, excluding employers' pension contributions, was £85,792. Members of the Agency Executive Board were appointed in accordance with the Civil Service Management Code.

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of Service Children's Education Agency were as follows:

# ANNUAL REPORT & ACCOUNTS 2005/2006



	Salary, including performance Pay	Benefits in Kind (rounded to nearest £100)	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31/03/06 and related lump sum	CETV* at 31/03/05	CETV* at 31/03/06	Real increase in CETV after adjustment for and changes in market investment factors
	£000	£	£000	£000	£000	£000	£000
David G. Wadsworth	80-85	0	0 - 2.5 plus lump sum 2.5 - 5	5 - 10 plus lump sum 25 - 30	152	171	19
Mike Smith	55-60	0	0 - 2.5 plus lump sum 2.5 - 5	17.5 - 20 plus lump sum 50 - 55	218	244	14
Paul Niedzwiedzki	70-75	0	2.5 - 5 plus lump sum 10 - 12.5	20 - 25 plus lump sum 60 - 65	294	365	72
Les Berriman	60-65	0	0 - 2.5 plus lump sum 2.5 - 5	10 - 15 plus lump sum 40 - 45	160	180	13
Kathryn Forsyth	70-75	0	**	**	255	**	**

This section has been subject to audit.

\*CETV is the Cash Equivalent Transfer Value of the pension fund at that time.

\*\* The information for Financial Year 05/06 could not be provided in time to include in the Accounts.

The Chief Executive and three members of the Agency Executive Board are ordinary members of the Principal Civil Service Pension Scheme (PCSPS). One Executive Board member is a member of the Teachers' Pension Scheme.

None of the Agency Owners' Board Members emoluments, with the exception of the Chief Executive, are paid by the Agency.

Salaries and pensions amounts are not apportioned for part years served.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No Board members were in receipt of any taxable benefit in kind.

Unless otherwise stated below the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. Early termination, otherwise than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

David Wadsworth was appointed Chief Executive of Service Children's Education in January 1997 on a five year fixed term contract with the option for a further year on year extension, which has been exercised since January 2002.

David G. Wadsworth  
Chief Executive

27th June 2006

# SERVICE CHILDREN'S EDUCATION AGENCY THE 2005/06 STATEMENT OF ACCOUNTS

## FOREWORD

### History

1. Service Children's Education was formally launched as an executive agency of the Ministry of Defence on 1 April 1996. In line with the Government Nursery Education Scheme in the UK, the Agency became responsible for the provision of Foundation Stage 1 education of three and four year-olds from January 2001. A Quinquennial Review (QQR) of the Agency was undertaken in 2002, which confirmed that Service Children's Education's Agency status and ownership would remain unchanged.

### Principal Activities

2. The Agency provides an education service for dependent children and nursery education for three year olds residing with Ministry of Defence personnel overseas and supports parents with guidance and advice on independent and maintained schools in the United Kingdom. Responsibility for this last element transferred to Directorate Education & Training Services (Army) – DETS (A) with effect from September 2005 leaving the Agency a clear core role of supporting children of service personnel working overseas.

### Operating and Financial Review

3. Gross operating costs amounted to £115.562m. This was offset by income of £3.352m resulting in a net cost to the Department of £112.210m. Net assets at 31 March 2006 amounted to £101.725m. During the year there were some movements to the financial statements, one of note being an increase in the value of Tangible Fixed Assets on the Balance Sheet. The reason for this was the professional revaluation of Land and Building assets by the valuation company Grimleys as part of the Ministry of Defence's Quinquennial Review. Information & Communication Technology (ICT) again showed an increase due to the third year of additional 'Parity' funding, which ensures that sufficient funding will be available to improve the performance of SCE in line with the recent educational initiatives in the UK. The Operating Cost Statement also showed a large increase reflecting the increased valuation on the Balance Sheet in terms of Cost of Capital and Depreciation charges. The Communicated Costs also materially increased reflecting more detailed information from Military infrastructure Head Quarters and a new Provision was set up for an Early Retirement Scheme. A review of the Agency's current performance against its key targets can be found on pages 16 to 19 of the Annual Report.

### Agency's Executive Board

4. The table below shows SCE's Executive Board during 2005/2006.

Chairman – David G Wadsworth	Chief Executive
Michael Smith	Deputy Chief Executive
Kathryn Forsyth	Acting – Assistant Chief Executive (Schools Effectiveness)
Paul Niedzwiedzki	Assistant Chief Executive (Operations)
Les Berriman	Assistant Chief Executive (Corporate Affairs)

None of the Management Board members have any interests in other companies that may result in conflict with their management responsibilities.

## **Fixed Assets**

5. Land and buildings in Germany occupied by Service Children's Education have been accorded a value because Service Children's Education has beneficial use of the assets. All land and buildings in Germany, the initial acquisition or construction of which was not funded by the UK Government, have been classified as donated assets. Land and buildings occupied by the Agency elsewhere in the world, where appropriate, have also been given a value as, again, the Agency has beneficial use.

6. On behalf of the Department, Grimleys carried out a professional valuation of a proportion of our Land and Building assets as at 01 April 2006. The Grimleys revaluation is part of a rolling programme to revalue all Land and Building assets again over three years, with approximately 50% completed in 2004/05, approximately 10% in 2005/06 and the remaining 40% to be completed in 2006/07.

## **Future Developments in the Activities of the Agency**

7. Following Ministerial level endorsement of the outcome of the Agency Quinquennial Review, SCE invited HMI of Schools to undertake a formal Inspection of the Agency's Headquarters organisation. The Inspection Report was published in January 2005 and a great deal of work continues across SCE in addressing and implementing the Report's recommendations. A key element of this was a review of the Agency's structure, resulting in a formal Restructuring exercise, which will be implemented in full in September 2006.

## **Policy in Respect to Disabled Employees**

8. The Agency follows the Civil Service Code of Practice on the employment of Disabled People. It aims to ensure that there is no discrimination on the grounds of disability and that access to employment and advancement within the Agency is based upon ability, qualifications and suitability for work.

## **Policy on Health, Safety and Welfare at Work of Employees**

9. The Agency seeks to comply with all relevant health and safety legislation and seeks to promote the welfare at work of its employees. The Agency is also mindful of its responsibilities for protecting persons not directly employed by the Agency against any risk to health and safety arising out of any connection or dealing with the activities at work of the Agency or its employees.

## **Policy on Maintaining and Developing Employee Involvement in the Activities of the Agency**

10. SCE consults fully with its staff on all matters affecting them, through a number of forums. These include a Teachers Consultative Committee, Joint Negotiating Committees (Teachers and Other Staff) and Dependants Consultative Committee. In addition SCE is represented on MOD Whitley Committees in Germany and Cyprus.

## **Policy in Relation to Equal Opportunities**

11. SCE fully recognises the benefits that a diverse workforce brings. The Agency is fully committed to policies, practices and procedures which, within the framework of the law, do not discriminate on grounds of sex, race, ethnic origin, sexual orientation or religious belief. Bullying, sexual, racial and religious harassment and discrimination will not be tolerated within SCE. The Agency continues to maintain its Investors in People (IiP) accreditation and has, in line with MOD policy, signed-up to the Employment Service symbol "Positive about Disabled People" and ensures that all recruitment activity meets the standards required. The recruitment processes are subject to external audit and verification on an annual basis.

## Creditor Payment Policy

12. The Agency's policy in respect of creditor payments is to pay all valid invoices within 30 days of receipt (or, if invoiced in advance, within 30 days of satisfactory receipt of the goods/services) or the agreed contractual terms where otherwise specified. The Agency uses the Defence Bills Agency, the Ministry of Defence's central bill payment authority, as well as other MOD units' imprest accounts to process and settle its invoices. In 2005/06, the Defence Bills Agency paid 99.86% of all certified bills submitted for payment within 11 days.

## Audit

13. The accounts are audited by the Comptroller and Auditor General in accordance with Section 7 (3) of the Government Resources and Accounts Act 2000. The notional costs of external audit services provided for 2005-2006 were £65,000. No non-audit services were performed.

## Disclosure of Audit Information

14. So far as the Chief Executive is aware, there is no relevant audit information of which the Service Children's Education auditors are unaware, and the Chief Executive has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Service Children's Education auditors are aware of that information.



David G. Wadsworth  
Chief Executive  
27th June 2006



## STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Service Children's Education Agency to prepare a statement of accounts for each financial year 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 Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the accounts direction issued by the 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 have been followed, and disclose and explain any material departures in the financial statements.
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Permanent Under Secretary of State for Defence, as the Ministry of Defence Accounting Officer for the vote from which the Agency draws its funds, has formally tasked the Chief Executive of the Service Children's Education Agency with responsibilities analogous to those of an Accounting Officer for the Agency. His relevant responsibilities in this role, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' memorandum, issued by Treasury and published in "Government Accounting".

## **STATEMENT ON INTERNAL CONTROL FOR 2005/06**

### **Scope of Responsibility**

As Accounting Officer of the Agency, I have delegated responsibility for maintaining a sound system of internal control that supports the achievement of SCE policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my Letter of Delegation from the Adjutant General and defined in Government Accounting.

The Agency currently consists of three discrete business units each managed by subordinate budget holders with delegated responsibilities. Each provide regular reports on performance to me and sit on the Agency Executive Board.

### **The Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place within SCE for the year ending 31 March 2006 and up to the date of approval of the Agency Annual Report and Accounts and accords with Treasury guidance.

### **Capacity to Handle Risk**

In evaluating the overall standard of Risk Management within the Agency my Budget & Planning staff have examined our current position in the context of the formal Risk Management Assessment Framework (RMAF) issued in January 2004. This useful management tool has again allowed SCE to accurately gauge the level of progress already made and has highlighted those areas requiring further development. The process of reviewing Risk on a Quarterly basis is now firmly imbedded within the SCE Executive Board, with the establishment of a detailed Risk Management Plan and associated mitigation plans clearly focusing the energies and resources of the Agency in the management of "high-level" risks. All of the risks identified carry the potential to impact on delivery of the Agency's Key Objectives and Targets, contained within the SCE Corporate and Annual Management Plans. The SCE Corporate Governance (Audit) Committee also plays a key part in the overall management of the Risk Plan and the establishment of an externally chaired Agency Scrutiny Committee has further enhanced SCE's performance in this critical area of business. The Agency seeks at all times to follow best practice in what is, in many respects, a unique business environment, considering both Departmental and Local Education Authority approaches. A clear example of this was the production and management of an HQ SCE Post-OfSTED Action Plan to address the recommendations resulting from the bespoke HMI Inspection carried out in the spring of 2004 and formally reported in January 2005. Work is already well in hand to subsume this plan into the 2006/07 Annual Management Plan. Senior management is well versed in Risk Management and as work continues to develop fully the Risk Mitigation Strategy. Staff involved directly in the management of risk continue to be provided with adequate training and guidance.

### **The Risk Control Framework**

Set out in the Table 1 below is the Agency's assessment of the overall position as at 31 March 2006, regarding Risk Identification and Management. From this an overall picture of the current maturity of Risk Management arrangements within SCE can be gauged.

The current position with regard to Business Continuity planning is covered under Issues and Concerns.

It is confirmed that whilst the current higher-level risks all have potential to impact on overall business delivery, none are assessed as “high risk mission critical” and all have been considered in the light of reviews into common causes of failure.

**Table 1**

<b>Heading</b>	<b>Evidence</b>
Leadership and Strategy	The Agency’s overall approach to Corporate Governance and Risk Management is fully endorsed and supported by the Chief Executive, his Executive and Management Boards, the SCE Scrutiny Committee, Owner’s Board Executive Committee and Corporate Governance (Audit) Committee. Clear ownership of Risks and associated Mitigation Plans are now fully embedded within both operational and strategic decision making with individual Branch and Personal Objectives aligned accordingly. Risk is reviewed on a Quarterly basis with consideration being given to changing or emerging Risks and their subsequent prioritisation. A common approach to Risk and mitigation is employed throughout the Agency.
Context for Risk Management	The nature of SCE’s core business requires the Agency to focus on any potential Risk to the delivery of its overall Mission, which is to provide a high standard of education to the children and young people attending SCE schools worldwide. As such, there is a clear requirement to consider the objectives and views contained within Government Policy (particularly in the field of Education), those of SCE Stakeholders and Partners, Children and their Parents and Society at large.
Risk Identification and Evaluation	All current Risks identified in the formal Risk Management Plan are linked clearly to the Aims, Objectives and Priorities outlined in the current Corporate and Annual Management Plans, which in turn are directly linked to the overall AG Command Mission. Ownership of Risks is by the appropriate member of the Executive Board. Risks are weighted on the basis of Impact and Probability and amended in the light of Mitigation action.
Criteria for Evaluation of Risk	All Headline Risks are considered against Financial or other Resource-based issues, Service Delivery, Impact & Probability, potential effect on Customers and Stakeholders and are subject to formal scrutiny by the Executive Board and Corporate Governance (Audit) Committee.
Risk Control Mechanisms	Controls and Mitigation Plans are constructed using an essentially subjective approach to Risk Appetite, coupled with formal review and consideration on a Quarterly basis by the Executive Board. A flexible approach to individual mitigation strategies ensures that they are reviewed regularly and updated in the light of any increases or decreases to the likelihood of the Risk in question maturing or indeed its impact.
Review and Assurance Mechanisms	Individual Risk “Owners” and their respective Management Teams are responsible for reviewing individual Risks on an ongoing basis. Potential issues highlighted through the Agency “Chain of Command” and changes/amendments are recorded formally at Executive Board meetings. Independent Assurance is obtained through the Corporate Governance (Audit) Committee, TLB Assurance representatives, Defence Internal Audit and the National Audit Office. It was gratifying to note that the National Audit Office made only two minor recommendations in their Management Letter in respect of their formal validation of the Agency’s 2004/05 Annual Report and Accounts.

## Review of Effectiveness

As SCE Chief Executive, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by external auditors and other reports. I have been advised on the implications of the result of my review of the effectiveness of the Statement of Internal Control by my Executive Board and Corporate Governance (Audit) Committee (which whilst not chaired by a Non-Executive Director, does have a good balance between internal and external members) and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As I have already stated, my Executive Board considers risk on a termly basis. My Corporate Governance (Audit) Committee aims to meet during each school term and acts as a conduit for the consideration and management of business risk. Overall external Assurance is achieved through the SCE Scrutiny Committee and Owner's Board Executive Committee. My Assurance staff continue to provide advice and guidance on Risk Management throughout the Agency and maintain responsibility for all internal compliance activity. The Agency's School Effectiveness Branch have already achieved much in the field of Risk Management, adopting a clear strategy of targeting activity and resources to those schools with the greatest need. Implementation of the Parity package brought with it a number of potential risks, which required careful management as did the formal HMI Inspection on the Agency's Headquarters. DIA and DIA (G) continue to offer an external assurance service to the Agency, not least in their annual verification of Key Target results. The National Audit Office continues to review and certify the Agency's Annual Report and Accounts.

Op TELIC (UK Military operations in Iraq) – The past year continued to see a significant amount of activity in support of Op TELIC and the overall management of risks associated with such a significant deployment. 2006/07 will similarly see the deployment of the Allied Countries Europe Rapid Reaction Corps (ARRC) to Afghanistan, which will again require substantial and appropriate support to those schools directly affected by this move.

## Significant Internal Control Problems

Progress has again been made in the area of Business Continuity Planning, with the construction and testing of an HQ SCE Business Continuity Plan (BCP) earlier this year. This will now act as a template for similar plans covering other SCE offices in Germany and Cyprus. A "generic" BCP will also be developed and provided for use across the Agency's schools Worldwide. It should be noted however that recent experiences on the ground at school level have served to confirm that suitable arrangements are already in place and working well.

A recent report by the AG Business Assurance Team has highlighted a number of risks pertaining to self certification of Travel and Subsistence claims and the role of Line Managers in carrying out regular checks. Work is underway to address the issues raised.

In addition, we intend to improve the Corporate Governance architecture that supports the Audit Committee, specifically in defining the policy, reporting requirements and responsibilities for major risk areas.



David G Wadsworth  
Chief Executive  
27th June 2006

## **SERVICE CHILDREN'S EDUCATION AGENCY**

### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Service Children's Education Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

#### **Respective responsibilities of the Agency, the Chief Executive and Auditor**

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 26 to 28 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

#### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Service Children's Education Agency's affairs as at 31 March 2006 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

**I have no observations to make on these financial statements.**



**John Bourn**  
**Comptroller and Auditor General**  
30th June 2006

**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**

## SERVICE CHILDREN'S EDUCATION AGENCY

### OPERATING COST STATEMENT

for the year ended 31 March 2006

	Notes	2005/06 £000	2004/05 £000
<b>Operating Costs</b>			
Staff Costs	2	64,438	61,022*
Other Operating Costs	3	51,124	37,957**
		<hr/>	<hr/>
<b>Gross Operating Costs</b>		<b>115,562</b>	<b>98,979</b>
<b>Operating Income</b>			
Income from non-departmental customers	4	(3,352)	(3,093)
		<hr/>	<hr/>
<b>Net Operating Cost</b>		<b>112,210</b>	<b>95,886</b>
		<hr/> <hr/>	<hr/> <hr/>

All of the costs included in the above statement are in respect of continuing activities.

\*Restated from the original disclosure of £61,037 to correct the figure.

\*\* Restated from the original disclosure of £37,942 to correct the figure.

### STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2006

	Notes	2005/06 £000	2004/05 £000
Gain/(loss) on revaluation of Fixed Assets	11	3,755	25,313
Net gain/(loss) on Donated assets	12	(1,718)	9,005
		<hr/>	<hr/>
		2,037	34,318
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 34 to 50 form part of these accounts.

# SERVICE CHILDREN'S EDUCATION AGENCY

## BALANCE SHEET

at 31 March 2006

	Notes	31 March 2006		31 March 2005	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible Fixed Assets	5		118,425		113,090
<b>Current Assets</b>					
Stock	6	28		28	
Debtors	7	432		471	
			460		499
<b>Creditors due within one year</b>	8	(4,807)		(3,130)	
<b>Net Current Assets</b>			(4,347)		(2,631)
<b>Total Assets Less Current Liabilities</b>			114,078		110,459
<b>Provisions For Liabilities and Charges</b>	9		(12,353)		(8,451)
<b>Net Assets</b>			<b>101,725</b>		<b>102,008</b>
<b>Taxpayers' Equity</b>					
General Fund	10		22,831		23,443
Revaluation reserve	11		39,772		37,725
Donated assets reserve	12		39,122		40,840
			<b>101,725</b>		<b>102,008</b>

The notes on pages 34 to 50 form part of these accounts.



David G. Wadsworth  
Chief Executive  
27th June 2006

## SERVICE CHILDREN'S EDUCATION AGENCY

### CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	2005/06 £000	2004/05 £000
Net cash outflow from operating activities	13	73,248	70,461
Capital Expenditure:			
Purchase of Fixed Assets	5	9,815	3,244
Vote Finance	14	(83,063)	(73,705)
Cash Movement in Year		<u>0</u>	<u>0</u>

The notes on pages 34 to 50 form part of these accounts.

# SERVICE CHILDREN'S EDUCATION AGENCY

## NOTES TO THE ACCOUNTS

for the year ended 31 March 2006

### NOTE 1 – STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury and the Treasury Accounts Direction issued on 13 January 2006 under section 7 (2) of the Government Resource and Accounts Act 2000. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

#### A. Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost.

#### B. Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence (MOD). Input Vat on certain contracted out services is recoverable by the Agency through the MOD registration under specific Treasury direction. The funding of the Agency is reported inclusive of VAT in the Departmental Resource Accounts.

#### C. Operating Income

Income comprises the invoiced value of transactions with the Private Sector and the wider Public Sector. No value is attributed in the accounts to services provided to the Ministry of Defence. The funding of the Agency from the Defence Resource Accounts is shown in the Cash Flow Statement. An element of Service Children's Education's school meals income is received on the Agency's behalf by a Contractor. These income elements, and also the associated costs, are included in non-cash costs, note 16.

#### D. Notional Charges

##### (i) Interest Charge on Capital

A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated as 3.5% of the average net value of non-donated assets.

##### (ii) Insurance

Service Children's Education, in common with other Government bodies does not insure.

##### (iii) Departmental Overheads

Notional amounts are included in the operating Cost Statement for charges in respect of services provided from other areas of the Ministry of Defence. The amounts are calculated to reflect the full cost of providing these services to the Agency.

**(iv) Audit Fee**

The Agency is not charged a fee by the National Audit Office. The audit fee represents the notional charge to the Operating Cost Statement based on the cost of services provided.

**E. Fixed Assets and Depreciation**

**(i) Land and Buildings**

All schools, the Agency Headquarters and other buildings that are the property of the Federal German Authorities have been capitalised as Donated Assets. Buildings in Germany, which have now been positively identified as having been erected from Sterling funds, are also included. Sterling funded enhancements to donated assets resulting in a change in the building's footprint have been included at depreciated replacement cost. Similarly, land and buildings throughout the rest of the world which are occupied by the Agency but owned by other authorities are accounted for. When buildings are owned by the Agency (in Cyprus and Gibraltar), they have, as in the past, been capitalised and are reflected in the Balance Sheet, as are enhancements to school buildings funded by the Agency.

Land and Buildings are revalued periodically using professional valuations. A valuation of the assets of Service Children's Education was carried out at 01 April 2006 by Grimleys, Chartered Surveyors, on behalf of Defence Estates Organisation, these valuations have been incorporated into our 2005/06 accounts. This valuation was part of the rolling valuation of the whole of the defence estate. Grimleys valued approximately 50% of the assets in 2004/05, and approximately 10% of the assets in 2005/06, the remaining assets are programmed to be revalued next year. In the years between revaluations assets are revalued using the indices provided by the MOD Corporate Financial Controller. The main basis of the valuation is depreciated replacement cost. The revalued amounts were brought on to the account as at 31 March 2006 at Net Book Value.

Surpluses arising on revaluation of non-donated assets are taken to the revaluation reserve. Surpluses on donated assets are taken to the donated asset reserve. In order to ensure consistency across MoD agencies, the Statement of Recognised Gains and Losses discloses only the unrealised element of gains/losses on revaluation.

**(ii) Plant and Equipment and IT and Communications**

Items acquired since 1985 have been capitalised where the costs of the item exceeded the appropriate capitalisation threshold. These assets were revalued at 31 March 2006 using the indices provided by the MOD Corporate Financial Controller.

**(iii) Depreciation**

Freehold land is not depreciated. Depreciation on buildings, plant and equipment and IT and Office Machinery is calculated to write off the cost or valuation of fixed assets on a straight-line basis over their estimated useful lives. Buildings have been depreciated over an estimated useful life of between 5 and 50 years. Plant and equipment and IT and Communications have been depreciated over an estimated useful life of between 5 and 21 years.

**(iv) Donated Assets**

Donated Assets are capitalised at their current valuation on receipt and are revalued / depreciated on the same basis as purchased assets. Depreciation on donated assets is matched by an equivalent transfer from the Donated Asset Reserve. Donated assets do not attract an interest on capital charge.

**(v) Assets Under Construction**

Assets under construction are recognised in the Balance Sheet. The balances on each project are revalued annually through the use of departmental indices. During the year, when projects are complete the project values are reclassified to the relevant tangible fixed asset category.

**F. Stock**

The Agency holds a stock of educational and office supplies in a central facility in Germany. Stock is valued on the basis of current replacement cost. This departure from SSAP9 has no material impact on this balance.

**G. Foreign Currency Transactions**

Transactions during the year in foreign currencies are translated into sterling at the General Accounting Rates advised by the Ministry of Defence, however, year end balances are translated at spot rates. Differences arising on the settlement of year end balances are charged or credited to the Operating Cost Statement.

**H. Pensions**

Staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in Note 2. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefit. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS and AFPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and AFPS. In respect of the defined contribution element of the schemes, the Agency recognises the contribution payable for the year.

**I. Cash Balances And Liabilities**

As SCE has no imprest accounts, all cash payments are made and receipts collected by the MoD's central accounting organisations on behalf of the Agency. All transactions, both locally and centrally are brought to account by the MoD in the Departmental Resource Account and are disclosed in aggregate in the Cash Flow Statement.

As the MoD charges the Agency during the year with the gross payments due to Agency employees, inclusive of PAYE and National Insurance contributions, the department is liable for the payment of any liabilities which may be due to the Inland Revenue or Department of Social Security at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

**J. Operating Leases**

All expenditure/income incurred/received in respect of operating leases is charged to operating expenses/income in the year in which they arise. SCE have no finance leases.

## NOTE 2 – STAFF NUMBERS AND COSTS

	2005/06	2004/05
a. The average numbers of whole-time equivalent Staff employed (including senior management) During the year were as follows:		
UK Based Administrative Grades	86	89
UK Based Educational Grades:		
Headteachers, Deputy Heads & Assistant Teachers	799	805
Other Educational Grades	59	56
Locally Enrolled Civilians:		
Miscellaneous Locally Enrolled Civilian Support Staff	774	817
Army: Other Ranks	0	1
	<u>1,718</u>	<u>1,768</u>
	<b>2005/06</b>	<b>2004/05</b>
	<b>£000</b>	<b>£000</b>
b. Salaries, wages and allowances	55,283	52,394
Social Security costs (ERNIC)	4,039	3,799
Other pension costs	5,116	4,829
	<u>64,438</u>	<u>61,022</u>
c. Breakdown of above costs by manpower category		
	<b>2005/06</b>	<b>2004/05</b>
	<b>£0</b>	<b>£0</b>
UK Based Admin Grades		
Salaries, wages and allowances	2,950	2,862
Social Security costs (ERNIC)	187	181
Other pension costs	425	412
	<u>3,562</u>	<u>3,455</u>
Headteachers, Deputy Heads & Assistant Teachers		
Salaries, wages and allowances	37,814	35,908
Social Security costs (ERNIC)	2,680	2,546
Other pension costs	4,226	4,015
	<u>44,720</u>	<u>42,469</u>

Other Educational Grades		
Salaries, wages and allowances	2,529	2,466
Social Security costs (ERNIC)	204	199
Other pension costs	376	367
	<u>3,109</u>	<u>3,031</u>
Miscellaneous Locally Enrolled		
Salaries, wages and allowances	11,990	11,054
Social Security costs (ERNIC)	968	892
Other pension costs	89	82
	<u>13,047</u>	<u>12,028</u>
Army: Other Ranks		
Salaries, wages and allowances	0	29
Social Security costs (ERNIC)	0	3
Other pension costs	0	6
	<u>0</u>	<u>38</u>

d. Social Security and Pension Costs

All UK administrative staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), other UK staff are members of the Teachers' Pension Scheme (TPS). Contributions to all schemes are charged to the Agency and paid to the Paymaster General at a rate determined from time to time by the Government Actuary and advised by the Treasury.

These schemes are unfunded multi-employer defined benefit schemes, but Service Children's Education is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 for the PCSPS and 31 March 2006 for the TPS. Details can be found in the resource accounts of these schemes, which are published and laid before the House of Commons. For the PCSPS these are also available on the web at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

**PCSPS Pension details:**

From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (*classic*, *premium*, and *classic plus*). New entrants after 1 October 2002 may choose between membership of *premium* or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (*partnership pension account*).

**Classic Scheme**

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

## Premium Scheme

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, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

## Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

## Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Contributions are paid to the Paymaster General at rates determined from time to time by the Government Actuary and as advised by HM Treasury. Applicable rates for 2005/06 were as follows:

### Rates at which SCE contributes to employee pension schemes

<b>Scheme and Class of member</b>	<b>2005-06 Rates – % of Pay</b>
PCSPS – Non Industrial Staff	17.1 – 26.5
TPS	13.5

Employer contributions for the PCSPS are to be reviewed every four years following a full scheme valuation by the Government Actuary. Employers' contributions for the TPS have been reviewed. The new contributions are applicable from 1 April 2003, and are 13.5%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

For staff employed directly from the local labour force in Germany, a contribution is made by the Agency to the Federal German Government's "Social Insurance Fund" and Pension Fund. The current percentages of employer contributions are 20.8%, Social Insurance Fund, and 3%, Pension Fund, and are direct cash costs to the Agency. Payments in respect of staff employed directly from the local labour force in other countries are made as appropriate.

## NOTE 3 – OTHER OPERATING COSTS

	2005/06	2004/05
	£000	£000
<b>Supplies and Services Consumed</b>		
IT Equipment and Services	1,086	1,145
Food for School Meals and Home Economics	357	447
Catering and Cleaning	1,176	1,148
Depreciation Schools IT and OM	825	869
Depreciation Schools PMV	163	165
	<u>3,607</u>	<u>3,774</u>
<b>Accommodation</b>		
Married Quarters and Other Accommodation	7,426	6,351
Rent Refund Allowance	33	23
Rent of buildings	824	624
Utilities	1,767	1,352
Accommodation Stores	948	964
Accommodation Services	464	168
Telecommunications	131	101
Non Donated Building Depreciation	3,452	2,186
Works Maintenance	5,167	5,210
	<u>20,212</u>	<u>16,979</u>
<b>Other Administration Expenses</b>		
Travel and Subsistence	1,590	1,832
Training	811	689
Permanent Transfer Costs	869	875
Medical, Welfare and Central MOD Services	3,467	3,107
School Transport	4,646	1,205
Postage	69	68
Office Machinery	24	28
MOD, HQ UKSC(G) and HQ AG costs	2,804	3,380
Exam Fees / School Fees – Non-SCE Schools	1,092	955
Professional Fees	39	115
Miscellaneous	844	319
Materials Consumed	1,289	1,759
Depreciation HQ IT and OM	92	157
Depreciation HQ PMV	2	4
Permanent Diminution in Value of Fixed Assets	1,600	139
Loss on Disposal of Non Donated Fixed Assets	483	264
Exchange Rate Differences	570	522
NAO Audit costs	65	60
Increase/Decrease in Provision charges	3,660	(154)
Unwinding of Discount	1,123	169
	<u>25,139</u>	<u>15,493</u>
<b>Interest Charges on Capital</b>		
Interest on capital	2,166	1,711
	<u>51,124</u>	<u>37,957</u>

Non-cash items are identified in Note 16.

## NOTE 4 – OPERATING INCOME

	2005/06 £000	2004/05 £000
School fees and Home Savings Contributions	2,423	2,228
School meal receipts	929	865
Miscellaneous	0	0
	<u>3,352</u>	<u>3,093</u>

The Agency is required, in accordance with the Treasury's Fees and Charges Guide and the Resource Accounting Manual, to disclose performance results for the areas of its activities where charges are made.

	Income £000	Full Cost £000	2005/06 Surplus/ (Deficit) £000	Income £000	Full Cost £000	2004/05 Surplus/ (Deficit) £000
Provision of education for fee-payers	2,423	3,238	(815)	2,228	2,645	(417)
School Meal Receipts	929	1,096	(167)	865	1,157	(292)
Miscellaneous	0	0	0	0	0	0
Total	<u>3,352</u>	<u>4,334</u>	<u>(982)</u>	<u>3,093</u>	<u>3,802</u>	<u>(709)</u>

The Agency's policy is to recover full costs for school fees. In practice, in a small number of cases where the Agency operates schools in isolated locations, the actual recovery made is between marginal and full costs and bears comparison with local market rates. In such cases non-entitled pupils are accommodated within the school's irreducible spare capacity and this brings educational advantages for the rest of the school population.

The Agency provides meals to its pupils in line with the provision available in the UK. This is not a commercial activity although the Agency seeks to maximise revenue to a level necessary to sustain the service.

This note is not provided for SSAP25 purposes.

## NOTE 5a – TANGIBLE FIXED ASSETS

	Land and Buildings* £000	Plant and Machinery £000	IT and Communications £000	Assets Under Construction £000	Total £000
<b>COST OR VALUATION</b>					
<b>As at 1 April 2005</b>	<b>120,759</b>	<b>1,838</b>	<b>7,036</b>	<b>1,065</b>	<b>130,698</b>
Cash Additions	0	0	0	9,815	9,815
Non-Cash Additions	100	0	0	0	100
Disposals	(553)	(154)	(523)	0	(1,230)
Revaluation	4,373	35	(1,977)	(190)	2,241
Reclassification from AUC	689	0	1,804	(2,493)	0
<b>As at 31 March 2006</b>	<b>125,368</b>	<b>1,719</b>	<b>6,340</b>	<b>8,197</b>	<b>141,624</b>
<b>DEPRECIATION</b>					
<b>As at 1 April 2005</b>	<b>15,077</b>	<b>530</b>	<b>2,001</b>	<b>0</b>	<b>17,608</b>
Charge for the year	4,534	165	917	0	5,616
Disposals	(140)	(151)	(456)	0	(747)
Revaluation	1,274	10	(562)	0	722
Reclassification from AUC	0	0	0	0	0
<b>As at 31 March 2006</b>	<b>20,745</b>	<b>554</b>	<b>1,900</b>	<b>0</b>	<b>23,199</b>
<b>NET BOOK VALUE</b>					
<b>As at 31 March 2006</b>	<b>104,623</b>	<b>1,165</b>	<b>4,440</b>	<b>8,197</b>	<b>118,425</b>
<b>As at 1 April 2005</b>	<b>105,682</b>	<b>1,308</b>	<b>5,035</b>	<b>1,065</b>	<b>113,090</b>

\*All SCE's land and buildings assets are non dwellings.

## NOTE 5b – LAND & BUILDINGS BREAKDOWN BETWEEN DONATED AND NON-DONATED ASSETS

	Donated Assets		Non-Donated Assets		Total
	2005/06 £000	2004/05 £000	2005/06 £000	2004/05 £000	2005/06 £000
<b>COST OR VALUATION</b>					
<b>As at 1 April 2005/2004</b>	<b>43,551</b>	<b>33,208</b>	<b>77,208</b>	<b>45,078</b>	<b>120,759</b>
Cash Additions	0	0	0	0	0
Non-Cash Additions	0	0	100	73	100
Disposals	(30)	0	(523)	(307)	(553)
Revaluation	(675)	10,343	5,048	31,440	4,373
Reclassifications from ACOC	0	0	689	924	689
<b>As at 31 March 2006/2005</b>	<b>42,846</b>	<b>43,551</b>	<b>82,522</b>	<b>77,208</b>	<b>125,368</b>
<b>DEPRECIATION</b>					
<b>As at 1 April 2005/2004</b>	<b>2,711</b>	<b>1,373</b>	<b>12,366</b>	<b>4,506</b>	<b>15,077</b>
Charge for the year	1,082	722	3,452	2,186	4,534
Disposals	(30)	0	(110)	(64)	(140)
Revaluations	(39)	616	1,313	5,738	1,274
Reclassifications from ACOC	0	0	0	0	0
<b>As at 31 March 2006/2005</b>	<b>3,724</b>	<b>2,711</b>	<b>17,021</b>	<b>12,366</b>	<b>20,745</b>
<b>NET BOOK VALUE</b>					
<b>As at 31 March 2006</b>	<b>39,122</b>		<b>65,501</b>		<b>104,623</b>
<b>As at 31 March 2005</b>		<b>40,840</b>		<b>64,842</b>	<b>105,682</b>

## NOTE 6 – STOCK

	2005/06 £000	2004/05 £000
Educational and Office Supplies	28	28
	<u>28</u>	<u>28</u>
2005/06 – As at 31 March 2006.		
2004/05 – As at 31 March 2005.		

## NOTE 7 – DEBTORS

	2005/06 £000	2004/05 £000
Debtors due within one year		
Trade debtors – Central Government Entities	81	202
– Other	193	139
Prepayments	158	130
	<u>432</u>	<u>471</u>
	<u>432</u>	<u>471</u>
2005/06 – As at 31 March 2006.		
2004/05 – As at 31 March 2005.		

## NOTE 8 – CREDITORS

	2005/06 £000	2004/05 £000
Trade creditors – Other	530	454
Accruals	4,109	2,545
Deferred Income	168	131
	<u>4,807</u>	<u>3,130</u>
	<u>4,807</u>	<u>3,130</u>
2005/06 – As at 31 March 2006.		
2004/05 – As at 31 March 2005.		

## NOTE 9 – PROVISIONS FOR LIABILITIES AND CHARGES

	2005/06 £000	2004/05 £000
Provision for Early Retirements as at 1 April	8,451	9,137
Paid in year	(881)	(701)
Increase/Decrease in Provision	3,660	(154)
Unwinding of discount	1,123	169
	<u>12,353</u>	<u>8,451</u>
Provision as at 31 March	<u>12,353</u>	<u>8,451</u>

### Early departure costs.

The Agency meets the additional costs of benefits beyond the normal Teachers Pension Scheme benefits in respect of employees who retire early by paying the required amounts annually to the Teachers Pension Scheme over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

These provisions were created following school closures in line with MoD footprint (locations of military personnel) changes. There is also a need for some early retirements in order to maintain a balanced age profile of teachers at SCE schools.

## NOTE 10 – GENERAL FUND

	Notes	2005/06 £000	2004/05 £000
As at 1 April		23,443	23,742
Net Voted Expenditure	14	83,063	73,705
Non-cash stock additions	6	0	(16)
Non-cash Non-Donated fixed asset additions	5	100	73
Inter reserve transfer – realised element of the revaluation reserve	11	1,708	477
Interest on Capital	3	2,166	1,711
Revenue Non-cash Items	16	24,610	19,637
		<u>135,090</u>	<u>119,329</u>
Net Operating Cost		<u>(112,210)</u>	<u>(95,886)</u>
General Fund as at 31 March		<u><u>22,880</u></u>	<u><u>23,443</u></u>

## NOTE 11 – REVALUATION RESERVE

	Notes	2005/06 £000	2004/05 £000
As at 1 April		37,725	12,889
Gross revaluation	5a	2,241	41,126
Revaluation Depreciation	5a	(722)	(6,225)
Gross Revaluation on Donated Assets to Donated Asset Reserve	5b	675	(10,343)
Revaluation Depreciation on Donated Assets to Donated Asset Reserve	5b	(39)	616
Permanent Diminution in Value of Fixed Assets	3	1,600	139
Inter reserve transfer – realised element of the revaluation reserve	10	(1,708)	(477)
As at 31 March		<u><u>39,772</u></u>	<u><u>37,725</u></u>

## NOTE 12 – DONATED ASSET RESERVE

	2005/06 £000	2004/05 £000
Balance at 1 April	40,840	31,835
Revaluation	(636)	9,727
Depreciation	(1,082)	(722)
Balance at 31 March	<u>39,122</u>	<u>40,840</u>

## NOTE 13 – RECONCILIATION OF OPERATING COST TO OPERATING CASH FLOWS

	Notes	2005/06 £000	2004/05 £000
Net Operating Cost		109,548	95,886
Adjustment for Non-Cash Transactions	16	(21,820)	(19,637)
Interest on Capital	3	(2,166)	(1,711)
Depreciation – Non Donated Buildings	5b	(3,452)	(2,186)
Depreciation – Plant & Machinery	5a	(165)	(169)
Depreciation – IT and Communications	5a	(917)	(1,026)
Loss on Disposal of Non Donated Fixed Assets	3	(483)	(264)
Permanent Diminution in Value of Fixed Assets	3	(1,600)	(139)
<b>Adjustment for Movements in Working Capital</b>			
Increase/(Decrease) in Debtors (exc notional)	7	(39)	112
(Increase)/Decrease in Creditors	8	(1,677)	(1,091)
<b>Other Movements</b>			
Provisions	9	(3,902)	686
<b>Net cash outflow from operating activities</b>		<u><b>73,248</b></u>	<u><b>70,461</b></u>

## NOTE 14- ANALYSIS OF FINANCING

	2005/06 £000	2004/05 £000
Net Payments on Defence Resource Accounts	<u>83,063</u>	<u>73,705</u>

## NOTE 15 – RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2005/06 £000	2004/05 £000
Government Funds at 1 April	102,010	68,468
Revaluation Reserve Movement in Year	2,047	24,836
Donated Asset Reserve Movement in Year	(1,718)	9,005
General Reserve Movement in Year	(692)	(299)
	<hr/>	<hr/>
Government Funds at 31 March	101,647	102,010
	<hr/> <hr/>	<hr/> <hr/>

## NOTE 16 – NON-CASH ITEMS

	2005/06 £000	2004/05 £000
Civilian Management	1,648	1,618
Permanent Transfer Cost	869	875
Medical Costs	1,786	1,450
Air Travel	0	85
MOD HQ Costs	1,152	1,787
HQ UKSC (G) Costs	688	647
HQ AG Costs	964	946
Notional Food Cost	357	447
Contract Catering and Cleaning	1,176	1,148
Postage	69	68
Utilities	1,703	1,321
Accommodation Stores	17	41
Telecommunications	47	46
Cost of Married Quarters and Other Accommodation	7,426	6,351
Rent (Includes Notional Rent for Nurseries)	604	519
Works Services	1,092	1,114
Accommodation Services	464	168
Road Transport	4,646	1,205
NAO Audit Fee	65	60
Miscellaneous Supply Items	24	5
Legal Fees	49	0
Notional Income	(236)	(264)
	<hr/>	<hr/>
	<b>24,610</b>	<b>19,637</b>
	<hr/> <hr/>	<hr/> <hr/>

## NOTE 17 – CAPITAL COMMITMENTS

At 31 March 2006 the Agency had contractual capital commitments totalling £2.839m (31 March 2005 – £9.639m) for the new Gloucester School in Hohne, Germany.

## NOTE 18 – OPERATING LEASES

At 31 March 2006 SCE had annual commitments under non-cancellable operating leases set out below:

	2005/06 £000	2004/05 £000
Operating leases which expire:		
Within one year	63	0
Between one and two years	0	180
Between two and five years	0	0
Over five years	0	0

## NOTE 19 – FINANCIAL INSTRUMENTS

FRS13, Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which agencies are financed, SCE is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

### Liquidity risk:

The Agency's revenue and capital resource requirements are voted annually by Parliament and are therefore not exposed to significant liquidity risk.

### Interest rate risk:

All the agency's financial assets and liabilities carry no interest.

### Foreign Currency risk:

The agency is exposed to foreign currency risk, which is not hedged in any way. The agency's cash requirement may change as a result, which leads to changes to the amount of voted expenditure the agency requires. The changes are notified to the MoD in regular forecasts of expenditure.

### Fair Values:

Financial assets: The Agency has no financial assets other than short-term debtors, which do not require disclosure.

Financial Liabilities: The fair value of the provision approximates to the book value. The Agency has no other financial liabilities other than short-term creditors which do not require disclosure.

## NOTE 20 – CONTINGENT LIABILITIES

The Ministry of Defence has a contingent liability in the event of closure of schools in Germany to carry out dilapidation works before the properties are handed back to the Federal German Authorities. It is not practicable to place a value on these works, as it is dependent upon the timing of any proposed hand back, and the condition of the properties at that time.

## **NOTE 21 – RELATED PARTY TRANSACTIONS**

Service Children's Education is an Agency of the Ministry of Defence, which is regarded as a related party. During the year the Agency has had various material transactions with the Department, including a number of notional charges which are explained in Note 1.D to the Accounts. During the year none of the Management Board members, members of the key management staff or other related parties have undertaken any material transactions with the Agency.

## **NOTE 22 – POST BALANCE SHEET EVENTS**

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the Service Children's Education Agency to other parts of the Ministry of Defence. Where the Agency retains the risks and rewards of ownership of these assets they will continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In other cases the costs of the use of these assets will be communicated to the Service Children's Education Agency by the asset owners and charged to the operating cost statement. Consequently, these centrally accounted for assets will not be included on the Agency's balance sheet as they will be accounted for as operating leases under SSAP 21. There is no effect on the 2005-06 accounts as a result of this change, and as a result no adjustments have been made to these financial statements.

On 15th May 2006, a contract was signed by Defence Estates for £2.3 million for a Foundation Stage build at Akrotiri School in Cyprus.

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