

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



**ANNUAL REPORT  
AND ACCOUNTS**

**2006/2007**



## ANNUAL REPORT & ACCOUNTS 2006/2007

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 2006/2007



## ANNUAL REPORT & ACCOUNTS 2006/2007



Presented to Parliament in pursuance to the  
Government Resources and Accounts Act 2000  
Ordered by the House of Commons  
To be printed 23 July 2007

**HC 779 London: The Stationery Office £13.50**



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## Agency Mission Statement

The Agency aims to:

Provide a coherent and co-ordinated education service delivering high standards, from Foundation Stage through to Sixth Form, to cater for the needs of dependant children residing with MOD personnel serving outside United Kingdom in order that they benefit educationally and socially from their residence abroad. The aim is to ensure that the children of Service and civilian personnel based overseas are fully supported educationally, with a consistent and coherent approach common to all British overseas military bases.

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.*

**The following values will underpin our work with schools and other agencies:**

- *Excellence*
- *Respect*
- *Integrity*
- *Commitment*



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

The provision of a high quality, inclusive, supportive and enjoyable education experience to the children in our care continues to be the primary objective of the Agency. Whether managing the normal turbulence issues that go hand in hand with Military Service, or supporting children and their parents during periods of Operational Deployment, the Agency has continued to offer a high standard of education across all of the Key Stages. Support to Ops TELIC (Iraq) and HERRICK (Afghanistan), has been particularly challenging, both in managing the inevitable disruption to family life and in offering suitable and appropriate support to parents and children directly affected by these deployments.

Despite these challenges, I am pleased to report that the Agency has continued to provide our children with a very high standard of education. We have met or exceeded our Key Targets across Key Stages 1-3 and at "A"-Level, whilst narrowly missing those target elements related to GCSE performance. In addition, five of our schools have been judged as "outstanding" by Ofsted, and over 90% of parental responses to our annual survey expressed satisfaction with their children's education. This performance was reflected in the very positive comments made in the House of Commons Defence Committee in their report on the Education of Service Children. It is a clear reflection on the hard work and dedication of our teaching, support and Headquarters staff.

The year has seen some real improvements to the school estate. Most important of these was the long-awaited opening of the new Gloucester secondary school at Hühne in Germany, which with its modern design and state of the art facilities has been warmly welcomed by both parents and children alike. The construction of this building provides tangible evidence of our determination to support those UK Military locations overseas, where a long-term presence remains. We have also continued to invest in smaller projects, such as the refurbishment of primary school playgrounds and initiating construction work for the new Foundation Stage facility in Akrotiri, Cyprus. We have also continued to invest in our IT – all our schools now have electronic white boards and many have ICT 'suites' available for the young people. And our web-based Grid for Learning (GfL) continues to have a positive impact on our communication and data sharing arrangements and this key tool will be further enhanced over the next 12 months.

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Turning to Agency management, work is now well advanced to develop and publish an SCE Strategic Plan, based around the 5 'Every Child Matters'(ECM) outcomes, which will be used to prioritise our pan-Agency activities over the next 3-4 years. The document will build on the overarching SCE Educational Strategy and will serve to further the Agency's overall aims and objectives and provide guidance and direction for us to work in partnership with other children's agencies in replicating, as far as is possible, the services available to children and young people in the United Kingdom.

The challenges for the year ahead are likely to concentrate on the repatriation of 4 Armd Bde from Germany to the United Kingdom and the associated drawdown of Osnabrück Garrison. This will result in the closure of three of our schools and will affect pupil numbers in several others. We continue to engage fully with other partners within the relevant commands and agencies to ensure the minimum of disruption to children and young people involved in these changes to the overall Military "footprint". Looking further ahead, we are also very aware of possible future changes to the Army's presence in Germany and will once more be turning our mind to our Headquarters organisation to make sure that we are the best structure to meet the future challenges.

All of the improvements mentioned above do however come at a price. The initial (Parity) funding provided by the Department in 2003 to ensure that SCE was able to keep pace with educational developments in the UK has proved enormously successful. A fact recognised both by the HCDC report and in the formal AG Audit Report into SCE Parity Funding, both of which were published in 2006. We continue to press for the provision of a further Parity funding measure to allow SCE to build upon the progress made over recent years and to ensure that Service children have access to the same or a similar range of opportunities to those available in the UK.

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

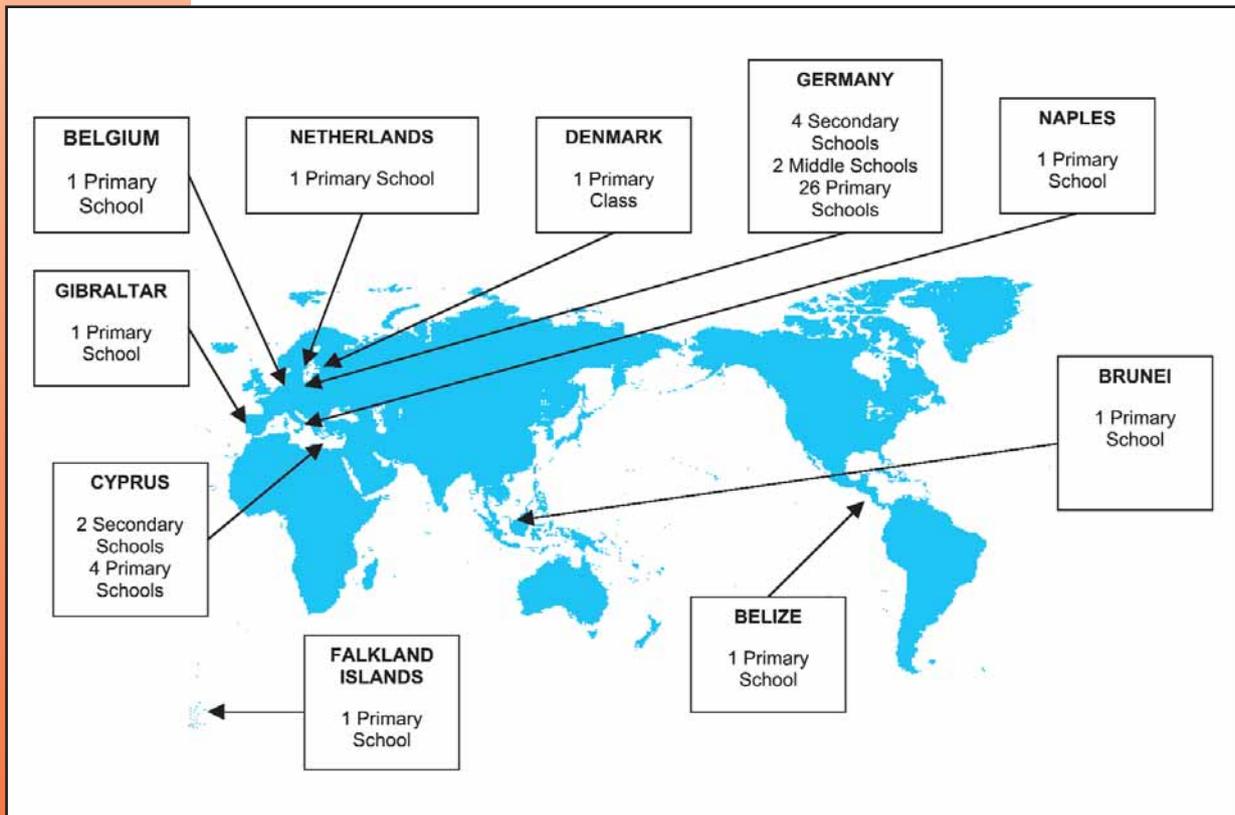
## BACKGROUND TO THE AGENCY

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

As at 31 March 2007, Service Children's Education provided education in 43 schools in 9 countries around the world. The schools ranged from a small primary school of less than 20 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 directly linked to an SCE first or primary school. At 31 March 2007, there were 41 Foundation Stage 1 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. 2006/07 saw no closures of SCE schools, but did see the formal run-down of the one remaining class at Viborg in Denmark, due to significantly reduced pupil numbers, which was formally handed back in the summer of 2006.

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



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## SCE PUPILS

On 31 March 2007 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 2,200 personnel around the world, including some 700 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 Area Offices at JHQ Rheindahlen (Germany), Bielefeld (Germany) and Episkopi (Cyprus). Child Guidance Centres are located in Episkopi, Cyprus and at Fallingbostel, Sennelager, Osnabruck and Rheindahlen in Germany.

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### THE EXECUTIVE BOARD

As a key part of the 2006 Headquarters restructuring exercise, and in order to reflect the new dual Directorate approach of the organisation, the SCE Executive Board was re-modelled to provide for a more focused but flexible approach to the strategic management of the Agency.

The Board itself now consists of the Agency Chief Executive and both the Director of Education and Director of Support Services. The latter also holds the position of SCE Deputy Chief Executive. The Assistant Directors representing the areas of Teaching & Learning, Standards & Assessment, Pupil & Family Services, Policy & Planning and Support Services, whilst not full members of the Executive Board, also attend Board meetings.

The SCE Executive Board for 2006/07 therefore consists of:

#### **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.

#### **DJ HOWARD**



David Howard took up the appointment of Deputy Chief Executive in May 2006. He has worked for the Ministry of Defence – off and on – for nearly 30 years, since joining the Department from University, where he read Law. He has held a wide variety of appointments, most recently working for the MOD's Press Office and Communications Directorate. Prior to taking up his post with SCE, he worked for a short period within the civilian personnel area, with principal responsibility for communicating the implications of the MOD People Programme.

#### **K FORSYTH**



Kathryn Forsyth was appointed Director of Education Services in September 2006, having worked in a number of key educational posts within SCE since September 2000 and was Assistant Chief Executive (Schools Effectiveness) from January 2005. 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. In her new role she holds overall responsibility for the areas of Teaching and Learning, Standards and Assessment and Pupil and Family Services.

## ACHIEVEMENTS & CHALLENGES

Over the past 12 months SCE has continued to offer a high standard of education to the children of Service Personnel placed in its care. The year also saw the Agency beginning to lay the foundations required to embrace fully the responsibilities placed upon it through the ECM process. The aim to reproduce, where possible, the support systems needed to allow service children accompanying their parents overseas to receive the same safeguards and opportunities afforded to their peers in the United Kingdom is a clear challenge to SCE and other relevant MOD agencies. The whole area of Agency Strategic Planning has therefore had to be realigned to focus of the 5 ECM “outcomes”, namely;

- Being Healthy
- Staying Safe
- Enjoying and Achieving
- Making a Positive Contribution
- Achieving Economic Well-being

Of these outcomes, SCE’s activities revolve primarily around Enjoying and Achieving, a significant element of which concerns the provision of high quality and fully inclusive education to children and young people. SCE believes that it is in a strong position to rise to these future challenges as witnessed by its recent academic record.

### 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>Overall Key Target 1 was not achieved as one of the three sub-elements was narrowly missed. See below:</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 eleven of them.</p> <p>The target was narrowly missed with 59.3% (1.6% below the requirement) of students obtaining the required number of A*-C grades in their examinations.</p> <p>The target was met in full with 97.4% (1.7% above the requirement) of students obtaining the required number of A-E grades in their examinations.</p>

Target	Achievement
<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 full, with SCE placed 8th at Key Stage 3 and 15th at both Key Stages 1 and 2.</p>
<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 at least 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 narrowly missed. The England "capped" figure for 2006 was 321.2 with SCE achieving a score of 309.3.</p>
<p>Key Target 5</p> <p>To achieve an overall parental customer satisfaction rating of at least 85% in the 2006/07 parental survey.</p>	<p>The target was met in full, with an overall satisfaction level of some 90%.</p>

### Ofsted Inspections of SCE Schools

Although, due to changes in the DfES inspection process, there was no formal Key Target placed against SCE in respect of school Ofsted reports, the gradings provided by HMI are a clear indicator of the quality of education and pastoral care provided by the Agency's schools.

It was agreed therefore to maintain an internal target for the financial year 2006/07, which was for 100% of Agency schools inspected during the period to achieve Grade 3 (of a 4-point scale) and for at least 66% of schools to achieve the higher Grade 2 assessment.

During 2006/07 and following the introduction of the short notice Section 5 Inspection regime, a total of 12 SCE schools have been visited by Ofsted, with some 84% (against a national figure of 59%) being judged as being Grade 2 or above with 5 of the 12 being classed as Grade 1 – "outstanding".

## House of Commons Defence Committee (HCDC)

The Education of Service Children was the subject of an HCDC enquiry during 2006. Members of the Committee took the opportunity to visit a number of SCE schools in both Germany and Cyprus to see at first hand the work undertaken by the Agency in supporting Service children. The committee's final report was published in September 2006 and was responded to by the Government in November 2006. The report included a number of recommendations, which the Agency and other relevant parties are in the process of addressing. Overall, however, the Report was very positive, and recognised the high standard of education and pastoral support provided to children and young people attending SCE schools.

## Improving the Educational Focus – Restructuring of SCE Headquarters

Following formal publication of the HMI inspection report into Service Children's Education in January 2005 and the subsequent construction of an SCE Post-Ofsted Action Plan later that year, 2006/07 witnessed a major realignment and restructuring of the Agency's Headquarters organisation. With the principle aims of improving the overall educational focus and direction of SCE, offering a simplified and more locally available service delivery to schools and ensuring a fully joined-up approach to Inclusion, Special Educational Needs and Pupil and Family Services, this new structure will help the Agency to build further on the achievements of the past.

Area Offices now act as a "one-stop shop" for schools in their locality, which together with a twin Directorate approach to Educational and Infrastructure support offer a clearer and better focused service to SCE schools, their Governance Committees and ultimately the parents and children that the Agency serves. These changes, augmented further by the increased development of a web-based information service through the SCE Grid for Learning (GfL) are clearly targeted at offering the best possible support to schools whilst seeking at all times to reduce the bureaucratic burden on Headteachers and their staffs.

## Keeping Pace with the UK

The past decade has seen significant increases to the funding made available to mainstream schooling in the United Kingdom. SCE, as a Ministry of Defence and not DfES organisation, does not receive automatically the increased resources required to keep pace with these developments and must, in common with the rest of the Department, compete for any additional funding. This apparent anomaly is widely recognised (not least by the HCDC in their 2006 Report). The Agency was successful in obtaining an additional "Parity" funding package in 2003, without which many of the improvements and enhancements made since then would simply not have been possible.

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It was gratifying to note therefore that the formal Adjutant General's Business Assurance Team awarded Substantial Assurance to the Agency's Owner that the additional resources provided under Parity had been spent in accordance with the Ministerial Submission and were beginning to have a real impact on the day to day lives of Service children.

The world of education has however not stood still since 2003 and a further "Parity II" submission has been produced and submitted through the SCE Chain of Command. The Agency will continue to press its case to secure this essential package.

### **Supporting the Armed Forces**

The past 12 months again saw the significant and ongoing deployment of Service Personnel in support of both Op TELIC (Iraq) and Op HERRICK (Afghanistan), including the deployment of HQ ARRC, with the consequent impact on those schools directly affected by the prolonged absence of parents working in what can be fairly hostile environments. SCE again continued to provide a high level of support to children and parents involved with these operations.

### **Future Army Structure**

The repatriation, over the next few years, of 4 Armd Bde to the United Kingdom and the subsequent closure of both Osnabruck and Munster Stations, together with a number of associated intra-Germany unit moves will have a significant impact on SCE. During the past year an enormous amount of work has been put in alongside the Agency's partners in developing a robust "Drawdown" plan which aims to ensure that children and young people impacted on by these changes will continue to receive a high standard of educational and pastoral support whilst in Germany and that those returning to UK will be adequately catered for and supported.

SCE will continue to engage fully with all relevant partners and agencies in responding to any future changes proposed to the overall Military "footprint" overseas, particularly those resulting from the BORONA Programme, which may impact significantly on the level of Service personnel stationed in the Federal Republic of Germany.



## **A Strategy for the Future**

A huge amount of effort has been put in to the development of an overarching SCE Educational Strategy to place the Agency in a better position to respond appropriately to the various challenges facing it over the coming years, not least the various Government strategies and initiatives surrounding Children and Young People and future changes to Military basing arrangements overseas.

A key part of this strategy is the aspiration to provide an SCE secondary school in each Garrison and work is in hand to try and secure the necessary funding to allow the Agency to achieve this aim, enabling SCE to relocate Prince Rupert Secondary School from Rinteln to the heart of Paderborn Garrison, and to close the remaining Middle School (following the closure of Derby Middle School in Osnabrück) and the re-designation of our First Schools as Primaries.

## **Some Further Challenges**

In addition to some of the clear challenges faced by the Agency in the immediate future and outlined earlier in this report, a raft of other difficulties will need to be successfully managed and overcome if SCE is to continue to offer the quality of service required (and increasingly expected) by our customers. Areas such as the provision of Vocational Education opportunities to SCE students are an obvious challenge when operating in overseas environments, not only because of the obvious language and cultural differences, but also because of the significantly reduced access to appropriate further education establishments or commercial partners.

As touched on earlier, delivery of the Every Child Matters agenda and matching the requirements laid down in key UK legislation such as the Children Act and Disability Discrimination Act will again require careful management on the Agency's behalf.

The provision and development of such key strategies as Children's Centres, Extended Schools, increased Nursery (Foundation Stage) Provision, Primary Learning Networks, Specialist Schools and the further development of Gifted and Talented children will all require an appropriate level of resources to be made available to the Agency if SCE is to meet the expectations of Service parents. Success or failure in these areas will depend to a huge extent on the success or otherwise of the Agency's Parity II submission.

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### OWNERS BOARD MEMBERSHIP

**Chairman:** Adjutant General

**Membership:** Command Secretary/Adjutant General  
Chief of Staff/Adjutant General  
Representative of Land Command Forces  
Representative of Air Member for Personnel  
Representative of Fleet TLB  
DETS (A)  
Representative of HQ UKSC(G)  
Representative of PJHQ  
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



## PERFORMANCE AGAINST KEY TARGETS 2006/07

The Key Targets for SCE for 2006/2007 were announced in Parliament on 14 June 2006. The outcomes of the Key targets are shown below:

### 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 A\*-C at GCSE as a three-year rolling average.
- Sustain the percentage of students obtaining A-E at "A" Level as a three-year rolling average.

### Sub-Elements:

Subject	Performance	National Performance +3%	SCE Performance	Achieved/ Not Achieved
Key Stage 1 Reading (level 2+)	84%	87%	87%	Achieved
Key Stage 1 Writing (level 2+)	81%	84%	87%	Achieved
Key Stage 1 Mathematics (level 2+)	90%	93%	93%	Achieved
Key Stage 2 English (level 4+)	79%	82%	82%	Achieved
Key Stage 2 Reading (level 4+)	83%	86%	87%	Achieved
Key Stage 2 Writing (level 4+)	67%	70%	67%	Achieved
Key Stage 2 Mathematics (level 4+)	76%	79%	79%	Achieved
Key Stage 2 Science (level 4+)	87%	90%	92%	Achieved
Key Stage 3 English (level 5+)	73%	76%	81%	Achieved
Key Stage 3 Mathematics (level 5+)	77%	80%	84%	Achieved
Key Stage 3 Science (level 5+)	72%	75%	81%	Achieved
Key Stage 3 ICT (level 5+)	TBC	TBC	83%	Not Known*
GCSE – 61%	59.3%	Not Applicable	59.3%	Not Achieved**
"A"-Level – 96.1%	97.4%	Not Applicable	97.4%	Achieved

\* National (England) Figure Not Available

\*\* Marginal Miss by less than 2%

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### 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	15	<b>Achieved</b>
Key Stage 3	8	<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+) 26%	29	<b>Yes</b>
Key Stage 1 Writing (level 3+) 14%	20	<b>Yes</b>
Key Stage 1 Mathematics (level 3+) 21%	26	<b>Yes</b>
Key Stage 2 English (level 5+) 22%	30	<b>Yes</b>
Key Stage 2 Reading (level 5+) 47%	50	<b>Yes</b>
Key Stage 2 Writing (level 5+) 18%	15	<b>No</b>
Key Stage 2 Mathematics (level 5+) 33%	33	<b>Yes</b>
Key Stage 2 Science (level 5+) 46%	46	<b>Yes</b>
Key Stage 3 English (level 6+) 35%	38	<b>Yes</b>
Key Stage 3 Mathematics (level 6+) 57%	68	<b>Yes</b>
Key Stage 3 Science (level 6+) 41%	49	<b>Yes</b>
Key Stage 3 ICT (level 6+) TBC	29	<b>N/A*</b>

\* DfES Figures currently unavailable

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## 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
	321.2	309.3	No

## Key Target 5

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

**Achieved – 90%**



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### KEY TARGETS 2007/2008 & BEYOND

The Chief Executive of Service Children's Education has been set the following Key Targets for 2007/08 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 pupils obtaining 5 or more A\*-C (including English and Maths) at GCSE as a three-year rolling average.
- For GCSE, sustain performance in Average Points' scores by achieving a score within 10 points of the England "capped" upper quartile figure.
- 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 9 of the 12 subject elements.

#### Key Target 4

- To achieve Grade 3, or above, for the overall effectiveness of the school in 100% of schools inspected and Grade 2, or above, in not less than 66% of schools inspected.

#### Key Target 5

- To achieve an overall parental customer satisfaction rating of at least 85% in the 2007/08 parental survey.

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## 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 06/07 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 £99,252. 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:

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This section has been subject to audit.

	Note	Salary, including performance Pay at 31/03/07	Benefits in Kind (rounded to nearest £100) at 31/03/07	Salary, including performance Pay at 31/03/06*	Benefits in Kind (rounded to nearest £100) at 31/03/06
		£000	£	£000	£
David G. Wadsworth	1	95 – 100	0	80 – 85	0
David Howard (from 15/05/06) Full year equivalent salary	2	50 – 55 60 – 65	0	**	0
Kathryn Forsyth		65 – 70	0	70 – 75	0
Mike Smith (until 14/05/06) Full year equivalent salary	2	5 – 10 45 – 50	0	55 – 60	0
Paul Niedzwiedzki Full year equivalent salary	3	25 – 30 60 – 65	0	70 – 75	0
Les Berriman Full year equivalent salary	3	20 – 25 45 – 50	0	60 – 65	0

### Note

1. The amount reported includes the bonus payment relating to 2003/04, 2004/05 and 2005/06.
2. David Howard took up the appointment of Deputy Chief Executive on 15/05/06 replacing Mike Smith who moved on to a new appointment within the MOD.
3. The individuals ceased to be members of the Executive Board as a result of the Headquarters restructuring from the 1st September 2006. The salary reported is from 1st April 2006 to 31st August 2006.

\* Salary disclosed in 2005/06 included a non-taxable allowance that did not require reporting and has produced a higher figure than 2006/07.

\*\* The information for 2006 is not available.

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.

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

# ANNUAL REPORT & ACCOUNTS 2006/2007

	Total Accrued Pension at age 60 and related lump sum at 31/03/07	Real increase in pension and related lump sum at age 60 at 31/03/07	CETV* at 31/03/06	CETV* at 31/03/07	Real increase in CETV after adjustment and changes in market investment factors
	£000	£000	£000	£000	£000
David G. Wadsworth	10 – 15 plus lump sum 15 – 20	0 – 2.5 plus lump sum 0	171	239	20
David Howard	20 – 25 plus lump sum 65 – 70	0 – 2.5 plus lump sum 0 – 2.5	N/A	411	3
Kathryn Forsyth	20 – 25 plus lump sum 65 – 70	**	256	350	**
Mike Smith	15 – 20 plus lump sum 50 – 55	0 – 2.5 plus lump sum 0 – 2.5	244	291	1
Paul Niedzwiedzki	20 – 25 plus lump sum 60 – 65	0 plus lump sum 0	365	439	(3)
Les Berriman	10 – 15 plus lump sum 40 – 45	0 – 2.5 plus lump sum 0 – 2.5	180	214	4

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

\*\* The information is not available. Teachers' Pension Scheme does not provide the details.

N/A David Howard took up the appointment of Deputy Chief Executive during 2006/07.

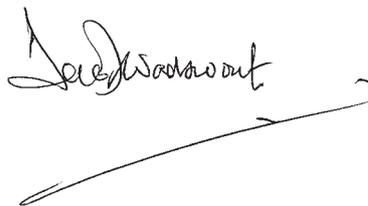
The factors used to calculate the CETV for members of the PCSPS were revised for 2006/07 following advice from the Cabinet Office. The figures for 31 March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year.

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

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  
29th June 2007



# SERVICE CHILDREN'S EDUCATION AGENCY THE 2006/07 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 £110.830m. This was offset by income of £3.463m resulting in a net cost to the Department of £107.367m. Net assets at 31 March 2007 amounted to £101.998m. During the year there were some movements to the financial statements, of note was the completion and capitalisation of Gloucester School new build. Information & Communication Technology (ICT) again showed an increase due to the fourth 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 decrease, reflecting the removal of a proposed Forces restructuring Provision that is no longer required. A new Provision was set up for an Early Release Scheme under Future Army Structure. A review of the Agency's current performance against its key targets can be found on pages 15 to 17 of the Annual Report.

### Agency's Executive Board

4. The table below shows SCE's Executive Board during 2006/07.

Chairman – David G Wadsworth	Chief Executive
David Howard	Deputy Chief Executive appointed 15th May 2006, and Director of Support Services from 1st September 2006
Kathryn Forsyth	Director of Education Services from 1st September 2006
Michael Smith	Deputy Chief Executive until 14th May 2006
Paul Niedzwiedzki	Assistant Chief Executive (Operations) until 31 August 2006
Les Berriman	Assistant Chief Executive (Corporate Affairs) until 31st August 2006

As a key part of the 2006 Headquarters restructuring exercise, and in order to reflect the new dual Directorate approach, the SCE Executive Board was re-modelled and the new structure implemented from 1st September 2006. The Board now consists of the Agency Chief Executive and the Director of Education and Director of Support Services. Les Berriman and Paul Niedzwiedzki are now Assistant Directors, whilst not full members of the Executive Board, do attend Board meetings.

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. A professional valuation of all of our IT and Communications and Plant and Machinery Assets was conducted as at 01 April 2006.

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

7. The Agency is well advanced in developing an SCE Strategic Plan, based around the 5 'Every Child Matters' outcomes, which will be used to prioritise the pan-Agency activities over the next few years. The Agency continues to press for the provision of a further Parity II funding measure to allow SCE to build upon progress made over recent years and to ensure that Service children have access to the same or similar range of opportunities to those available in the UK. A review of the SCE HQ organisation, as introduced in September 2006, will be undertaken in 2007/08 to ensure it is best able to meet the challenges ahead.

### **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 99.99% of all certified bills submitted for payment within 11 days.

## Audit

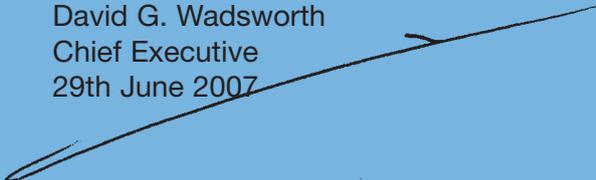
13. The accounts are audited by the Comptroller and Auditor General in accordance with Section 7 (3) of the Government Resources and Accounts Act 2000. The notional costs of external audit services provided for 2006-2007 were £66,000. No non-audit services were performed.

## 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  
29th June 2007



## **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 2006/07**

### **Scope of Responsibility**

As Chief Executive of the Agency, I have responsibility for maintaining a sound system of internal control in accordance with the responsibilities assigned to me within my Letter of Delegation from the Adjutant General and in Government Accounting. I also contribute to the achievement of AG/LAND Forces policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible.

In my role as Agency Chief Executive, I hold membership of the AG Management Board and am represented at the AG Audit Committee. I am required to provide reports governing performance and assurance to both of these groups on a regular basis and in doing so contribute to the Command's overall Performance Management process, Balanced Scorecard and Risk Management Strategies. In addition to these arrangements, which allow for external assurance activity to be carried out by the LAND Forces Assurance Team, the management and service delivery of the Agency is subject to ongoing and detailed verification and validation by both Defence Internal Audit and the National Audit Office.

In order to build upon the progress and performance improvements made across SCE schools over the past few years and conscious of the changes to the overall social and educational agenda being witnessed now in the United Kingdom, I have, over the past year, restructured the Agency's Headquarters organisation in order to provide a better and more coherently managed service to our schools.

This restructuring has seen the establishment of local support offices and the division of the main HQ effort into two discrete Directorates, namely Education and Support. This will place the Agency on a better footing to deal with the various challenges facing it in the coming years. Both Directors are full members of the Agency's Executive Board.

In order to strengthen further the overall governance of the Agency, I am looking to widen the remit of the existing externally chaired SCE Scrutiny Committee. It will in future be the forum to evaluate and challenge all Agency activity including educational performance, Corporate Governance and Business Risk. To a large extent the increased role of this committee is mirrored by the changes made to local scrutiny arrangements for schools through their individual Governance Committees.

### **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 in SCE for the year ended 31 March 2007 and up to the date of approval of the 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 has examined our current position in the context of the formal Risk Management Assessment Framework (RMAF) issued in January 2004. Whilst no longer mandatory, this useful management tool continues to allow SCE to gauge accurately the level of progress already made in the management of risk, whilst highlighting those areas in need of further development.

The Risk Management process is directed by me, as Chief Executive, in tandem with the other members of the Executive Board. This is achieved by the identification of Business Risks through the SCE Management Plan, their subsequent grading and the development of a raft of mitigation plans devised to address significant threats and opportunities that could impact on the Agency's outputs. The Risk Map itself is subject to ongoing review and update, by the Executive Board and, during 2006/07, the SCE Corporate Governance Committee, which is to be subsumed within the SCE Scrutiny Committee.

Senior staff and those directly involved with the management of risk are sufficiently trained and equipped to carry-out the tasks required of them in minimising or eliminating risks to the Agency's business, using the Treat, Tolerate, Transfer or Terminate methodology.

The Agency seeks at all times to follow best practice in what is, in many respects, a unique business environment, considering as it does both Departmental and Local Authority approaches to Corporate Governance and Risk Management.

### **The Risk and Control Framework**

The Agency Risk Management strategy cascades directly from the SCE Corporate and Annual Management Plans, highlighting as they do the principle priorities, aims and objectives required to meet the overall Agency Mission. The Mission itself is supported by a set of challenging, but realistic, Key Targets agreed by Minister and published annually in Parliament.

My Executive Board considers and analyses potential risks to the delivery of SCE's Mission, focusing on those with either high impact or high probability of occurrence. Mitigation Plans and strategies are then developed for each higher-level risk and the progress of those plans monitored and updated as required. This approach in turn informs the Resource Management process diverting funding, where necessary, to overcome or reduce risks of a critical or significant nature. The Agency is gradually increasing its appetite for risk, faced as we are with a number of unavoidable issues, such as keeping pace with educational funding developments in the UK, embracing the "Every Child Matters" agenda, supporting Operational Deployments and reacting to changes in Military basing arrangements across the World.

Table 1 below identifies how the Agency manages its risk. From this an overall picture of the current maturity of Risk Management arrangements within SCE can be gauged.

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 continue to be 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 Board, 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 an ongoing 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 the Every Child Matters agenda), 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 scrutiny by the Executive Board and Corporate Governance Committee.
Risk Control Mechanisms	Controls and Mitigation Plans are constructed using an essentially subjective approach to Risk Appetite, coupled with their review and consideration 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. Independent Assurance is obtained through the Corporate Governance Committee, TLB Assurance representatives, Defence Internal Audit and the National Audit Office. It was again gratifying to note that the National Audit Office issued an extremely positive Management Letter in respect of their formal validation of the Agency’s Annual Report and Accounts.

## Review of Effectiveness

As Agency 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 system of internal control by my Executive Board and Corporate Governance 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.

The attention and focus of SCE senior management over the past year has, by necessity, centred on delivering outputs and the organisational changes required to bring about improvements to Headquarters support to schools, through a major restructuring exercise. Corporate Governance, Assurance and Risk management activity has however continued throughout the year. The SCE Corporate Governance (Audit) Committee in addition to considering the work required to allow the SCE Scrutiny Committee to take on the formal Agency Audit role reviewed the following pieces of assurance work:

- Physical Security of SCE Schools
- Internal Guidance on the conduct of Investment Appraisals
- Business Continuity Planning
- Fraud & Theft
- AG Business Assurance Team Compliance Audit of SCE
- Hospitality
- AG Business Assurance Team Audit of “Parity” Funding
- SCE Annual Report and Accounts
- Revised Internal Assurance Arrangements
- Agency Key target Validation
- Increased Role of the SCE Scrutiny Committee (to include Audit Committee role)

Work is now progressing firmly to maintain a rigorous inspection and assurance regime across the Agency and its schools, focusing on areas of potential risk such as Cash Handling, Travel & Subsistence, Entitlement to Free Education, School Security and Asset Management, Business Continuity and External Assistance.

Further assurance was provided by the AG Business Assurance Team’s Internal Audit Reports on overall Agency Compliance and the implementation, delivery, monitoring and impact of the additional resources made available through the initial Educational Parity package. Both reports provided Substantial Assurance to the Adjutant General, as the Agency’s Owner, that SCE was operating appropriately in discharging our responsibilities to customers and stakeholders.

My SHEF Adviser continues undertake the work required to meet statutory and Service standards and reports directly to the AG Command SHEF Committee. Similarly my Planning and Resource Management staff contributes appropriately to the annual Health of Financial Systems return.

Defence Internal Audit continues to oversee and validate the internal verification of the Agency's Key Targets whilst the National Audit Office provides formal assurance of the accuracy and completeness of the SCE Annual Report and Accounts.

Op TELIC and ISAF – The past year again saw a significant amount of activity in support of Op TELIC and the deployment of HQ ARRC to Afghanistan. I have continued to ensure that the overall management of risks associated with such significant Operations are handled in a sensitive and appropriate manner, particularly for those schools affected directly by these moves.

### **Significant Internal Control Issues**

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). This has now been revised to reflect the new Headquarters structure and will, in conjunction with local Garrison and Station Plans and individual School Major Incident Plans, aim to provide an appropriate level of assurance in this critical area.



David G. Wadsworth  
Chief Executive  
29th June 2007



## **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 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and the 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Agency and the Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration 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 and the part of the Remuneration Report to be audited 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 report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements. 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. In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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 judgments made by the Agency and the 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**

### **Audit 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 Agency's affairs as at 31 March 2007, and of the net operating cost, 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;
- the information given within the Annual Report, which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements.

### **Audit Opinion on Regularity**

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

## **Report**

I have no observations to make on these financial statements.



**John Bourn**  
**Comptroller and Auditor General**  
5th July 2007

**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 2007

	Notes	2006/07	2005/06
		£000	£000
<b>Operating Costs</b>			
Staff Costs	2	65,366	64,438
Other Operating Costs	3	45,464	51,173*
		<hr/>	<hr/>
<b>Gross Operating Costs</b>		<b>110,830</b>	<b>115,611</b>
<b>Operating Income</b>			
Income from non-departmental customers	4	(3,463)	(3,352)
		<hr/>	<hr/>
<b>Net Operating Cost</b>		<b>107,367</b>	<b>112,259</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 £51,124 to correct the figure.

### STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2007

	Notes	2006/07	2005/06
		£000	£000
Gain / (loss) on revaluation of Fixed Assets	11	(588)	3,755
Net gain / (loss) on Donated assets	12	(1,892)	(1,718)
		<hr/>	<hr/>
		(2,480)	2,037
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 36 to 52 form part of these accounts.

# SERVICE CHILDREN'S EDUCATION AGENCY

## BALANCE SHEET

at 31 March 2007

	Notes	31 March 2007		31 March 2006	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible Fixed Assets	5		113,950		118,425
<b>Current Assets</b>					
Stock	6	16		28	
Debtors	7	568		432	
			584		460
<b>Creditors due within one year</b>	8	(3,798)		(4,807)	
<b>Net Current Assets</b>			(3,214)		(4,347)
<b>Total Assets Less Current Liabilities</b>			110,736		114,078
<b>Provisions For Liabilities and Charges</b>	9		(8,738)		(12,353)
<b>Net Assets</b>			<b>101,998</b>		<b>101,725</b>
<b>Taxpayers' Equity</b>					
General Fund	10		28,678		22,831
Revaluation reserve	11		36,090		39,772
Donated assets reserve	12		37,230		39,122
			<b>101,998</b>		<b>101,725</b>

The notes on pages 36 to 52 form part of these accounts.



David G. Wadsworth  
Chief Executive

29th June 2007

## SERVICE CHILDREN'S EDUCATION AGENCY

### CASH FLOW STATEMENT

for the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Net cash outflow from operating activities	13	76,119	73,248
Capital Expenditure: Purchase of Fixed Assets	5	5,449	9,815
Vote Finance	14	(81,568)	(83,063)
<b>Cash Movement in Year</b>		<u>0</u>	<u>0</u>

The notes on pages 36 to 52 form part of these accounts.

# SERVICE CHILDREN'S EDUCATION AGENCY

## NOTES TO THE ACCOUNTS

for the year ended 31 March 2007

### NOTE 1 – STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2006-07 Government Financial Reporting Manual (FReM) issued by HM Treasury and the Treasury Accounts Direction issued on 19 December 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. The income is transferred in full to Service Children's Education on a monthly basis.

#### 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**

On 1 April the Ministry of Defence transferred responsibility for accounting for fixed assets from the Service Children's Education Agency to other parts of the Department. Where the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to the Service Children's Education Agency by the asset owners and charged to the operating cost statement.

**Where the Agency retains the risks and rewards of ownership the following apply:**

##### **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. 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 2007 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 capitalisation threshold, £5,000, and where the useful life exceeds one year. Additionally, grouped items of lower value are capitalised where the omission of the assets would cause the Balance Sheet to be materially understated. A professional valuation, arranged by the Single Balance Sheet Owner, of the Plant and Equipment and IT and Communication assets of Service Children's Education was carried out as at 01 April 2006, these values have been incorporated into our 2006-07 accounts. These assets were also revalued at 31 March 2007 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

	2006/07	2005/06
a. The average numbers of whole-time equivalent Staff employed (including senior management) During the year were as follows:		
UK Based Administrative Grades	93	86
UK Based Educational Grades:		
Headteachers, Deputy Heads & Assistant Teachers	808	799
Other Educational Grades	29	59
Locally Enrolled Civilians:		
Miscellaneous Locally Enrolled Civilian Support Staff	749	774
Army: Other Ranks	0	0
	1679	1,718
	1679	1,718
	<b>2006/07</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
b. Salaries, wages and allowances	55,852	55,283
Social Security costs (ERNIC)	4,181	4,039
Other pension costs	5,333	5,116
	65,366	64,438
	65,366	64,438
c. breakdown of above costs by manpower category		
	<b>2006/07</b>	<b>2005/06</b>
	<b>£0</b>	<b>£0</b>
UK Based Admin Grades		
Salaries, wages and allowances	3,702	2,950
Social Security costs (ERNIC)	247	187
Other pension costs	563	425
	4,512	3,562
	4,512	3,562
Headteachers, Deputy Heads & Assistant Teachers		
Salaries, wages and allowances	39,011	37,814
Social Security costs (ERNIC)	2,737	2,680
Other pension costs	4,314	4,226
	46,062	44,720
	46,062	44,720
Other Educational Grades		
Salaries, wages and allowances	1,219	2,529
Social Security costs (ERNIC)	145	204
Other pension costs	358	376
	1,722	3,109
	1,722	3,109

Miscellaneous Locally Enrolled		
Salaries, wages and allowances	11,920	11,990
Social Security costs (ERNIC)	1,052	968
Other pension costs	98	89
	<u>13,070</u>	<u>13,047</u>
Army: Other Ranks		
Salaries, wages and allowances	0	0
Social Security costs (ERNIC)	0	0
Other pension costs	0	0
	<u>0</u>	<u>0</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 2006/07 were as follows:

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

<b>Scheme and Class of member</b>	<b>2006-07 Rates – % of Pay</b>
PCSPS – Non Industrial Staff	17.1 – 25.5
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

	2006/07	2005/06
	£000	£000
<b>Supplies and Services Consumed</b>		
IT Equipment and Services	845	1,086
Food for School Meals and Home Economics	0	357
Catering and Cleaning	1,353	1,176
Depreciation Schools IT and OM	902	825
Depreciation Schools PMV	148	163
	<u>3,248</u>	<u>3,607</u>
<b>Accommodation</b>		
Married Quarters and Other Accommodation	6,200	7,426
Rent Refund Allowance	13	33
Rent of buildings	856	824
Utilities	2,074	1,767
Accommodation Stores	925	948
Accommodation Services	81	464
Telecommunications	148	131
Non Donated Building Depreciation	3,489	3,452
Works Maintenance	4,413	5,167
	<u>18,199</u>	<u>20,212</u>
<b>Other Administration Expenses</b>		
Travel and Subsistence	1,746	1,590
Training	881	811
Permanent Transfer Costs	878	869
Medical, Welfare and Central MOD Services	3,527	3,467
School Transport	6,048	4,646
Postage	69	69
Office Machinery	17	24
MOD, HQ UKSC(G) and HQ AG costs	2,843	2,804
Exam Fees / School Fees – Non-SCE Schools	1,061	1,092
Professional Fees	43	39
Miscellaneous	1,870	844
Operating lease costs – hire of office equipment	159	139
Materials Consumed	1,582	1,150
Depreciation HQ IT and OM	113	92
Depreciation HQ PMV	2	2
Permanent Diminution in Value of Fixed Assets	1,288	1,600
Loss on Disposal of Non Donated Fixed Assets	1,527	483
Exchange Rate Differences	686	570
NAO Audit costs	66	65
Increase/(Decrease) in Provision charges	(2,811)	3,660
Unwinding of Discount	151	1,123
Legal Fees	43	49*
	<u>21,789</u>	<u>25,188</u>
<b>Interest Charges on Capital</b>		
Interest on capital	2,228	2,166
	<u>45,464</u>	<u>51,173</u>

\* Restated from original figure of £0 to correct  
Non-cash items are identified in Note 16.

## NOTE 4 – OPERATING INCOME

	2006/07 £000	2005/06 £000
School fees and Home Savings Contributions	2,610	2,423
School meal receipts	848	929
Miscellaneous	5	0
	<u>3,463</u>	<u>3,352</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	2006/07 Surplus/ (Deficit) £000	Income £000	Full Cost £000	2005/06 Surplus/ (Deficit) £000
Provision of education for fee-payers	2,610	3,506	(896)	2,423	3,238	(815)
School Meal Receipts	848	848	0	929	1,096	(167)
Miscellaneous	5	5	0	0	0	0
Total	<u>3,463</u>	<u>4,359</u>	<u>(896)</u>	<u>3,352</u>	<u>4,334</u>	<u>(982)</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.

The information in this note is provided for Fees and Charges purposes, not 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 2006</b>	<b>125,368</b>	<b>1,719</b>	<b>6,340</b>	<b>8,197</b>	<b>141,624</b>
Cash Additions	0	0	0	5,449	5,449
Non-Cash Additions	0	19	6	0	25
Disposals	(2,391)	(6)	(291)	0	(2,688)
Revaluation	(2,384)	(135)	(877)	107	(3,289)
Reclassification from AUC	10,906	0	2,152	(13,058)	0
<b>As at 31 March 2007</b>	<b>131,499</b>	<b>1,597</b>	<b>7,330</b>	<b>695</b>	<b>141,121</b>
<b>DEPRECIATION</b>					
<b>As at 1 April 2006</b>	<b>20,745</b>	<b>554</b>	<b>1,900</b>	<b>0</b>	<b>23,199</b>
Charge for the year	4,340	150	1,015	0	5,505
Disposals	(701)	(5)	(208)	0	(914)
Revaluation	(201)	(56)	(362)	0	(619)
Reclassification from AUC	0	0	0	0	0
<b>As at 31 March 2007</b>	<b>24,183</b>	<b>643</b>	<b>2,345</b>	<b>0</b>	<b>27,171</b>
<b>NET BOOK VALUE</b>					
<b>As at 31 March 2007</b>	<b>107,316</b>	<b>954</b>	<b>4,985</b>	<b>695</b>	<b>113,950</b>
<b>As at 1 April 2006</b>	<b>104,623</b>	<b>1,165</b>	<b>4,440</b>	<b>8,197</b>	<b>118,425</b>

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

Land and Buildings Assets transferred to Defence Estates, Plant and Machinery Assets transferred to Defence Logistics Organisation and IT and Communications Assets transferred to the Defence Communications Services Agency on 1 April 2006.

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

	Donated Assets		Non-Donated Assets		Total
	2006/07	2005/06	2006/07	2005/06	2006/07
	£000	£000	£000	£000	£000
<b>COST OR VALUATION</b>					
<b>As at 1 April 2006/2005</b>	<b>42,846</b>	<b>43,551</b>	<b>82,522</b>	<b>77,208</b>	<b>125,368</b>
Cash Additions	0	0	0	0	0
Non-Cash Additions	0	0	0	100	0
Disposals	(313)	(30)	(2,078)	(523)	(2,391)
Revaluation	(869)	(675)	(1,515)	5,048	(2,384)
Reclassifications from AUC	0	0	10,906	689	10,906
<b>As at 31 March 2007/2006</b>	<b>41,664</b>	<b>42,846</b>	<b>89,835</b>	<b>82,522</b>	<b>131,499</b>
<b>DEPRECIATION</b>					
<b>As at 1 April 2006/2005</b>	<b>3,724</b>	<b>2,711</b>	<b>17,021</b>	<b>12,366</b>	<b>20,745</b>
Charge for the year	851	1,082	3,489	3,452	4,340
Disposals	(66)	(30)	(635)	(110)	(701)
Revaluations	(75)	(39)	(126)	1,313	(201)
Reclassifications from AUC	0	0	0	0	0
<b>As at 31 March 2007/2006</b>	<b>4,434</b>	<b>3,724</b>	<b>19,749</b>	<b>17,021</b>	<b>24,183</b>
<b>NET BOOK VALUE</b>					
<b>As at 31 March 2007</b>	<b>37,230</b>		<b>70,086</b>		<b>107,316</b>
<b>As at 31 March 2006</b>		<b>39,122</b>		<b>65,501</b>	<b>104,623</b>

## NOTE 6 – STOCK

	2006/07 £000	2005/06 £000
Educational and Office Supplies	16	28
	<u>16</u>	<u>28</u>
2006/07 – As at 31 March 2007.		
2005/06 – As at 31 March 2006.		

## NOTE 7 – DEBTORS

	2006/07 £000	2005/06 £000
Debtors due within one year		
Trade debtors – Central Government Entities	248	81
– Other	0	193
Prepayments	320	158
	<u>568</u>	<u>432</u>
	<u>568</u>	<u>432</u>
2006/07 – As at 31 March 2007.		
2005/06 – As at 31 March 2006.		

## NOTE 8 – CREDITORS

	2006/07 £000	2005/06 £000
Trade creditors – Other	1,387	530
Accruals	2,247	4,109
Deferred Income	164	168
	<u>3,798</u>	<u>4,807</u>
	<u>3,798</u>	<u>4,807</u>
2006/07 – As at 31 March 2007.		
2005/06 – As at 31 March 2006.		

## NOTE 9 – PROVISIONS FOR LIABILITIES AND CHARGES

	2006/07 £000	2005/06 £000
Provision for Early Retirements as at 1 April	12,353	8,451
Paid in year	(955)	(881)
Increase/(Decrease) in Provision	(2,811)	3,660
Unwinding of discount	151	1,123
	<u>8,738</u>	<u>12,353</u>
Provision as at 31 March	<u>8,738</u>	<u>12,353</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.

During 2006/07 there has been a net decrease in the Provisions, reflecting the removal of a Forces restructuring Provision, no longer required, (£4.819m) and the setting up of a new Provision for an Early Release Scheme under Future Army Structure £2.008m.

## NOTE 10 – GENERAL FUND

	Notes	2006/07 £000	2005/06 £000
As at 1 April		22,831	23,443
Net Voted Expenditure	14	81,568	83,063
Non-cash stock additions	6	(12)	0
Non-cash Non-Donated fixed asset additions	5	25	100
Inter reserve transfer – realised element of the revaluation reserve	11	3,094	1,708
Interest on Capital	3	2,228	2,166
Revenue Non-cash Items	16	26,311	24,610
		<hr/>	<hr/>
Net Operating Cost		136,045 (107,367)	135,090 (112,259)*
		<hr/>	<hr/>
General Fund as at 31 March		28,678	22,831
		<hr/> <hr/>	<hr/> <hr/>

\* Restated from the original figure of (112,210) to correct

## NOTE 11 – REVALUATION RESERVE

	Notes	2006/07 £000	2005/06 £000
As at 1 April		39,772	37,725
Gross revaluation	5a	(3,289)	2,241
Revaluation Depreciation	5a	619	(722)
Gross Revaluation on Donated Assets to Donated Asset Reserve	5b	869	675
Revaluation Depreciation on Donated Assets to Donated Asset Reserve	5b	(75)	(39)
Permanent Diminution in Value of Fixed Assets	3	1,288	1,600
Inter reserve transfer – realised element of the revaluation reserve	10	(3,094)	(1,708)
As at 31 March		<u>36,090</u>	<u>39,772</u>

## NOTE 12 – DONATED ASSET RESERVE

	2006/07 £000	2005/06 £000
Balance at 1 April	39,122	40,840
Disposal	(247)	0
Revaluation	(794)	(636)
Depreciation	(851)	(1,082)
Balance at 31 March	<u>37,230</u>	<u>39,122</u>

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

	Notes	2006/07 £000	2005/06 £000
Net Operating Cost		107,367	112,259*
Adjustment for Non-Cash Transactions	16	(26,311)	(24,610)**
Interest on Capital	3	(2,228)	(2,166)
Depreciation – Non Donated Buildings	5b	(3,489)	(3,452)
Depreciation – Plant & Machinery	5a	(150)	(165)
Depreciation – IT and Communications	5a	(1,015)	(917)
Loss on Disposal of Non Donated Fixed Assets	3	(1,527)	(483)
Permanent Diminution in Value of Fixed Assets	3	(1,288)	(1600)
<b>Adjustment for Movements in Working Capital</b>			
Increase/(Decrease) in Debtors (exc notional)	7	136	(39)
(Increase)/Decrease in Creditors	8	1,009	(1,677)
<b>Other Movements</b>			
Provisions	9	3,615	(3,902)
<b>Net cash outflow from operating activities</b>		<u>76,119</u>	<u>73,248</u>

\* Restated from original disclosure of £109,548 to correct figure.

\*\* Restated from original disclosure of (£21,820) to correct figure.

## NOTE 14 – ANALYSIS OF FINANCING

	2006/07 £000	2005/06 £000
Net Payments on Defence Resource Accounts	<u>81,568</u>	<u>83,063</u>

## NOTE 15 – RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2006/07 £000	2005/06 £000
Government Funds at 1 April	101,727	102,010
Revaluation Reserve Movement in Year	(3,682)	2,047
Donated Asset Reserve Movement in Year	(1,892)	(1,718)
General Reserve Movement in Year	5,847	(612)
Government Funds at 31 March	<u>102,000</u>	<u>101,727</u>

## NOTE 16 – NON-CASH ITEMS

	2006/07 £000	2005/06 £000
Civilian Management	1,665	1,648
Permanent Transfer Cost	878	869
Medical Costs	1,804	1,786
Air Travel	138	0
MOD HQ Costs	1,164	1,152
HQ UKSC (G) Costs	706	688
HQ AG Costs	973	964
Notional Food Cost	0	357
Contract Catering and Cleaning	1,353	1,176
Postage	69	69
Utilities	2,013	1,703
Accommodation Stores	114	17
Telecommunications	51	47
Cost of Married Quarters and Other Accommodation	6,200	7,426
Rent (Includes Notional Rent for Nurseries)	640	604
Works Services	2,281	1,092
Accommodation Services	81	464
Road Transport	6,048	4,646
NAO Audit Fee	66	65
Miscellaneous Supply Items	24	24
Legal Fees	43	49
Notional Income	0	(236)
	<b>26,311</b>	<b>24,610</b>

## NOTE 17 – CAPITAL COMMITMENTS

At 31 March 2007 the Agency had no contractual capital commitments to be disclosed in the Financial Statements. (31 March 2006 – £2.839m)

## NOTE 18 – OPERATING LEASES

At 31 March 2007 SCE had annual commitments under non-cancellable operating leases set out below:

	2006/07 £000	2005/06 £000
Office equipment operating leases which expire:		
Within one year		63
Between one and two years	0	0
Between two and five years	149	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 behalf of the Department, as part of the rolling programme of revaluation of Fixed Assets, GVA Grimley carried out a professional valuation of a proportion of our Land and Buildings in Germany on the 30th April 2007. The values will be accounted for during the 2007/08 Financial Year.

The Financial Statements included in the Annual Report and Accounts were authorised for issue (defined as the date of despatch to the Clerk of the House of Commons for laying before Parliament) by the Accounting Officer on 23rd July 2007.

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