



*T r a i n i n g &
R e c r u i t i n g*

ARMY TRAINING AND RECRUITING AGENCY

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AGENCY

ANNUAL REPORT AND ACCOUNTS
2005 - 2006



T r a i n i n g & R e c r u i t i n g

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Army Training and Recruiting Agency

Annual Report and Accounts 2005 - 2006

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STATEMENT BY THE CHIEF EXECUTIVE

Director General Army Training and Recruiting

Major General AJN Graham CBE



During the period of this report ATRA has performed well against its key targets but the reduced recruiting levels of the previous two years have influenced the outflow to the Field Army. Nevertheless 646 Direct Entry Officers and 6,360 soldiers were provided to the Field Army and 1,413 were provided to the other two Services. The recruiting environment continues to be challenging, particularly for the Infantry and Royal Artillery, however Officer RCB passes are above target levels and soldier enlistments have improved and continue to show encouraging signs as a direct result of advertising activity and developments in how we follow up those who express an interest in an Army career. An emerging issue is the quality and attraction of the overall package on offer to potential recruits. Sustaining the level of marketing spend will become more difficult and we must ensure that the offer is relevant, attractive and tangible.

The publication of the Blake Report into the situation surrounding the four deaths at Deepcut between 1995 and 2002 has reinforced the relevance of and necessity for the work in hand to reduce risk in training. This is work that has been ongoing for some years, receiving further impetus from the reports by the Directorate of Operational Capability, House of Commons Defence Select Committee and Adult Learning Inspectorate inspections. Mr Blake has recommended that the Army should continue to recruit and train young people aged 16 and over but that particular attention needs to be paid to the way in which they are handled when under the age of 18, both in training and in the Field Army. We are working to develop options for training and education to deliver this.

My focus in the last year has continued to be to improve the number and quality of soldiers completing Phase 2 Training and being passed to the Field Army. This has been manifested in work to develop the qualities, professionalism and status of all ATRA staff and Instructors. All training staff are first and foremost leaders so the development of their qualities and understanding of the Army's Values and Standards is vital for ensuring that we provide servicemen and women with a solid foundation for their military career.

This report will be the last that ATRA submits as an Agency. In common with the Naval Training and Recruiting Agency (NRTA) and the Training Group Defence Agency (TGDA), agency status was rescinded with effect from 01 April 2006. As part of Project Hyperion, ATRA will transfer under command of Commander Regional Forces in the LAND TLB in April 2007 and will become known as the Army Recruiting and Training Division (ARTD). The internal structure of ATRA has also evolved over the past year as the Defence Training Review (DTR) Rationalisation process has continued; in FY 06-07 DCCIS will transfer to TGDA and DCPPA will come under my command.

As the status of the Army's Individual Training organisation changes it faces many challenges to ensure that the benefits of cohesion afforded by Agency status are not eroded. Great achievements have been made in ATRA over the past year; nevertheless the outflow target for trained soldiers was not achieved. The resources programmed for pay have therefore been available for reallocation by the TLB. This has meshed the extent of the financial and business risk carried year after year in the ATRA operating budget. The quality of training ATRA has provided to our servicemen and women is unquestioned; the Front line Commands are well pleased with the product. At the same time the leadership and supervision provided by the staff of ATRA Colleges and schools is bearing fruit. Well trained, well motivated individual soldiers and officers are the bedrock of the Army Operational Capability for the long-term. 2006/07 will be a very challenging year for the new ARTD. Not only do resources yet again not match demand, the agility of the programme has been reduced as pay (military, civilian and trainee) and NEIP projects have been concentrated at a higher level. We are providing the basis for our Army's future Operational Capability and Individual Training must be safe guarded and properly resourced if we are to continue to do so.



**Major General AJN Graham CBE
Chief Executive
June 2006**

SECTION ONE: ABOUT THE AGENCY

Historical Background

The 1990 "Options for Change" defence structure review, following the end of the Cold War, cut the size of the Army by about one third. The organisation of individual training was included in this review and from 1992, following the closure of twenty-eight training centres or schools, it was restructured into three clearly defined phases. At the same time, the Ministry of Defence, by embracing the Government's Next Steps Programme, was able to recommend that the individual training organisation be considered for Agency status. This process was accelerated by the increasing pressure on budgets, which culminated in a major review in 1994 recommending savings wedges totalling over £200M in the years 1995-1996 to 1998-1999.

There followed a period of intense planning which resulted in the formation, in April 1996, of the Army Individual Training Organisation (AITO) as a Defence Agency responsible for all aspects of individual training for soldiers and officers.

This planning process took into account that the formation of the AITO was essentially an interim measure and that the incorporation of Army recruiting into the Agency would achieve maximum coherence in the process of transforming a new recruit into a fully trained individual capable of taking his or her place in the Field Army.

This was achieved in 1997, and with effect from July of that year, the AITO was re-titled and re-launched as the Army Training and Recruiting Agency (ATRA) and the Chief Executive's military title was changed from Director General Individual Training to Director General Army Training and Recruiting (DGATR).

In April 2004, in furtherance of the objectives of the DTR Rationalisation Programme, Defence Training Establishments (DTEs) became operational. Operating Divisions were incorporated into several Defence Training Establishments and became operational in their new tri-service roles. The ATRA became the lead Agency for the Defence College of Logistics (DCL) and the Defence College of Communications and Information Systems (DCCIS). The transition to DTEs has proceeded smoothly and has brought further changes to the ATRA structure.

At the end of the reporting year the ATRA and the TGDA exchanged responsibility for DCCIS and DCPA in order to align the Chain of Command with the lead responsibilities for the two DTR commercial packages. In common with NRTA and TGDA, Agency status was rescinded on 1 April 2006.

SECTION TWO: AIMS AND STRATEGIES

The Aim of the ATRA

In its final year as an Agency, the ATRA has been an integral part of the Adjutant General's Top Level Budget and receives its direction from him. The ATRA's aim, or Mission, is to "*Deliver the required number of appropriately trained and motivated officers and soldiers to meet the operational requirements of the Army and Defence.*"

The ATRA intends to fulfil this aim by:

- Attracting, selecting and enlisting appropriate officer cadets and soldier recruits.
- Delivering basic military training to these cadets and soldier recruits.
- Motivating, nurturing and inspiring these cadets and soldier recruits through the recruitment and training process.
- Delivering initial specialist training to officer cadets and soldier recruits to prepare them for their service in the Field Army in their particular trade and role.
- Delivering initial specialist training to certain RN and RAF recruits to prepare them for their service in their particular trade and role.
- Delivering further individual, career and personal development training to trained officers and soldiers.
- Delivering training to military personnel from the other services, to civilians and to foreign nationals.
- Managing the Agency's resources effectively and efficiently.

Strategies for Achieving the Aim

In the year under review, the ATRA has prepared for the removal of agency status and the future change of command status, initiating an in-depth structure and process review. However, work continues to implement strategies that improve efficiency and long-term stability. These include the DTR Rationalisation Programme, one of MOD's largest change initiatives, which has had a direct impact on ATRA. The programme seeks significant benefits in terms of modernising existing training facilities, techniques, infrastructure and accommodation on a Defence-wide basis and through Public Private Partnership arrangements. It will also deliver significant savings by the more efficient use of a reduced training estate.

The creation of Defence Training Establishments (DTEs) in 2004 provided a means of bridging the transition from existing, largely single-Service specialist training regimes, to the harmonised future training envisaged by the DTR Rationalisation Programme.

The Agency has also continued to identify, reduce or eliminate over-training or mis-training, and has taken a pan-Army approach to the design and delivery

of training for both operational and non-operational capability. The Director of Operational Capability's (DOC) report on the Tri-Service Appraisal of Initial Training in late 2002, updated in July 2003, was reinforced by reports by the House of Commons Defence Committee and the Adult Learning Inspectorate reporting in March 2005. These studies have identified a series of measures to improve the welfare and well-being of our recruits and trainees. Assessments of the latest reports and the means of implementing their recommendations are taking a high priority. There has been a significant increase in manpower available for supervisory care and out-of-hours supervision, delivering notable improvements in the training, welfare, and administration of trainees. At the end of the 2005-2006 reporting year, Nicholas Blake QC delivered the Deepcut Review. The Blake Report recognised the progress made in the care of trainees and has provided clear guidance and recommendations for better development. The Agency has been contributing to the Department's response.

The ATRA continued to make progress in the following areas:

- Sustaining the quality of new recruits.
- Improving the link between recruiting and the training pipeline.
- Improving the quality of training available to its instructors and staff.
- Reducing both wastage and injuries during training.
- Reducing the number of soldiers awaiting trade training.
- Gaining further support from improved Management Information Systems.

These measures significantly assisted the Agency in meeting its target outputs to the Field Army. However, recruiting remains a challenge, particularly in attracting sufficient numbers of Infantry soldiers. Lower achievement in soldier recruiting this year will manifest itself in reduced outputs to the Field Army over the next 2 years. A number of measures are being introduced to attract more recruits into those trades that remain "Operational Pinch Points".

SECTION THREE: THE ORGANISATION

The ATRA Organisation 2005-2006

The ATRA's operations in the period of this report were divided into four inter-related functions:

Recruiting and Selecting:	Attracting and selecting suitable officer cadets and soldier recruits
Recruit Training (Phase 1):	Initial training for officer cadets and recruits in basic military skills.
Specialist Training (Phase 2):	Special to Arm training to prepare Service personnel for their first appointment.
Career Training (Phase 3):	Continuation training and professional development in order to enhance individual Service personnel and officers' career progression and to meet the need for specialists

The output of the ATRA is trained Service officers for the Army and Service personnel for the three Services. Director Manning (Army) sets the manning input requirements and Director Individual Training (Army) sets the annual Statement of Training Requirement (SOTR) for the Army, with Land Command as principal Customer. The Royal Navy (RN) and Royal Air Force (RAF) operate similarly.

The ATRA recruits and trains sufficient Service personnel to meet this demand.

The ATRA is organised into a number of Operating Divisions, two of which are now Defence Training Establishments (DTE), see subsequent pages for further details. Most Operating Divisions comprise a number of specialist Schools devoted to specific areas of Army training, the two DTEs also provide Specialist training for all three Services.

The following table illustrates the ATRA Recruiting and Training Pipeline:

Raw Material	ATRA Activities	ATRA Outputs
Civilian Population	Recruiting	Officer Cadets Soldier Recruits
Officer Cadets	Commissioning Course (Officers)	Commissioned Officers

Soldier Recruits	Initial (Phase 1) Training (Soldiers)	Soldiers trained in basic Military skills
Phase 1 Trained Service personnel	Special to Arm Training (Phase 2)	Trained Service personnel with skills to take their place in the Field Army, RN and RAF
Newly Commissioned Officers	Special to Arm Training (Phase 2)	Trained Young Service Officers qualified to command a platoon or equivalent
Trained Personnel	Career (Phase 3) Training	Service personnel trained in specialist skills and with professional qualifications and qualifications for promotion
Trained Officers	Career (Phase 3) Training	Service Officers trained for career development and with professional qualifications

The ATRA Operating Divisions

In the period 2005-2006 the ATRA comprised ten Operating Divisions, plus a Headquarters based at Upavon in Wiltshire. Of these, three stood apart: The Recruiting Group for the recruitment of both officers and soldiers; the Royal Military Academy Sandhurst, primarily for officer selection and initial officer training; and the Initial Training Group for soldier selection and delivery of initial soldier training. Five of the remaining seven Operation Divisions delivered Army Special to Arm and Professional development training organised on a cap-badge or functional basis, as appropriate. The remaining two provided Special to Arm training and Career training on a tri-service basis in DTEs. Also under the DTR Rationalisation Programme Army personnel are trained in a further five tri-service DTEs under the command of other Training Agencies.

Recruiting Group

Recruiting Group (RG) is the organisation which runs all Army Recruiting, using the nationwide network of 123 Careers Offices, 61 Schools Advisers, 26 Army Youth Teams and 93 Regimental Recruiting Teams. Other assets include Headquarters RG at Upavon, and the Army School of Recruiting, at Bovington in Dorset, where all Recruiters are trained. Recruiting Group's

Marketing Branch produces and directs the national marketing operation, with additional campaigns run at Regional level. RG also has an Ethnic Minority Recruiting Team which reaches into UK ethnic communities.

2005/06 was better than the previous year for Army Recruiting, despite a disappointing first quarter. Although some negative press from Iraq and Deepcut remained in the news, the Officer target of 903 RCB passes was exceeded (918 passes) and the number of soldiers enlisted was over 1000 more than the previous year (11,455 enlistments). RMAS continued to fully load all courses and the focus on Operational Pinch Point trades produced very good results. Ethnic Minority recruiting went well, reaching 4.1% overall, against the target of 3.9%. Significantly increased marketing expenditure, directed mainly at Infantry and Officers, in the second half of the year drove up enquiry and application levels, and has fed through to healthier enlistment levels at the start of the new recruiting year.

Royal Military Academy Sandhurst (RMAS)

RMAS provides initial training for officer cadets and develops the qualities of leadership, character and intellect demanded of an Army Officer. Training at Sandhurst provides cadets with a firm grounding in the skills they will require as they progress through their careers. The excellence of the training is reflected in the numbers of overseas cadets who attend and then take back to their own Armies the values and standards instilled in them. Sandhurst also has group responsibility for the Royal Military School of Music (RMSM) at Kneller Hall, the Army School of Physical Training (ASPT) at Aldershot, and the Regular Commissions Board (RCB) and the Territorial Commissions Board (TCB) at Westbury, where young people undergo initial selection for Army Officer entry.

In 2005-2006, RMAS commissioned 646 Direct Entry Officers into the British Army and trained 65 Foreign and Commonwealth Officers to the same standards. In addition, a further 233 Late Entry Officers and 106 Professionally Qualified Officers (PQOs) successfully completed Regular Army courses at the RMAS. Territorial Army (TA) Officer output was poor with only 87 TA Officers trained against 240 available places. 49 TA PQOs were commissioned. RCB passed 918 of its 1370 candidates, and TCB passed 95 out of 164 candidates. At the RMSM, 38 students passed Phase 2 Training and a further 620 Corps of Army Musician personnel successfully completed Phase 3 training courses. At ASPT, 786 soldiers from the Field Army and 171 instructors from the TA passed Physical Training courses.

Initial Training Group (ITG)

ITG is responsible for Phase 1 Training of all Junior Entry (JE) and non-infantry Standard Entry (SE) recruits. HQ ITG is co-located with HQ ATRA at Upavon and is responsible for the ITG Instructor School, four Army Development and Selection Centres and five training units.

JE recruits undertake either a 42-week course at the Army Foundation College (AFC), Harrogate, which leads to a Foundation Modern Apprenticeship, or a 20-week¹ Army Development Course at the Army Training Regiment (ATR) Bassingbourn in Cambridgeshire . Non-Infantry Standard Entry recruits now undertake a 14 -week² course at either ATR Lichfield in Staffordshire, ATR Winchester in Hampshire, or ATR Pirbright in Surrey.

ITG is responsible for the four Army Development and Selection Centres, in Ballymena, Glencorse, Lichfield and Pirbright where all potential soldier recruits undergo initial selection.

22,556 assessments were made at the ADSCs in 2005 -2006. This was 5,000 more than the previous year. Furthermore, 14,431 (64%) were offered places, 3,760 more than the total in 2004-2005 when the pass rate was 61%.

8,954 recruits entered training with ITG units (others who had been offered places at the ADSCs entered the School of Infantry). 6,544 successfully completed recruit training with ITG units. A total of 1,833 recruits (20 %) were discharged having failed to complete Phase 1 training.

The Armour Centre (Arm Cen)

Based at Bovington and Lulworth, the Armour Centre provides career training for the officers and soldiers of the Royal Armoured Corps (RAC), and specialist training for commanders, crewmen and instructors on all the Army's armoured fighting vehicles in the linked disciplines of direct fire gunnery, mobility, and communications.

In 2005-2006 the Armour Centre delivered 428 trainees to the Field Army. ARMCCEN also trained 2,253 soldiers and officers on Phase 3 courses. This includes Royal Artillery, Royal Engineer and Infantry personnel requiring tracked vehicle and gunnery training.

School of Infantry (SCHINF)

The School of Infantry underwent a significant reorganisation in the autumn of 2004, which resulted in a more balanced and focused headquarters covering the 3 core sites of Catterick, Brecon and Warminster. Co-located with HQ SCHINF, Infantry Training Centre (ITC) Catterick conducts Infantry Training combining Phase 1 and Phase 2 on the Combat Infantryman's Course (although Junior soldiers destined for the Infantry continue to receive Phase 1 training at Bassingbourn and at the Army Foundation College in Harrogate). The Infantry Battle School at Brecon conducts a Phase 2 Battle Course for Infantry Officers, and Phase 3 Courses for Infantry WOs, Senior and Junior NCOs. The Support Weapons School at Warminster conducts Phase 3 Courses for Infantry Officers and Soldiers.

¹ Was a 17 week course during 2005-06

² Was a 12 week course during 2005-06

In 2005-2006 ITC Catterick provided 2,067 soldiers to the Field Army on completion of their 24-week course. This was against a target of 2,835, representing a 27% shortfall. This is an issue of continuing concern and the focus of further initiatives. A variety of Phase 2 and Phase 3 courses at the Infantry Battle School and Support Weapons School trained a total of 2,283 soldiers and officers.

Royal School of Artillery (RSA)

Based at Larkhill in Wiltshire as part of the Artillery Centre, the RSA is the Army's centre of excellence for individual artillery training, providing career and specialist training for young officers and soldiers in Surface-to-Surface, Ground-Based Surface-to-Air and Surveillance and Target Acquisition artillery. It is also the primary source of artillery technical knowledge and expertise. During 2005-2006 the RSA delivered 611 trained soldiers to the Field Army from Phase 2 training. This represents only a 76% achievement against the target of 800. Artillery recruiting is receiving equal attention to that of the Infantry. In addition, 346 Phase 3 officers and 580 Phase 3 soldiers successfully completed career development and specialist courses.

The Royal Artillery is currently trialing the merger of the Operating Division into the Directorate Royal Artillery (DRA). The trial commenced in Jul 04 and is due to finish in Jul 06.

Royal School of Military Engineering (RSME)

The RSME is the Army's centre for Military Engineer training. It consists of two schools: the Combat Engineer School at Minley in Hampshire and the Construction Engineer School at Chatham in Kent. The RSME provides special-to-arm and career development training for Royal Engineer (RE) officers and soldiers in combat engineering, artisan, technical and professional construction engineering, communication and RE skills. In addition, the RSME provides All-Arms training in mine awareness, demolitions, watermanship and specialist training for assault pioneers and support troops.

In 2005-2006 RSME output 893 trained soldiers from Phase 2 to the Field Army in 16 different Career Employment Qualifications (CEQs). RSME also trained 4,160 officers and soldiers in Phase 3 courses. RSME continues to spend considerable staff effort on preparations for both its own Public Private Partnership Project and the Defence-wide C Vehicle PFI which should come to fruition in Training Year 2006/07.

School of Army Aviation (SAAvn)

SAAvn is located at Middle Wallop, Hampshire, and conducts all Phase 2 (initial) and Phase 3 training for Army Air Corps Aircrew and Groundcrew. All Army pilots - officers and NCOs alike - conduct the Operational Training Phase of their pilots course at SAAvn and, if successful, their Conversion-to-

Type course before being posted to an operational regiment. The School also provides conversion and refresher training on courses for different aircraft types to enable experienced pilots to gain further flying qualifications and, where appropriate, to upgrade instructor qualifications. SAAvn also runs a number of different upgrading courses and career courses for NCOs and soldiers. A significant number of courses assist with the delivery of the Attack Helicopter (AH) capability.

This has been a respectable year for SAAvn, achieving an output of 183 soldiers from Phase 2 against a target of 200 (91.5%). The school also trained a total of 1340 officers and soldiers on Phase 3 courses.

Defence College of Logistics (DCL)

The DCL provides phase 2 and 3 logistics training to all three Services. Formed on 1 Apr 04, with its HQ at Deepcut in Surrey, it comprises the Defence Animal Centre (at Melton Mowbray)³, the Defence Explosive Munitions and Search School (at Kineton and Chatham), the Defence Food Services School (at Aldershot and Halton), the Defence Logistics and Supply School (at Deepcut, Bicester, Cranwell, Halton, Marchwood and West Moors), the Defence Movements School (at RAF Brize Norton), the Defence School of Transport (at Leconfield), the Royal Naval Logistics School (at Torpoint) and 25 Training Support Regiment RLC (at Deepcut).

The main effort of the period was the Phase 2 output of 1584 soldiers to the Army, 236 personnel to the Navy and 232 personnel to the RAF. DCL also provided Phase 3 training to 21,955 students from the three services and from the International arena. The College continues to attract international students on key career and specialist operator courses.

Defence College of Communications and Information Systems (DCCIS)

DCCIS is responsible for providing phase 2 and 3 CIS training for all three Services and elements of the Civil Service, and was formed on 1 Apr 04 as a federated college, comprising the Royal School of Signals (RSS) at Blandford Forum, No 1 Radio School (No 1RS) at RAF Cosford (incorporating the Aerial Erector School at RAF Digby), the CIS Training Unit (CISTU) at MWS Collingwood and the Information Services Group at Shrivenham.

In 2005-2006 DCCIS provided Phase 2 training to 852 Service personnel comprising 537 Army personnel at RSS, 217 RAF personnel at No 1 RS and 98 RN personnel at CISTU. In addition, DCCIS trained 4,480 UK armed forces personnel, civil servants and international students on joint or harmonised Phase 3 courses.

During its second year, DCCIS has maintained the high quality of training output to support all three Services and the Civil Service through the provision of communications and information systems training so that personnel can

³ Moved across to RSME from 1 Apr 06.

play their part in support of UK Operations and deployed UK, NATO, UN and coalition UN forces as directed by PJHQ, and in particular the Joint Rapid Reaction Force. Training harmonisation and rationalisation has also been a priority with the introduction of tri-Service and Defence courses, reviews of single-Service training and sharing of best practice between the Services.⁴

Defence Training Establishments (DTEs)

There are five DTEs under the control of other Training Agencies who provide Special-to-Arm training and career training on a tri-Service basis. On completion of Phase One training, recruits progress to complete Phase 2 training in these DTEs.

The Defence College of Intelligence (DCI) main output of Special-to-Arm training for Army personnel was 135. The Defence Medical Education and Training Agency (DMETA) main output of Special-to-Arm training for Army personnel was 275. The Defence College of Electrical & Mechanical Engineering (DCEME) main output of Special-to-Arm training for Army personnel was 685. The Defence College of Police and Personnel Administration (DCPPA)⁵ main output of Special-to-Arm training for Army personnel was 220. The Defence College of Aeronautical Engineering (DCAE) main output of Special-to-Arm training for Army personnel was 98

⁴ DCCIS moved from ATRA to TGDA from 1 Apr 06 as part of Phase 1 of the DTR programme.

⁵ DCPPA moved across to ATRA from TGDA from 1 Apr 06.

SECTION FOUR: ACHIEVEMENTS IN YEAR AND PERFORMANCE AGAINST KEY TARGETS

Achievements in Year

Recruiting:

Soldiers:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Totals
Recruiting Target	2,355	3,986	3,170	3,171	12,682
Achievement	1,823	3,752	2,079	3,801	11,455
Shortfall/Surplus	-532	-234	-1,091	630	-1,227

Officers:

	May 2005	September 2005	January 2006	Totals
Target	230	250	240	720
Achievement	243	245	245	733
Shortfall/Surplus	+13	-5	+5	+13

Performance Against Key Targets

Key Ministerial Targets	Targets, Outturns and Achievements 2001-2002	Targets, Outturns and Achievements 2002-2003	Targets, Outturns and Achievements 2003-2004	Targets, Outturns and Achievements 2004-2005	Targets, Outturns and Achievements 2005-2006
Throughput:					
Key Target 1: (TY 00-05) To meet the Army's requirement for trained mainstream officers available to take up their first appointment within a permissible variance of 2%	Target: 575 Achieved: 557 (97%)	Target: 590 Achieved: 604 (102%)	Target: 600 Achieved: 622 (104%)	Target: 678 Achieved: 656 (97%)	
Key Target 1: (TY 05-06) To meet the Army's requirement for trained mainstream officers ⁶ available to take up their first appointment within a permissible variance of 3 per cent (below only)					Target: 666 Achieved: 646 (97%)
Key Target 2 (TY 00 – 04) : To meet the Army's requirement for soldiers available to take up their first appointment within a permissible variance of 5 per cent.	Target: 9,442 Achieved: 8,789 (93%)	Target: 9,106 Achieved: 9,264 (101%)	To meet the Army's tasking on the ATRA for soldiers available to take up their first appointment within a permissible variance of - 1 to +2 per cent. Target: 9,475 Achieved: 9,794 (104%)		

⁶ Against an Output Map Target of 666.

Key Target 2 (TY 04-05) : To meet the Army's tasking on the ATRA for soldiers available to continue training at non-ATRA Phase 2 training establishments.				Target: 1,918 Achieved: 1,718 (90%)	
Key Target 2 (TY 05-06): To meet the Defence requirement from the ATRA for 1,658 Army recruits who have completed common initial training and are available to Defence Training Agencies ⁷ for their specialist training with a permissible variance of +5% to-5%.					Target: 1,658 Achieved: 1,473 (89%)
Key Target 3 (TY 00 – 04): Achieve a 98% first time pass rate for all officers made available to undergo career of professional development training.	Achieved: 98%	To achieve a 98 per cent first time pass rate to externally endorsed training standards and within course duration for all officers who undergo career or professional development training after meeting entry standards. Achieved: 93.6 %	Target: 98% Achieved: 99%		
Key Target 3 (TY 04-05): To meet the Army's tasking on the ATRA for soldiers available to take up their first appointment.				Target: 7,087 Achieved: 7,096 (100%)	

⁷ NRTA, TDGA, DISC and DMETA.

<p>Key Target 3 (TY 05-06): To meet the Defence requirement from the ATRA for 8,508 ratings, soldiers and airmen trained as specialists and available to take up their first appointment within a permissible variance of +5 to -5% in any CEG or cap badge.</p>					<p>Target: 8,508 Achieved: 7143 (84%)</p>
<p>Key Target 4 (TY 00 – 04): Achieve a 96% first time pass rate for all soldiers made available to undergo career or professional development training.</p>	<p>Achieved: 96%</p>	<p>To achieve a 96 per cent first time pass rate to externally endorsed training standards and within course duration for all soldiers who undergo career or professional development training after meeting entry standards. Achieved: 94.8 %</p>	<p>Target: 96% Achieved: 95.5%</p>		
<p>Key Target 4 (TY 04-06): To achieve a 96 per cent first time pass rate for all officers and other ranks made available to undergo career or professional development training and meeting entry standards.</p>				<p>Target: 96% Achieved: 95.7%</p>	<p>Target: 96% Achieved: 95.8%</p>

SECTION FIVE: SUMMARY OF THE YEAR

The ATRA Operation

Courses and Schools summary:

Number of Course Types run by the ATRA	1145
Number of Courses run by the ATRA	5836
Number of Schools	27
Number of Sites	33
Number of students attending ATRA courses (Phases 1,2 and 3)	c.53834

Recruits:

Number of Officer Cadets enlisted	733
Number of Soldiers enlisted	11455

Officer Recruit Training

Officer Cadets starting the Commissioning Course	668
Overseas Cadets starting the Commissioning Course	65
Officers and Officer Cadets attending other courses (Gap Year Course, Professionally Qualified Officers Course and Territorial Army)	424

Training Summary

Soldier Recruiting and Enlistment

The year has seen a shift in the Army's recruiting position. Having initially forecast a significant under-achievement, the EOY results are improved especially given the continued impact of negative factors such as Iraq, Deepcut and external influences such as changes to the Government's Education Policy and the worrying health and fitness levels of the target population. The improvement is due in some part to the extra funding allocated to marketing in year. In terms of recruiting achievement:

- a. **Officers.** 918 RCB passes have been achieved against a target of 903.
- b. **Soldiers.** Soldier enlistments during the year have improved from a slow start, with an overall achievement of 90% (11,455) against the increased target of 12,682. Soldier recruiting has shown encouraging signs with increased responses to advertising and a consistent upward trend in applicants over the last 2 quarters. The full effect of this has yet to translate through to enlistments.
- c. **TA.** ATRA has given a great deal of attention in 05/06 to TA recruiting, selection and training. We will develop and refine these over the next 12 months.

The One Army Recruiting Plan has been drafted and targets issued to the regional Chain of Command.

Output

Officers. RMAS successfully trained 646 British cadets and 65 overseas cadets in 05/06. This exceeds the original target of 644 but is below the higher, revised target of 666 issued in July 2005. The situation at RCB has improved with 918 passes overall and an improvement in quality. TA output continues to be of concern with 87 (but only 39 TA Type A: the remainder were UOTC) from 240 available places. The PQO output was much more encouraging with 106 achieved against a target of 142 - some 10% better than in previous years.

Phase 1 Soldiers. Phase 1 output is 86% of the annual target. Difficulties remain in the Infantry and RA due to previous poor recruiting.

Phase 2 Soldiers. The 05/06 output of Phase 2 the Field Army is 84% (7,773) of the 9,230 target. The Infantry and RA make up 65% (931) of the 1433 shortfall.

Improving Training Outcomes. Work is ongoing in a number of areas:

- a. **Phase 1 Course Extension.** The trial CMS(R) course extension from 12 -14 weeks is in place and we anticipate the first measurements against the baseline in the interim report in Jan 07.
- b. **Soldier Pre-conditioning Course (SPC).** The SPC is designed to reduce the initial training injuries that result from poor physical fitness, and thus increase output to the Field Army.
- c. **Developing TA Training Pipeline.** Work is ongoing to establish an accountable TA training pipeline from enquiries to Phase 1 output. TA recruiting targets have been set within the One Army Recruiting Plan. 2006/07 is very much a transition year with the TA Recruit Selection trial continuing and the new Phase 1 TA Training syllabus being introduced.

Outlook

Recruiting inflow picked up in the latter part of 05/06 but, coupled with current numbers in training, the ATRA forecast remains low. At this early stage in the year we expect to be around 1,000 below the Whole Army Phase 2 output target of 9,050 for 06/07. Recruiting for the technical trades remains buoyant. It will require an upsurge in recruiting for the shorter duration training courses, particularly those for the infantry and Artillery, if we are to reduce the forecast shortfall.

SECTION SIX: ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

Foreword to the Financial Accounts for the year ended 31 March 2006

Accounts Direction

The financial accounts for the year ended 31 March 2006 have been prepared in accordance with a Direction given by Her Majesty's Treasury on 16 January 2006 under section 7(2) of the Government Resources and Accounts Act 2000.

History and statutory background

The Army Training and Recruiting Agency (ATRA) was established as an Agency of the Ministry of Defence on 1 July 1997, when the Director Army Recruiting and the Defence Nuclear Biological and Chemical Centre were amalgamated with an existing Defence Agency, the Army Individual Training Organisation (AITO).

The ATRA lies within the military command structure of the Adjutant General's Personnel and Training Command. The Secretary of State for Defence retains ultimate responsibility for the policy and resources framework within which the Agency operates. In practice the Secretary of State's responsibilities are delegated to the Adjutant General. The ATRA ceased to be an Agency with effect from 1 April 2006.

Aims and objectives and performance against key targets

The aim of the ATRA is to provide the appropriate numbers of well trained and motivated soldiers to meet the operational requirements of the Army. The aims and objectives of the Agency and its performance against key targets in the year ended 31 March 2006 are fully described in foregoing sections of the Annual Report.

Principal activities

The principal activities carried out in pursuit of the Agency's main aim are:

- the selection and recruitment to the Army Service of suitable members of the public and
- the provision of training appropriate to their intended tasks in both the short term and the longer term.

These activities are more fully described in the preceding sections of the Annual Report.

Management of the Agency

The Chief Executive of ATRA is responsible for the day to day running of the Agency. The Chief Executive of the Agency is directly accountable to the Departmental Accounting Officer of the MOD (the Permanent Under Secretary) for

the propriety and regularity of the Agency's expenditure and its prudent and economical administration.

Major General Graham CBE was appointed Chief Executive on 5th October 2004. The Chief Executive is chairman of the Agency's Main Board which is charged with overseeing the day to day running of the Agency.

The names and appointments of the Main Board members immediately follow this foreword.

Financial performance

The gross operating costs of the Agency for the year ended 31 March 2006 were £1,249 million. The Agency received £15 million in operating income, resulting in a balance of net operating costs of £1,234 million, as shown in the Operating Cost Statement.

Total assets less liabilities at 31 March 2006 were £1,827 million. This represents the net book value of intangible and tangible fixed assets of £1,872 million and net current liabilities of £25 million, the balance of £20 million being represented by creditors falling due after one year and provisions for liabilities and charges. Changes in fixed assets are described in Notes 6 and 7 to the accounts.

The Agency is an on-vote Executive Agency of the Ministry of Defence and receives its funding through the Ministry of Defence resource allocation system.

Review of business and future developments

The implementation of the Defence Training Review (DTR) Rationalisation Programme on 1 April 2004 has seen changes to the shape and structure of the Agency. Under the Programme a greater proportion of the Agency's trainees are Royal Navy and Royal Air Force personnel. While assuming the tri-service lead in the provision of logistics training, through the Defence College of Logistics (DCL) and signals training, through the Defence College of Communications and Information Systems the Agency has handed responsibility for police and administration training at the Defence College of Police, Personnel and Administration to Training Group Defence Agency (TGDA), Electrical and Mechanical Engineer training to Naval Recruiting and Training Agency (NRTA) and Aeronautical Engineer training to TGDA. In tandem with the DTR Rationalisation Programme, the Agency has explored the applicability of infrastructure, service provision and training delivery under Public Private Partnership (PPP) arrangements. Estate rationalisation is a part of both the DTR Rationalisation Programme and other PPPs in order to reduce the size of the estate and for the future provision of modern living and technical accommodation, merging on a defence basis when it is logical to do so.

Pensions Liabilities

Pension benefits for all military staff are provided through the Armed Forces Pension Scheme. On 1 October 2002 the new Civil Service Pensions (CSP) arrangements

came into effect. From that date all new entrants to the Department have the option to join either the new defined benefits scheme, 'Premium' or to join a money purchase stakeholder based arrangement with a significant employer contribution, the 'Partnership Pension Account'. New entrants are not able to join the former Principal Civil Service Pension Scheme (PCSPS) which has been renamed 'Classic' and is now a closed scheme.

Existing members of the PCSPS have been given the option of remaining within the Classic scheme, transferring to the Premium or transferring to the 'Classic Plus' whereby they transfer to Premium but only in respect of service from 1 October 2002. Further information regarding the accounting for the schemes is shown in Note 2 to the accounts.

Equal Opportunities Policy

Through its Equality and Diversity Policy and Plan the Agency is committed to continuing to establish and maintain a working environment in which all military and civilian personnel, including those undergoing training, are treated fairly and with respect. It will not tolerate prejudice or discrimination on grounds of race, ethnicity, religion, gender, marital status, sexual orientation, disability, or anything else unconnected with an individual's ability to do the job.

This approach goes beyond that of equal opportunities by recognising and valuing an infinite number of differences between people and focusing on the individual, their potential, and what they can contribute to the organisation. This recognition of diversity within the workforce enables a more positive use of ATRA's most important resource.

Disability Policy

The agency seeks to ensure that people with disabilities are able to work and develop themselves to their full potential, free from harassment, discrimination and barriers in the workplace.

The agency takes a pro-active approach towards making reasonable adjustments in the workplace.

Staff Involvement

The Agency seeks to maximise every communication channel to employees in order to integrate them in the running of the organisation. This is achieved through the existing ATRA communication policy that promotes a variety of methods, including an annual staff attitude survey, regular in-house newsletters and bulletins, management briefings, trade union consultations and widespread training programmes.

The Agency has recently been successful in its Investors in People (IIP) re-accreditation assessment. This demonstrates its commitment to the development of its staff in support of business objectives and ensuring that the contribution of each and every employee is fully recognised.

Creditor Payment Policy

The Agency's creditors are paid predominantly by the Ministry of Defence's central bill paying authority, the Defence Bills Agency. Other bills are paid through local Cash Offices.

In order that the Ministry of Defence should comply with its statutory obligations under the Late Payment of Commercial Debts (Interest) Act 1998, the Defence Bills Agency states that it has a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.99% in 2005-2006. It is an implied term of all contracts entered into by the Agency that payment terms will comply with the Department's stated payment policy. The Agency incurred no liability for interest payments under the Act.

Where bills were settled locally through the Agency's Cash Offices all, except a small number of payments were made within the contractually agreed credit period or 30 days where not stated.

Auditor

The accounts of the Agency are audited by the Comptroller and Auditor General in accordance with section 7 (3)(b) of the Government Resources and Accounts Act 2000. Notional charges include £76,000 in respect of audit services only. The external auditors carried out no other work for the Agency.

Statement on Disclosure to Auditors

As far as I am aware, there is no relevant audit information of which the ATRA's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the ATRA's auditors are aware of that information.



Major General AJN Graham CBE
Chief Executive
June 2006

ATRA Main Board

The members of the Agency's Main Board during the year 2005-2006 were:

Chief Executive/Director General Army Training and Recruiting
Major General AJN Graham CBE

Deputy Chief Executive
DTF Dick Esq.

Commandant Royal Military Academy Sandhurst
Major General AS Ritchie CBE

Chief Of Staff HQ ATRA
Colonel DC Eccles

Commander Recruiting
Brigadier AC Jackson

Assistant Chief Of Staff Training HQ LAND Command
Brigadier GW Berragan

Commandant Armour Centre
Colonel RN Wertheim (to 10 Feb 2006)
Colonel TR Wilson OBE (from 11 Feb 2006)

Commander Directorate of Royal Artillery
Brigadier RM McQ Sykes

Commandant Royal School of Military Engineering
Brigadier JD Wootton MBE

Commandant Defence College of Communications and Information Systems
Brigadier JA Terrington

Commandant School of Infantry
Brigadier HBHE Monro (to 7 Dec 2005)
Brigadier DS Clements MBE (from 7 Dec 2005)

Commandant School of Army Aviation
Colonel C Collett

Commander Defence Logistics Support Training Group
Brigadier JR Wallace

Commander Initial Training Group
Brigadier DS Homer MBE

Head of Resources, Programmes and Finance HQ ATRA
RT Riordan Esq.

Head of Strategy HQ ATRA
Colonel P Davis (to 6 Nov 2005)
Colonel MP Lowe MBE (from 7 Nov 2005)

Head of Operations and Plans HQ ATRA
Colonel A Pope

Head of Personnel HQ ATRA
P Allen Esq.

Head of Integrated Project Team HQ ATRA
M Horrell Esq.

Head of Management Information Systems HQ ATRA
Lt Col PA Lamb (to 31 May 2005)
Colonel JRJ Sernberg (from 31 May 2005)

Head of Commercial Branch HQ ATRA
BC Dewdney Esq. (to 31 Aug 2005)
R S Blake Esq. (from 1 Sep 2005)

Director of Performance and Analysis MOD
IM Woodman Esq.

Non Executive Board Members
JRP Pike Esq.

The following members joined or left the Agency's Main Board between 31 March 2006 and the date the Annual Report and Accounts were signed by the Chief Executive

Members leaving the Main Board (date)

Commandant School of Army Aviation
Colonel C Collett (19 May 2006)

Commandant Royal Military Academy Sandhurst
Major General AS Ritchie CBE (28 April 2006)

Chief Of Staff HQ ATRA
Colonel DC Eccles (2 June 2006)

Members joining the Main Board (date)

Commandant School of Army Aviation
Colonel AV Tucker (from 27 April 2006)

Commandant Royal Military Academy Sandhurst
General PTC Pearson CBE (1 May 2006)

Chief Of Staff HQ ATRA
Colonel PAS Astle MBE (5 June 2006)

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

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Army Training and Recruiting 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 the 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 flow 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 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 Army Training and Recruiting 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 Officer's Memorandum, issued by the Treasury and published in 'Government Accounting'.

Statement on the System of Internal Control

Scope of Responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of ATRA policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities accorded to me in Government Accounting.

The Agency provides regular reports to Adjutant General (AG) as the Agency owner. The ATRA comprises a Headquarters and 10 Operating Divisions. Of these, 5 Operating Divisions are managed by a Basic Level Budget Holder under which sit 23 subordinate Resource Centre establishments. In addition there are a further 5 standalone BLB Holders. Each provides regular reports on performance and sits on the Agency Main Board.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than 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 ATRA 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 ATRA for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. Areas of risk are detailed in the Risk Register, which is an integral part of my Corporate Plan.

Capacity to handle risk

The Head of Strategy is the Headquarters Branch Head nominated as Business Risk Management lead. Management of risks is allocated to the appropriate Branch Heads to ensure that interfaces with stakeholders in their relevant business areas are managed. This provides the basis upon which risk is managed and upon which Senior Management review the Risk Management process. Within ATRA HQ there is a core group of people who have the knowledge and skills to manage the risk. The Staff Board, comprising HQ Branch Heads, has ownership of the management of risk and collectively identify risks and monitors the process of preparing plans to mitigate risk and their management in the year. Risk management practice is developed and improved through participation in workshops led by AG's Command risk management staffs and improved practices are cascaded to the Staff Board and Operating Divisions. My capacity to handle risk in financial terms is limited by the finite discretionary resources allocated to me in my budget and the scope for prioritising uncommitted funding.

The risk and control framework

Objectives to be met are set out in my Balanced Scorecard along with responsibilities for completion and reporting requirements. Both the Balanced Scorecard and the areas of risk are set out in my Corporate Plan. My Staff Board assessed the risks, including those identified by Operating Divisions as beyond their capacity to manage, at the beginning of the year and considered these risks against the overall ATRA output. A comprehensive Risk Register was produced using the Balanced Scorecard and the top 10 risks identified for

mitigation and mitigation plans were prepared. During the year all risks and mitigation plans were reviewed on a regular basis by my Executive Group and Staff Board, and in AG's Command and ATRA Risk Workshops. The Risk Management process was reviewed by the ATRA Assurance Committee. As part of my quarterly Performance reports to the Adjutant General (AG) the status of current risks was reviewed and reported.

My Corporate Plan 2005/06 includes those risks identified thus, as appropriate to ATRA. Risk Management is an ongoing process and the Risk Register, and associated Risk Map, are living documents which are published on the ATRA website

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by the work of the internal auditors and the executive managers within the ATRA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Assurance Committee and a plan to address any identified weaknesses and ensure continuous improvement of the system has been put in place as described below.

In line with departmental guidance the following structures and processes are established in ATRA:

- A Main Board, comprising ATRA Operating Division Commanders, Deputy Chief Executive (DCE), Chief of Staff (COS), Head of Resources Plans and Finance (Hd RP&F), HQ Branch Heads and Non Executive Directors, that sits quarterly and is concerned with information flow and corporate decision making.
- An Executive Group, which I chair, that meets weekly and consists of DCE, COS and Hd RP & F, with Head of Strategy and Head of Operations in attendance. This is the primary in-year management body. The Executive Group also manages the Risk in the Risk Register.
- A Staff Board, chaired jointly by DCE and COS, and comprised of HQ Branch Heads, that meets weekly and is mainly concerned with information flow. It is the main forum for passage of instructions and decisions from the Executive Group, and it contributes heavily to the prioritising and raising of issues for consideration by the Executive Group.
- An Agency Assurance Committee, Chaired by a Non Executive Director (NED), and with a membership that encompasses DCE, some Operating Division Commanders, COS and Hd RP & F, a second NED, some HQ Branch Heads, and with attendance from the TLB Business Assurance team, Defence Internal Audit (DIA) and National Audit Office (NAO). This is the prime body for reviewing and advising me on all aspects of propriety and corporate governance and for directing the work of the ATRA Assurance Team. The Committee also has oversight of risk with a remit to ensure that risk is being managed by the Executive Group. Three full Assurance Committee meetings were held in 2005 and three 3 Sub-Committee meetings.

During 2005-2006 the ATRA Assurance Team conducted six audits. The audits assessed Delegated Recruitment Authority at ITC Catterick, Fraud and Theft reporting processes, Income Generation and Selling Into Wider Markets processes, a Usage Survey of TAFMIS,

the Agency's primary MIS, the systems and processes of buying in External Assistance (conducted jointly with but led by the ATRA Business Improvement Team), and the audit trail processes for GPC Expenditure. Statements of Assurance from Operating Division Commanders provided further indication of the effectiveness of controls and levels of assurance.

The ATRA Accounts Compliance Team also completed visits to each ATRA unit throughout the year. These visits verified compliance with financial best practice as laid down in the HQ ATRA Resource Accounting and Budgeting Policy Manual. The Compliance Team provided an annual report to the Assurance Committee which identifies any areas of weakness and issues raised.

Audits were also undertaken by the AG Business Assurance Team and DIA. DIA undertook no audits specific to ATRA during the year but ATRA was included in the scope of a number of Departmental level audits.

Significant Internal Control Problems

A range of issues continues to be highlighted across my Agency. I am addressing them as follows:

- In my SIC for the year 2004/05 I commented on the level of financial risk inherent in the ATRA's operations and the need in that year for significant additional funds to enable me to deliver my agreed outputs. The need for additional funds has not recurred in 2005/06 but only due to the fact that a shortfall in enlistments encountered in 2004/05 has resulted in a shortfall against output targets of approximately 1500 in 2005/06. Recruitment has continued to be difficult, particularly in the Infantry and Royal Artillery. High employment, a prosperous and strong economy and attractive alternatives in Further Education are all competing with the Army for young men and women. Market research shows evidence that the continued media coverage of Deepcut and operations in Iraq have been factors in depressing encouragement from parents and teachers. An extensive range of measures are being introduced including an intensive Infantry recruiting campaign and significant redesign of recruiting and selection processes and structures with a view to translating a higher proportion of enquiries into enlistments and reducing wastage. The underlying level of financial risk remains substantially unchanged.
- Implementation of the recommendations made in successive reviews carried out by the Directorate of Operational Capability, the House of Commons Defence Committee and the Adult Learning Inspectorate, continues. A variety of work-strands are now in hand to take individual recommendations forward. These are focused on measures to meet the following aims: to improve the quality of staff that are posted to the ATRA, training them properly before they take up their appointments; secondly to ensure that we operate within a framework that is based on true diversity, taking account of individual strengths and weaknesses; and finally to ensure that policy is implemented consistently. Additional funding was obtained to take forward work in a number of areas. Funds have been allocated to the construction of the ATRA Staff Leadership School at Pirbright. It is planned to recruit 315 additional Military Provost Guards thus removing the need for recruits to carry out routine armed guard duty. Additional civilian manpower will be provided to back-fill 91 military posts allowing the military liability to be transferred to supervisory duties. 32 additional welfare staff will be provided to improve welfare support and levels of supervision. Work is in hand to consider how to assess the improvement of recruit's basic skills and the provision of the necessary time, facilities and staff to provide effective fitness training for all

Phase 2 trainees and Phase 3 trainees on the longer courses. Mr Blake's report⁸ into the circumstances surrounding the deaths of four soldiers at Deepcut has now been received. The Department is considering its response.

- I continue to report on the poor standard of the ATRA Estate. After a slow start the Single Living Accommodation improvement programme is beginning to gather pace and this year there has been significant increase in output with the first trainee accommodation being handed over at ITC Catterick.
- The process of the acquisition of Private Sector Partners under the Defence Training Rationalisation (DTR) programme continues. ATRA has assumed lead Agency responsibilities for one of the two packages, consisting of the Defence College of Logistics, the Defence College of Police and Personnel Administration, Defence College of Intelligence (including Security, Languages and Photography) and MOD Police and Guarding Agency training. The risk remains that the procurement will not provide the benefits sought at an affordable price but this will not be known until the competition is complete, probably in 2006/07.
- The acquisition of a Private Sector Partner to support the Royal School of Military Engineering has made slower progress than I had sought. The need to revalidate and clarify a range of project risks and costs in conjunction with the Preferred Bidder, Holdfast Training Services, added additional time. Part of the envisaged solution involved the relocation of elements to Defence Munitions Centre, Kineton. However a number of risks arose concerning that location and studies of potential alternative sites were initiated. The way ahead will be reviewed in early 2006/07. My aspiration is to deliver financial close in 2007/08.



Major General AJN Graham CBE
Chief Executive
June 2006

⁸ The Deepcut Review by Nicholas Blake QC www.deepcutreview.org.uk

Remuneration Report

All military and civilian members of the Board, including the Chief Executive, were appointed and may have their appointments terminated, in accordance with the standard, official Ministry of Defence military procedures or the Civil Service Management Code. Non Executive Board Members are appointed in accordance with guidance issued centrally by the Ministry of Defence.

The salaries of all military and civilian Board members, including the Chief Executive, are determined at national level. Military Board members' salaries are recommended by the Armed Forces Pay Review Body and ratified by Parliament. The Deputy Chief Executive's remuneration was determined by the Senior Civil Service Salaries Review Body. The salaries of other civilian Board members were determined by negotiation between Ministry of Defence and Civil Service Trades Unions. Salaries of Non Executive members are determined by the Chief Executive in line with Ministry of Defence guidelines.

Notes re disclosure of salaries and pensions on pages 32 to 33:-

Salaries and pensions amounts are not apportioned for part years served. Prior year military salaries have been restated in some cases to reflect a revised method of calculation.

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 Main Board members were in receipt of any taxable benefits in kind.

Payments to non executive board member Mr Pike include £316.00 in respect of travel expenses.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Columns 6 and 7 show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 8 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

All civilian members of the Main Board elected to remain in the Classic pension scheme.

The salary and pension entitlements of Agency Main Board members were as follows:

	Salary, including performance pay 04/05 £k	Salary, including performance pay 05/06 £k	Benefits in kind (rounded to nearest £100)	Real increase in pension and related lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/06 and related lump sum (£k)	CETV at 31/3/05 (nearest £k)	CETV at 31/3/06 (nearest £k)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £k)
Major General AJN Graham CBE Chief Executive/Director General Army Training and Recruiting	85 - 90	90 - 95	0	0 - 2.5 plus 2.5 - 5 lump sum	35 - 40 plus 115 - 120 lump sum	887	936	35
Mr DTF Dick Deputy Chief Executive	80 - 85	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	25 - 30 plus 85 - 90 lump sum	469	512	24
Colonel DC Eccles Chief Of Staff	65 - 70	70 - 75	0	0 - 2.5 plus 2.5 - 5 lump sum	25 - 30 plus 85 - 90 lump sum	660	705	27
Mr RT Riordan Head of Resources, Programmes and Finance HQ ATRA	50 - 55	50 - 55	0	0 - 2.5 plus 2.5 - 5 lump sum	10 - 15 plus 30 - 35 lump sum	123	139	11
Colonel MP Lowe MBE Head of Strategy HQ ATRA from 7 Nov 2005	60 - 65	60 - 65	0	0 - 2.5 plus 2.5 - 5 lump sum	20 - 25 plus 65 - 70 lump sum	494	539	41
Mr P Allen Head of Personnel HQ ATRA				Consent to disclosure withheld				
Mr R Blake Head of Commercial Branch HQ ATRA (from 1 Sept 2005)	45 - 50	45 - 50	0	(0 - 2.5) plus (5 - 7.5) lump sum	10 - 15 plus 45 - 50 lump sum	193	217	(27)
Colonel JR Sernberg Head of Management Information Systems HQ ATRA to 31 May 2005	65 - 70	65 - 70	0	2.5 - 5 plus 10 - 12.5 lump sum	25 - 30 plus 80 - 85 lump sum	581	680	86
Major General AS Ritchie Commandant Royal Military Academy Sandhurst	75 - 80	90 - 95	0	0 - 2.5 plus 5 - 7.5 lump sum	40 - 45 plus 130 - 135 lump sum	821	996	39
Brigadier AC Jackson Commander Recruiting Group	75 - 80	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	35 - 40 plus 110 - 115 lump sum	813	857	29
Brigadier HBHE Monro Commandant School of Infantry to 7 Dec 2005	80 - 85	80 - 85	0	(0 - 2.5) plus (0 - 2.5) lump sum	35 - 40 plus 110 - 115 lump sum	819	841	(2)
Brigadier DS Homer MBE Commander Initial Training Group	75 - 80	80 - 85	0	2.5 - 5 plus 10 - 12.5 lump sum	30 - 35 plus 95 - 100 lump sum	663	773	92
Brigadier JD Wootton MBE Commandant Royal School of Military Engineering	80 - 85	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	30 - 35 plus 95 - 100 lump sum	745	797	39
Lt Col P Lamb Acting Head Management Information Systems to 31 May 2005	60 - 65	60 - 65	0	(0 - 2.5) plus (0 - 2.5) lump sum	25 - 30 plus 85 - 90 lump sum	629	646	0

Brigadier JA Terrington Commandant Defence College of Communications & Information Systems	75 - 80	80 - 85	0	2.5 - 5 plus 10 - 12.5 lump sum	30 - 35 plus 95 - 100 lump sum	667	779	92
Colonel P Davis Head of Strategy HQ ATRA	65 - 70	65 - 70	0	0 - 2.5 plus 0 - 2.5 lump sum	20 - 25 plus 70 - 75 lump sum	574	599	6
Colonel A Pope Head of Operations HQ ATRA	65 - 70	70 - 75	0	0 - 2.5 plus 2.5 - 5 lump sum	30 - 35 plus 100 - 115 lump sum	742	777	21
Colonel C Collett Commandant School of Army Aviation	65 - 70	65 - 70	0	0 - 2.5 plus 2.5 - 5 lump sum	25 - 30 plus 75 - 80 lump sum	587	629	27
Brigadier RMMcQ Sykes Commander Directorate of Royal Artillery from 6 Jan 2005	65 - 70	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	35 - 40 plus 105 - 110 lump sum	809	848	29
Brigadier JR Wallace Commandant Defence College of Logistics	65 - 70	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	35 - 40 plus 105 - 110 lump sum	779	815	28
Colonel RN Wertheim Commandant Armour Centre to 10 Feb 2006	70 - 75	70 - 75	0	0 - 2.5 plus 0 - 2.5 lump sum	25 - 30 plus 85 - 90 lump sum	660	678	8
Colonel TR Wilson Commandant Armour Centre from 11 Feb 2006	60 - 65	65 - 70	0	0 - 2.5 plus 0 - 2.5 lump sum	20 - 25 plus 50 - 55 lump sum	718	537	16
Mr BC Dewdney Head of Commercial Branch HQ ATRA to 31 Aug 2005	55 - 60	60 - 65	0	2.5 - 5 plus 7.5 - 10 lump sum	20 - 25 plus 70 - 75 lump sum	283	370	56
Mr MH Horrell Head of Integrated Project Team HQ ATRA	50 - 55	60 - 65	0	0 - 2.5 plus 2.5 - 5 lump sum	20 - 25 plus 60 - 65 lump sum	318	353	20
Brigadier DS Clements MBE Commandant School of Infantry from 7 Dec 2005	80 - 85	80 - 85	0	0 - 2.5 plus 2.5 - 5 lump sum	35 - 40 plus 105 - 110 lump sum	801	824	25
Brigadier GW Berragan Assistant Chief of Staff Training HQ Land				Not remunerated by ATRA				
Mr IM Woodman Director of Performance and Analysis MOD				Not remunerated by ATRA				

This section has been subject to audit. The following payments were made under other operating costs to non executive main board members:

Mr JRP Pike £13,406



Major General AJN Graham CBE
Chief Executive
June 2006

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 Army Training and Recruiting Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

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

I review whether the statement on pages 27 to 30 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of Audit Opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of

whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinion

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 2006 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
COMPTROLLER AND AUDITOR GENERAL
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

July 2006

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005-06 £000	2004-05 £000
Operating Costs			
Staff costs	2	599,555	584,630
Supplies and services	3	425,058	402,878
Accommodation	3	141,365	131,485
Other administration	3	82,700	92,015
Gross Operating Costs		1,248,678	1,211,008
Income	5	(15,059)	(11,084)
Net Operating Cost		1,233,619	1,199,924

All activities result from operations that are continuing.

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006

	2005-06 £000	2004-05 £000
Unrealised net gain:		
on revaluation of fixed assets	(47,509)	(186,769)
on donated assets	(107)	(646)
Recognised gains for the year	(47,616)	(187,415)

The notes on pages 39 to 62 form part of these accounts.

BALANCE SHEET AS AT 31 MARCH 2006

	Note	2006		2005	
		£000	£000	£000	£000
Fixed Assets					
Intangible assets	6	119,753		115,824	
Tangible assets	7	<u>1,752,213</u>		<u>1,653,001</u>	
			1,871,966		1,768,825
Current assets					
Stocks and work in progress	8	16,035		13,648	
Debtors	9	<u>5,813</u>		<u>7,075</u>	
		21,848		20,723	
less					
Creditors: amounts falling due within one year	10	<u>(46,876)</u>		<u>(65,796)</u>	
Net current liabilities			<u>(25,028)</u>		<u>(45,073)</u>
Total assets less current liabilities			1,846,938		1,723,752
Creditors: amounts falling due after one year	11		(14,148)		(15,674)
Provisions for liabilities and charges	12		(5,307)		(5,324)
Net assets			1,827,483		1,702,754
Taxpayers' equity					
General fund	13		1,348,737		1,235,403
Revaluation reserves	14		475,441		463,986
Donated asset reserve	15		3,305		3,365
			1,827,483		1,702,754

The notes on pages 39 to 62 form part of these accounts.



Major General AJN Graham CBE
Chief Executive
June 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005-06	2004-05
		£000	£000
Net cash outflow from operating activities	17	899,726	838,750
Interest element of finance leases and PFI contracts		1,232	1,304
Capital expenditure		6,525	23,961
Net cash outflow before financing		907,483	864,015
Financing			
Net financing from Defence Resource Account	13	908,144	864,780
Repayment of principal under finance leases and PFIs		(661)	(765)
Net Financing		907,483	864,015
(Increase)/Decrease in cash		0	0

The notes on pages 39 to 62 form part of these accounts.

NOTES TO THE FINANCIAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

1. ACCOUNTING POLICIES

a. Basis of accounting

The accounts have been prepared in accordance with the requirements of the Resource Accounting Manual issued by HM Treasury and version 4.1 of the Ministry of Defence (MoD) Resource Accounting and Policy Manual. The following accounting policies set out the framework within which the Agency conducts financial management and have been applied with consistency in dealing with items considered material to the accounts.

These accounts have been prepared under the accruals concept of accounting and the historical cost convention, modified to include revaluation of fixed assets as set out below.

Without limiting the information given, the accounts comply with the accounting and disclosure requirements of the Companies Acts 1985 and 1989 (Amended) and UK Generally Accepted Accounting Practice (GAAP) including the Accounting Standards issued by the Accounting Standards Board, in so far as those requirements are appropriate to a Vote funded Agency within the MoD.

The ATRA ceased to be an Agency with effect from 1 April 2006. ATRA's functions will continue within the Adjutant General's Command and Land Command and the accounts have therefore been prepared on a going concern basis.

b. Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by the MoD. Amounts included in the Operating Cost Statement and Balance Sheet are exclusive of VAT where it is recoverable from Customs and Excise in respect of certain contracted out services as directed by the Treasury. All other input VAT is considered irrecoverable by the Agency and therefore is included in the cost of the related expenditure or asset.

c. Income

Income comprises the invoiced value of transactions with the Private Sector and the wider Public Sector including non UK Government Departments and other Government departments. The charging regime is based on achieving the higher of market rate and simple capitation rate plus marginal costs. No value is attributed in the accounts to services provided to the MoD itself.

The funding of the Agency by the MoD in cash terms is shown in the Cash Flow Statement.

d. Notional and other non cash charges

A notional charge reflecting the cost of capital utilised by the Agency is included in the Operating Cost Statement. The charge is calculated using the Treasury's standard rate of 3.5% (3.5% in 2004-2005) on the average balance of all assets and liabilities with the exception of all donated assets.

Notional communicated charges are included in the Operating Cost Statement in respect of services provided from and to other areas of the MoD. These have been calculated using centrally produced departmental capitation rates.

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

e. **Cash balances and liabilities**

Apart from minor transactions through imprest accounts, which are cleared to nil balances at the balance sheet date, the Agency does not pay or receive money on its own account. The majority of 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 processed, 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 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.

f. **Private Finance Initiative (PFI)**

Where the substance of the transaction is such that the risks and rewards of ownership remain with the Agency, the assets and liabilities remain on the Agency's balance sheet.

Service charges in respect of the on-balance sheet PFI deal are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost.

Where the risks and rewards are transferred to the private sector, the transaction is accounted for in the Operating Cost Statement through service charges in accordance with FRS 5 and HM Treasury guidance.

g. **Provision for liabilities and charges**

Provisions for liabilities and charges have been established under the criteria of FRS 12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date. Provisions are charged to the Operating Cost Statement. All long term provisions are discounted to current prices by the use of HM Treasury's Discount Rate, currently 2.2% (3.5% in 2004-2005). The discount is unwound over the remaining life of the provision and is shown as an interest charge in the Operating Cost Statement.

h. **Pension costs**

Pension benefits are provided for staff through the Armed Forces Pension Scheme (AFPS) and the Civil Service Pension arrangements (CSP). The majority of civilian employees are covered by the provisions of the former Principal Civil Service Pension Scheme (PCSPS) with a small number covered by the Teachers Superannuation Scheme (TSS) or the NHS

Superannuation Scheme (NHSSS). The Agency recognises the cost of providing pensions on a systematic basis over the period during which it benefits from employees' services by making regular payments of Accruing Superannuation Liability Charge (ASLC) into the above schemes at rates determined by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Department.

i. **Research and development costs**

Pure and applied research expenditure incurred in the creation and development of training facilities is charged to the Operating Cost Statement except where classified as intangible fixed assets.

j. **Revaluation and impairment of fixed assets**

Tangible fixed assets are subject to quinquennial revaluation by professional external valuers in accordance with FRS 15. In order that the assets are expressed at their value to the Agency on an inflation-adjusted basis and in accordance with the Modified Historical Cost Accounting Convention (MHCA), tangible and intangible fixed assets are revalued annually, between professional revaluations, through the application of departmental indices. The indices are applied at the beginning of each financial year and apply one year's worth of revaluation. Professional valuations since 2001 have all been conducted by the Valuation Office Agency (VOA), a Government Agency independent of the MoD.

Any reduction in valuation below historical cost, arising either from professional valuations or the use of departmental indices, is treated by the Agency as impairment and is charged to the Operating Cost Statement.

k. **Intangible assets**

Two types of intangible asset are now identified within ATRA. Assets transferred from the Defence Procurement Agency (DPA) relating to development expenditure on fighting equipment and software licenses procured to support the training for the new Bowman equipment. Intangible assets are amortised on a straight-line basis over the useful economic life of the tangible fixed asset to which it relates. The carrying value and useful economic life of intangible assets is reviewed annually.

l. **Land and buildings – Dwellings and Non-Dwellings**

Where the Agency is the principal beneficial user of departmental estate, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. Where the site is shared, with other MoD users, only the relevant areas are included as assets. The Agency's property assets are valued on the basis of their existing use to the business. Land and buildings are capitalised where their value exceeds the Agency's capitalisation threshold of £10,000.

Land and buildings were all professionally valued at depreciated replacement cost as at 1 April 2002. A proportion has since been re-valued professionally as at 31 March 2005 and 30 June 2006 as part of the rolling revaluation programme introduced following completion of the 2002 process.

m. **Single Use Military Equipment (SUME)**

Land systems SUME is managed on behalf of the Agency by the Defence Logistics Organisation (DLO). Gross costs and accumulated depreciation are reported to ATRA via automated departmental feeder systems and included on the Agency's Balance Sheet. In year depreciation is charged to the Agency's Operating Cost Statement. The application of policy for asset lives, revaluations and indexation is retained by DLO. The Revaluation Reserve for SUME is retained by DLO.

Air systems SUME is managed by the Agency itself and recorded on its own fixed asset register. All of this equipment is held at the School of Army Aviation, Middle Wallop. Equipment is capitalised where the cost of acquisition and installation exceeds the Agency's threshold of £10,000.

Both the land systems and air systems SUME were professionally re-valued as at 1 April 2002.

n. **Transport – Equipment, Transport - Other**

A proportion of both the Transport – Fighting Equipment and Transport – Other is managed by the Agency itself and recorded on its own fixed asset register. This equipment is capitalised where the cost of acquisition and installation is greater than £10,000. There is also a proportion of the equipment that is managed by DLO and as with SUME gross costs and depreciation are reported to ATRA via automated departmental feeder systems. DLO also applies the policy in relation to asset lives, revaluation and indexation.

Transport – Fighting Equipment and Transport – Other were professionally re-valued within their former categories in 2002-2003.

o. **Plant & machinery, information technology (IT) & communications equipment.**

The bulk of plant and equipment, including machinery, IT and communications equipment, is managed by the Agency itself and recorded on its own fixed asset register. This equipment is capitalised where the cost of acquisition and installation is greater than £10,000. There is a small amount of P&M that is managed by DLO and as with SUME gross costs and depreciation are reported to ATRA via automated departmental feeder systems. DLO also applies the policy in relation to asset lives, revaluation and indexation. Where an item is less than the capitalisation threshold but forms an integral part of a project whose total value exceeds the capitalisation threshold, the asset is capitalised as a grouped asset.

P&M and IT and Communications were professionally re-valued by VOA in 2002-2003.

p. **Finance leases**

The Agency's extant finance leases are all PFI arrangements as covered above. As at the Balance Sheet date, the Defence Helicopter Flying School PFI project at the School of Army Aviation, Middle Wallop and the Defence Animal Centre PFI have been included on balance sheet.

In both cases the lease payments consist of three elements being, repayment of principal, interest and service charges. Interest and services are charged to the Operating Cost Statement. Repayment of the principal reduces the long term creditor on the balance sheet.

The Defence Animal Centre PFI also includes, within the Balance Sheet, a prepayment in respect of an area of land, sold by the contractor for redevelopment. The revenue for this transaction is relayed to the Agency by way of a reduced monthly unitary charge, which is increased by a release from the prepayment, resulting in the correct unitary charge being included within the Operating Cost Statement.

q. **Assets under construction**

Assets under construction are shown on the face of the Balance Sheet and include accruals and retention amounts held at year end. 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.

r. **Depreciation**

The asset categories and their useful economic lives, depreciated on a straight line basis, are:

Asset Category	Estimated Useful Standard Life
Intangible Fixed Assets	
Development Costs and software licences	Useful economic life of the tangible fixed asset to which it relates
Tangible Fixed Assets	
Land	Indefinite, not depreciated
Buildings - Dwellings	Not exceeding 50 years
- Non-Dwellings	
Single Use Military Equipment	5 - 40 years
Transport – Fighting Equipment	5 – 40 years
Transport - Other	5 – 15 years
Plant & Machinery	5 – 25 years
IT and Communication equipment	3 – 10 years
Assets in the course of construction	Not depreciated

s. **Donated assets**

Donated tangible fixed assets are capitalised within the asset category to which they relate, at their valuation on receipt. The initial valuation is credited to the donated asset reserve together with any subsequent revaluations and depreciation.

t. **Leased assets**

All leases other than finance leases are operating leases. Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is incurred.

u. **Stock**

Stock items are valued at the lower of current replacement cost (or historical cost if not materially different) and net realisable value. Cost comprises purchase price and/or cost of conversion and includes expenses incidental to acquisition including irrecoverable VAT. Current replacement cost represents the cumulative revaluation of stock using latest cost of stock or indexation. Net realisable value applies to stocks that are not expected to be used or sold in the normal course of business.

General Stores and Engineering and Technology Stores are treated as consumable items and these stock balances are not held on the Balance Sheet. This treatment is reviewed annually to ensure that the items within these categories are assets below the capitalisation threshold or consumables.

v. **Reserves**

Taxpayers' equity comprises the General Fund, Revaluation Reserve and Donated Asset Reserve. The General Fund represents the total net assets of the Agency to the extent that they are not represented by other reserves. Net funding from HM Treasury and realised gains and losses are reflected in the General Fund. The Revaluation Reserve represents the unrealised element of the cumulative balance of revaluation and indexation adjustments to fixed assets.

2. STAFF COSTS & NUMBERS

a. Staff Numbers

The average number of whole time equivalent employees including initial trainees and Main Board members but excluding staff seconded out of the Agency was:

	2005-2006	2004-2005
Service - Officers	1,286	1,294
Service - Other Ranks	15,042	16,066
Civil Service - Non Industrial	3,437	3,001
Civil Service - Industrial	1,019	1,031
	20,784	21,392

b. Staff costs for the year were:

	2005-2006	2004-2005
	£000	£000
Wages and salaries	429,362	433,410
Social Security costs (ERNIC)	32,512	30,617
Pensions costs	90,759	79,338
Other staff related costs	46,922	41,265
	599,555	584,630

Wages and salaries include gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Other staff related costs include: Satisfied Soldier Bounty Scheme payments; allowances for clothing, excess rent and lodging, messing and food and local overseas service; refunds of insurance premiums; injury warrant payments; early retirement and redundancy payments and recruitment costs.

These costs include the following amounts in respect of seconded and agency and temporary staff:

	2005-2006		2004-2005	
	£000	£000	£000	£000
Staff seconded out to other organisations	50		34	
Staff seconded in or on loan from other organisations	<u>0</u>		<u>47</u>	
		50		81
Agency / temporary and contract staff costs included in payroll costs above	430		171	
Agency / temporary and contract staff costs paid under other operating costs	<u>661</u>		<u>2,322</u>	
		1,091		2,493
		1,141		2,574

c. Pensions

Pension benefits for all military staff are provided through the AFPS and for the large majority of civilian staff through the former PCSPS, now the CSP with a small number of specialist staff receiving benefits from the TSS or NHSSS. With the exception of the Pension Partnership Account arrangement within the CSPA, these schemes are all unfunded, multi-employer defined benefit schemes but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation of the AFPS was carried out at 31 March 2005, for the PCSPS at 31 March 2003, for the NHSSS at 1 April 2003 and for the TSS at 1 April 2001. Details can be found in the separate resource accounts of these schemes which are published and laid before Parliament and for PCSPS in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-2006 employers' contributions of £77,757,734 (FY04-05 £70,304,014) were payable to the AFPS at the rates shown in the table below. Employers' contributions payable to the civilian schemes were £12,585,884 (FY04-05 £8,950,486) to PCSPS and £230,410 (FY04-05 £247,410) to non PCSPS civilian schemes.

Pension contributions were paid to the Paymaster General at the rates determined by the Government Actuary and advised by the Treasury. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred and reflect the past experiences of the scheme. Employer contribution rates to the PCSPS/CSPA are reviewed every 4 years following a full scheme valuation by the Government Actuary. Rates have increased in 2005-06.

For each class of member, the employer's contribution rates in 2005-2006 were as shown below.

Scheme	Class of Member	2005-2006	
AFPS	Officers	34.3%	
	Other Ranks	21.3%	
PCSPS	Non Industrial and Industrial Civilians	Gross salary	Rate
		63,501 and above	24.6%
		37,001 – 63,500	22.3%
		18,001 – 37,000	18.6%
		18,000 and under	16.2%
TSS	Teaching Staff (Burnham Lecturers)	13.5%	
NHSSS	Medical staff	14.0%	

Civil Service Pension Arrangements (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic 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. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

3 OTHER OPERATING COSTS

Other operating costs include cash and non cash costs as follows:

	Note	2005-2006	2004-2005
		£000	£000
Supplies and Services			
Externally procured services		67,035	64,852
Stock and materials consumed		79,662	80,120
Equipment fuels		7,172	6,047
Departmental overhead		25,277	25,862
Departmental administration and recruitment		45,156	45,349
Personnel, recruitment and training		89,573	89,594
Transport and movements		19,304	17,326
Operating lease charges for Plant & Machinery		3,184	2,484
Other operating lease charges		1	0
Food and clothing		24,222	22,287
Depreciation on Fighting Equipment	7	46,733	32,691
Depreciation on Plant & Machinery	7	3,739	3,214
Depreciation on Transport	7	6,767	4,805
Sundry expenditure		7,233	8,247
		425,058	402,878
Accommodation Costs			
Estate maintenance and management		78,147	79,650
Utilities		17,268	13,833
Rent and rates		8,767	6,442
Depreciation on buildings	7	37,183	31,560
		141,365	131,485
Other Administration Costs			
Movements in provision for bad and doubtful debts		(56)	93
Movements in other provisions		(85)	(147)
Depreciation on intangible assets	6	7,175	6,052
Depreciation on IT & communications	7	885	754
Loss on disposal of fixed assets		9,081	1,354
Impairment of fixed assets	6/7	(4,247)	22,091
Interest on finance leases		708	751
Imputed interest on PFI finance		524	553
Interest on unwinding discount factor		228	185
Interest charges on capital	4	64,297	56,590
Other administration		4,114	3,663
Audit fee	4	76	76
		82,700	92,015

4 NOTIONAL AND OTHER NON CASH COSTS

The notional and communicated costs received and charged out included under the headings of staff costs, supplies and services, accommodation and other administration costs are as follows:

	2005-2006	2005-2006	2004-2005	2004-2005
	£000	£000	£000	£000
Staff Costs				
Wages and allowances	(906)		(2,094)	
		(906)		(2,094)
Supplies and Services				
Departmental overhead	25,277		25,862	
Departmental administration and recruitment	45,156		45,349	
Personnel, recruitment and training	89,573		89,594	
Stocks and materials consumed	0		2,661	
Transport and movements	15,448		13,697	
Sundry expenditure	7,233		8,248	
		182,687		185,411
Accommodation				
Estate maintenance and management	755		289	
Utilities	264		454	
Rent and Rates	(1,076)		(779)	
		(57)		(36)
Other administration				
Other administration	765		834	
Interest charges on capital	64,297		56,589	
Audit fee	76		76	
		65,138		57,499
Total notional and communicated costs		246,862		240,780

5. INCOME

An analysis of income is as follows:

	2005-2006		2004-2005	
	£000	£000	£000	£000
International Defence Training, Wider Markets and other personnel related income		(10,184)		(8,687)
Rental Income				
from MoD Agencies and Other Government Departments	(133)		(127)	
from external bodies	<u>(393)</u>		<u>(459)</u>	
		(526)		(586)
Other Receipts		(4,349)		(1,811)
		(15,059)		(11,084)

In addition to the provision of recruiting and training facilities and services for the Field Army, the Agency also sells its services and access to its facilities to non Ministry of Defence organisations from both the private and public sectors and to foreign governments on a repayment basis. The Agency conducts such Income Generation through the Adjutant General's specialist cell, International Defence Training (Army), in accordance with HM Treasury and Ministry of Defence guidelines on selling services into Wider Markets.

The Agency is required, in accordance with HM Treasury's Fees and Charges Guide, to disclose performance results for the areas of activities where fees and charges are made. The segmental analysis below is not intended to meet the requirements of Statement of Standard Accounting Practice 25: Segmental Reporting. In accordance with the guidelines referred to above, marginal cost is employed to represent the relevant cost of providing services out of irreducible spare capacity.

Income from Non-Departmental Customers	2005-2006		2004-2005	
	£000	£000	£000	£000
International Defence Training	8,157		5,899	
Wider Markets	<u>2,538</u>		<u>1,136</u>	
Total from Income Generation		10,695		7,035
Cost		(332)		(218)
Surplus		10,363		6,817

6. INTANGIBLE ASSETS

	Software Licences £000	Development Costs £000	TOTAL £000
Cost or Valuation at 1 April 2005	5,875	127,759	133,634
Additions	1,195	0	1,195
Transfers (to)/from other parts of MoD	0	9,461	9,461
Disposals	0	(395)	(395)
Revaluation	0	798	798
Cost or Valuation at 31 March 2006	7,070	137,623	144,693
Amortisation at 1 April 2005	46	17,764	17,810
Charged in Year	493	6,682	7,175
Transfers (to)/from other parts of MoD	0	50	50
Disposals	0	(313)	(313)
Revaluation	0	(440)	(440)
Permanent Diminution	658	0	658
Amortisation at 31 March 2006	1,197	23,743	24,940
Net Book Value at 31 March 2006	5,873	113,880	119,753
Net Book Value at 31 March 2005	5,829	109,995	115,824

7. TANGIBLE FIXED ASSETS

	Land and Buildings non dwell (Freehold)	Land and Buildings (Leasehold)	Land and Buildings dwelling (Freehold)	Single Use Military Equipment	Plant and Machinery	Transport	IT and Communications	Assets under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
Opening balance as at 1 April 2005	1,045,145	385	12,117	878,303	55,853	114,576	5,845	14,879	2,127,103
Additions	740	0	0	0	306	0	654	3,631	5,331
Donations	0	0	0	0	0	0	0	0	0
Transfers (to)/from other parts of MoD	8,286	0	0	92,604	(10,291)	(2,330)		(50)	88,219
Disposals	(34,355)	0	(51)	0	(2,108)	(1,241)	(975)	0	(38,730)
Revaluation	56,553	9	1,331	617	580	881	(1,437)	254	58,788
Permanent diminution	0	0	0	0	0	0	0	0	0
Reclassifications	3,651	0	0	(9,492)	2,216	9,492	1,070	(6,937)	0
Closing balance as at 31 March 2006	1,080,020	394	13,397	962,032	46,556	121,378	5,157	11,777	2,240,711

	Land and Buildings non dwell (Freehold)	Land and Buildings (Leasehold)	Land and Buildings dwelling (Freehold)	Single Use Military Equipment	Plant and Machinery	Transport	IT and Communications	Assets under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Depreciation									
Opening balance as at 1 April 2005	131,452	97	1,608	249,859	21,699	67,280	2,107	0	474,102
Charged in Year	36,700	21	462	46,732	3,739	6,767	885	0	95,306
Transfers	(4,111)	0	0	(31,869)	(10,259)	(12,802)	0	0	(59,041)
Disposals	(25,412)	0	(35)	0	(1,784)	(1,235)	(909)	0	(29,375)
Revaluation	13,121	8	288	39	103	270	(1,418)	0	12,411
Permanent diminution	11,109	0	0	0	21	0	897	0	12,027
Permanent diminution write back	(16,918)	0	(11)	0	(2)	(1)	0	0	(16,932)
Reclassifications	67	0	0	(2,676)	(67)	2,676	0	0	0
Closing balance as at 31 March 2006	146,008	126	2,312	262,085	13,450	62,955	1,562	0	488,498
Net Book Value as at 31 March 2006	934,012	268	11,085	699,947	33,106	58,423	3,595	11,777	1,752,213
Net Book Value as at 31 March 2005	913,693	288	10,509	628,444	34,154	47,296	3,738	14,879	1,653,001

Asset valuations

During 2002-2003 the Land and Building properties occupied by the Agency were revalued by the Valuation Office Agency (VOA), under a contract let by the Defence Estates Agency as part of the MoD Quinquennial review of fixed assets. The VOA is a Government Agency independent of the MoD. The properties were revalued as at 1 April 2002 on the basis of existing use value, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost subject to prospect and viability of the occupation and use.

Following the completion of this process the Department introduced a rolling programme for all future professional valuations. The programme allows for the estate to be completely revalued over a three year period with the first valuations received with a date of 1-Apr-05. However, because of the issue surrounding the revaluation reserves it was determined that all Land and Building assets would be revalued as at 1-Apr-05 and so those not valued through physical inspection would be valued by means of a desktop exercise. A subsequent set of valuations pertaining to the three year rolling programme has now been received and incorporated into these accounts.

Single Use Military Equipment (previously Fighting Equipment) was revalued under the MoD Quinquennial review of fixed assets. The Department, through the VOA, determined the valuation of core fighting equipment as at 1 April 2002 and disseminated the values through the "Beacon Book". For assets not contained within the Beacon Book the VOA was contracted to determine the valuation of the asset.

Plant and Machinery, Vehicles and IT and Communications equipment have also been revalued as at 1 April 2002 as part of the Quinquennial review using the Beacon Book. Where values have not been determined by the Beacon Book, the VOA was contracted to determine the valuation.

All assets are subject to MHCA revaluation and have been uplifted using centrally provided indices.

PFI Assets

	Land & Buildings (Freehold)	Plant and Machinery	Transport	IT & Comms Equipment	Total
	£000	£000	£000	£000	£000
Gross Cost	17,085	494	8,077	91	25,747
Accumulated Depreciation	3,099	236	2,395	76	5,806
Net Book Value as at 31 March 06	13,986	258	5,682	15	19,941
In Year Depreciation Charge	743	54	808	19	1,624

Reconciliation of Note 7 Fixed Asset Additions to Capital Expenditure in Cash Flow

	£000
Capital Additions per note 6 and note 7	6,526
Found Assets	0
Capital Expenditure as per Cash Flow	6,526

Leasehold Properties

Figures quoted relate to three ACIO properties for which a peppercorn rent is paid. All assets have a life of less than 50 years.

8. STOCKS

	2005-2006	2004-2005
	£000	£000
Armaments	8,417	5,110
Clothing	7,021	7,955
Oil, Fuel and Lubricants	597	583
	16,035	13,648

9. DEBTORS AND PREPAYMENTS

	2005-2006	2004-2005
	£000	£000
Trade debtors – central government agencies	116	60
Trade debtors - other	2,721	3,014
Other debtors	376	345
Staff loans and advances	468	368
Accrued income	104	1,349
Prepayments	2,768	2,750
	6,553	7,886
less provision for bad debts and doubtful debts	(740)	(811)
	5,813	7,075

10. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005-2006	2004-2005
	£000	£000
Trade Creditors – other government agencies	407	1,365
Trade Creditors – other	10,492	9,306
Accruals	28,176	47,788
Deferred income	6,570	6,248
Obligations under finance leases	1,068	997
Other Creditors	163	92
	46,876	65,796

11. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	2005-2006	2005-2006	2004-2005	2004-2005
	£000	£000	£000	£000
Obligations under PFI/finance leases:				
- amounts payable 1 - 2 years	1,053		968	
- amounts payable 2 - 5 years	3,744		4,797	
- amounts payable over 5 years	<u>9,351</u>		<u>9,351</u>	
		14,148		15,116
Other creditors		0		558
		14,148		15,674

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Early Departure Commitments	Other Provisions	Total
	£000	£000	£000
Provision at 1 April 2005	657	4,667	5,324
(Decrease)/increase in provision	(91)	6	(85)
Unwinding of discounting from OCS	23	205	228
Change to Provision	(160)	0	(160)
Provision at 31 March 2006	429	4,878	5,307

Early departure costs relate to pan ATRA redundancy liabilities. Other provisions relate to the contractual liability for terminal redundancy at REME Training Group (£4,211 million) which is likely to crystallise in March 2008 and a legal cost liability for an equal pay for equal work case.

13. GENERAL FUND

	Note	2005-2006	2004-2005
		£000	£000
As at 1 April		1,235,403	1,215,210
Net financing from Defence Resource Account		908,144	864,780
Other net transfers		155,891	117,661
Notional and other non cash costs	4	246,862	240,780
Transfer from/(to) Revaluation Reserve	14	36,054	(3,104)
Transfer from Donated Asset Reserve	15	0	0
Net Operating Costs		(1,233,617)	(1,199,924)
As at 31 March		1,348,737	1,235,403

14. REVALUATION RESERVE

	Note	2005-2006	2004-2005
		£000	£000
As at 1 April		463,986	274,113
In Year Revaluation		64,157	208,135
Depreciation		(16,648)	(21,366)
Transferred (from)/to the General Fund	13	(36,054)	3,104
As at 31 March		475,441	463,986

15. DONATED ASSET RESERVE

	Note	2005-2006	2004-2005
		£000	£000
As at 1 April		3,365	2,887
Additions	7	0	0
Revaluation in year		108	646
Realised on transfers to General Fund	13	0	0
Transfers		0	0
Depreciation released to OCS		(168)	(168)
As at 31 March		3,305	3,365

16. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2005-2006	2004-2005
	£000	£000
As at 1 April	1,702,754	1,492,210
General fund movement in year	113,333	20,193
Revaluation reserve movement in year	11,456	189,873
Donated asset reserve movement in year	(60)	478
As at 31 March	1,827,483	1,702,754

17. RECONCILIATION OF OPERATING COST TO OPERATING CASHFLOWS

	Note	2005-2006	2004-2005
		£000	£000
Net Operating Cost		1,233,617	1,199,924
Adjustments for items not involving the movement of cash:			
Notional and other non cash costs	4	(246,862)	(240,780)
Depreciation		(102,483)	(74,270)
Impairment to value of fixed assets	3	4,247	(22,091)
Loss on disposal of fixed assets	3	(9,081)	(1,354)
Interest on Finance Leases	3	(708)	(751)
Imputed Interest on PFI Finance	3	(524)	(553)
Charged against provision		160	298
Interest on Unwinding Discount Factor	3	(228)	(185)
Adjustments for movements in working capital:			
Increase/(Decrease) in Stock		2,386	(3,142)
Decrease in Debtors		(1,262)	(845)
Decrease/(Increase) in Creditors		20,447	(17,761)
Adjustments for movements in provisions:			
Decrease in Long Term Provisions	12	17	260
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		899,726	838,750

18. CAPITAL COMMITMENTS

Contracted capital commitments in respect of works projects for which no provision has been made in these accounts amounted to £21.2 million (£16.2 million in 2004-2005) at the year end.

19. FINANCIAL COMMITMENTS

The Agency had the following annual commitments under non cancellable operating leases.

	2005-2006	2004-2005
	£000	£000
Land and Buildings leases expiring:		
within one year	170	46
between two and five years	275	437
between six and ten years	754	685
between eleven and fifteen years	477	468
between sixteen and twenty years	638	579
between twenty one and twenty five years	0	0
over twenty five years	110	0
	2,424	2,215
Plant and machinery leases expiring:		
within one year	0	0
between two and five years	0	0
between six and ten years	2,069	1,800
between eleven and fifteen years	0	0
between sixteen and twenty years	0	0
between twenty one and twenty five years	0	0
over twenty five years	0	0
	2,069	1,800
Total annual commitments under operating leases	4,493	4,015

20. PRIVATE FINANCE INITIATIVE (PFI) COMMITMENTS

The following information is provided for all off balance sheet PFI schemes and for the services element of on balance sheet PFI schemes.

Project Title and Description	Contract Start Date	Contract End Date	Charged to OCS in 2005-06 £000	Charged to OCS in 2004-05 £000
Off Balance Sheet schemes in their entirety:				
Army Foundation College - teaching and training facilities for further vocational education and military training of school leavers with an estimated capital value of £73million.	04-Feb-00	21-Dec-29	15,097	16,656
TAFMIS - Agency wide IT services with an estimated capital value of £41million.	09-Aug-96	13-Nov-09	26,090	22,347
School of Army Aviation – LATS PFI – Lynx simulator training with an estimated capital value of £25million.	13-Jul-00	31-Mar-13	3,639	3,398
School of Army Aviation – ATIL Training PFI – Attack Helicopter training services with an estimated capital value of £190million.	01-Jul-98	01-Sep-17	10,541	11,735
Lex White Fleet – Army wide fleet of non combat vehicles with a variable call off contract value.	26-Jan-01	25-Jan-11	2,935	2,313
Defence Fixed Telecommunications System – integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, estimated capital value £70m	01-Jul-97	01-Jul-07	2,494	1,769
The service element relating to on balance sheet schemes:				
Defence Animal Centre - design, build, finance and operate the Defence Animal Centre comprising HQ accommodation, single living accommodation, mess facilities and related services.	26-Jan-02	01-Nov-26	3,214	2,836
Defence Helicopter Flying School - provision of support services and the operational training phase.	01-Apr-97	31-Mar-12	8,191	8,146
			72,201	69,200

Annual payments which the Agency is committed to make during 2006-07 and future years, analysed by period in which the commitment is due to expire, are as follows:

Contracts expiring within:	2 - 5 years £000	5 - 10 years £000	10 - 15 years £000	15 - 20 years £000	20 - 25 years £000
Army Foundation College					15,992
TAFMIS	22,704				
School of Army Aviation – LATS PFI		3,730			
School of Army Aviation – ATIL Training PFI			10,805		
Lex White Fleet *		3,008			
Defence Fixed Telecommunications System	2,556				
Defence Animal Centre **					3,246
Defence Helicopter Flying School ***		9,686			
	25,260	16,424	10,805	0	19,238

* Charges in future years are dependent on demand and are variable. From 2004 - 2005 onwards the annual uplift is based on 90% of RPI, assumed at 2.5% per annum.

** From 2004 - 2005 onwards the annual uplift is based on 90% of RPI, assumed at 2.5% per annum.

*** Contract prices for the first five years were fixed but are now subject to an annual variation on price clause based on indices incorporated in the contract terms and conditions. An uplift of 3.5% was agreed in 2005-2006 (3.15% 2004-2005).

21. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2006 (FY04-05 £nil).

22. RELATED PARTY TRANSACTIONS

The Army Training and Recruiting Agency is an Agency of the Ministry of Defence.

The Ministry of Defence is regarded as a related party. During the year, the Army Training and Recruiting Agency had various significant transactions with the Ministry of Defence and with the following other entities for which the Ministry of Defence is regarded as the parent department:

Defence Bills Agency
 Pay and Personnel Agency
 Meteorological Office
 Defence Housing Executive
 Defence Estates

During the year none of the Board Members, key management staff or other related parties have undertaken any material transactions with the Army Training and Recruiting Agency.

23. 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 Government agencies are financed, the Army Training and Recruiting Agency 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 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, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their net book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

Interest rate risk

The Agency has no financial assets or liabilities on which interest is earned or paid, and is therefore not exposed to significant interest rate risk.

Foreign currency risk

The Agency does not hold assets or liabilities denominated in a foreign currency and does not transact in foreign currencies on its own behalf. The Agency, therefore is not exposed to foreign currency risk.

Liquidity risk

The Agency is not exposed to significant liquidity risk, as liquidity requirements are met by financing from the MoD Resource Account and it has no borrowing facilities. The Department's resource requirements are voted annually by Parliament.

24. POST BALANCE SHEET EVENTS

On 20 April 2006 the Under Secretary of State for Defence announced to the House of Commons that from 1 April 2006 the Army Training and Recruiting Agency would cease being an Agency. Consequently, these are the last set of accounts to be prepared on the Agency basis.

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

