Education & Skills
Funding Agency

Education and Skills Funding Agency

Annual report and accounts

For the year ended 31 March 2018

An executive agency of the Department for Education

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Contents

Notes on terminology

The ESFA

This Annual Report and Accounts covers the Education and Skills Funding Agency (ESFA) reporting, according to the expectations of it as an executive agency of the Department for Education.

The Department

This refers to the Department for Education of which the ESFA is an executive agency.

The Agency

This refers to the ESFA.

Financial versus academic year

The ESFA financial year runs from 1 April to 31 March. In this report, we distinguish the financial year using a dash. For example, we write the financial year 1 April 2017 to 31 March 2018 as 2017-18.

The academic year covers the period 1 September to 31 August for schools and academies, and 1 August to 31 July for all other institutions. We refer to the academic year with an oblique, as 2017/18.

Comparative information

The ESFA is an executive agency of the Department for Education, established on 1 April 2017 to replace the Education Funding Agency (EFA) and the Skills Funding Agency (SFA).

As the Agency commenced operations on 1 April 2017, there are no direct comparative disclosures available from previous years of the Agency. Therefore, historical information from EFA and/or SFA activities are presented where it provides appropriate comparison. Any such disclosures have been sourced from the 2016-17 EFA and SFA Annual Report and Accounts.

Learners

This refers to the wide range of people covered by our funding, i.e. pupils, students, apprentices and adult learners.

Performance report

Overview

The purpose of the overview section is to give a summary of the organisation, its purpose, key risks to the achievement of its objectives, and how it has performed during the year.

Statement of purpose and activities

The ESFA has responsibility, on behalf of the Secretary of State for Education, to oversee and be accountable for the funding of all 5 to 16 education as well as post-16 education and training for young people, apprenticeships, and funding for adult education in England, excluding higher education. We also manage and deliver school building and capital programmes.

Our main strategic aims are to:

- be accountable for funding for the education and training sectors, providing assurance that public funds are properly spent, achieve value for money for the tax payer and deliver the policies and priorities set by the Secretary of State;
- provide oversight of academies, further education and sixth-form colleges, and independent training providers, intervening where there is risk or evidence of failure or where there is evidence of mismanagement of public funds; and
- deliver major projects and operate key services in the education and skills sector, such as school capital programmes, the National Careers Service, the National Apprenticeship Service, the Learning Records Service, and oversee the operation of LocatED (the Department's non-departmental public body which sources sites for free schools).

The Secretary of State agreed that, subject to the Agency's strategic aims set out above, the responsibilities of the ESFA are to:

- make accurate and timely revenue and capital funding allocations to local authorities, academy trusts and education and training providers each year;
- put in place funding agreements with ESFA-funded providers, and provide accurate and timely funding data and information to enable the Department to make payments of revenue and capital funding to ESFA-funded providers;
- ensure that capital programmes in schools and colleges are delivered efficiently and effectively, including the delivery of the Priority School Building Programme; school condition funding; school condition data collection; and working with LocatED and the Department to secure and develop sites to enable new free schools to open;

- support the Government's reform of apprenticeships to boost high quality apprenticeship starts in England, including by:
  - ensuring that increasing numbers of English employers benefit from the reform of apprenticeships;
  - maintaining the apprenticeship funding system; and
  - enhancing the apprenticeship service, providing seamless, easy-to-use services for employers, apprentices and citizens, providers and other users.
- champion the opportunities for learners and employers to engage in high quality education and training opportunities, including by maintaining the high quality digital offer of the National Careers Service, and supporting the development and delivery of high quality traineeships;
- ensure the proper use of public funds through financial assurance, acting on behalf of the Secretary of State to ensure that ESFA-funded providers are complying with their funding agreements and relevant statutory legislation, and intervening swiftly and proportionately where necessary;
- contribute to the financial health of the education and training sector, supporting ESFA-funded providers to maintain and improve financial health, including by:
  - making best use of our data to work with all providers to promote and support good financial health and better financial planning;
  - supporting the effective evaluation of contracting decisions;
  - ensuring that the provider base is sustainable and best equipped to provide high quality education and training; and promoting good financial management and financially resilient institutions; and
  - intervening swiftly and effectively in cases of financial failure to ensure a solution that balances the best interests of the learner and the tax payer.
- monitor and support the implementation of the recommendations from post-16 area reviews, including providing financial support for restructuring of post-16 institutions where other funding sources are not available; and
- ensure that T levels will be successfully implemented through funding allocations to 415 institutions/training providers in 2017-18 to build capacity for places, and start the deployment of industrial placements that are a crucial component of the programme.

The regularity of ESFA expenditure is subject to National Audit Office (NAO) audit opinion.

Eileen Milner was appointed as the new Chief Executive of the Agency on 20 November 2017 and as Accounting Officer on 27 November 2017, replacing Peter Lauener.

The role of the Accounting Officer

The Chief Executive, as Accounting Officer, is responsible for safeguarding the public funds and assets for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the ESFA. In addition, they ensure that the ESFA as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management, that are set out in *Managing Public Money* (published by HM Treasury).

The Accounting Officer's responsibilities to the Department also include:

- establishing, in agreement with the Department and Ministers, the ESFA's corporate and business plans in the light of the Department's wider strategic aims and agreed priorities;
- informing the Department of progress in helping to achieve the Department's policy objectives and in demonstrating how resources are being used to achieve those objectives; and
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department in a timely fashion.

Chief Executive's perspective on performance

This Annual Report sets out the performance of the ESFA in its first year of operation, following its establishment on 1 April 2017.

This has been a considerable period of change for both the Agency and for the education, training and skills sectors. First and foremost, it has been a significant achievement to establish the new Agency. This was the start of a programme of change to transform ESFA systems, services and processes to fully realise the benefits of a single funding agency. This programme of change will deliver benefits through:

- a single customer focus and joined up delivery for the funding of all 5 to 16 education, education and training for 16- to 19-year-olds, and post-16 skills in England;
- a single customer focus and joined up delivery for employers and learners that directly use our services;
- clearer accountability for the Agency through a single governance structure and accountability framework;

- the achievement of savings and efficiencies through the introduction of a single IT platform for ESFA staff; and
- wider opportunities for our staff to develop their careers.

In 2017-18, we have:

- distributed £60 billion of funding to the education, training and skills sectors;
- played a crucial role in calculating and distributing funding allocations across the education, training and skills sectors, achieving high performance in the timeliness and accuracy of funding allocations issued;
- funded and monitored an increasing number of academies: 7,613 as at 1 March 2018 (1 March 2017: 6,518);
- implemented the new National Funding Formula (NFF), a significant reform to school funding;
- delivered our academy assurance programme for the financial year, and in the majority of cases were satisfied that academy trusts were fully compliant with the *Academies Financial Handbook*;
- continued our consistent and collaborative working with the offices of the Regional Schools Commissioners and the National Schools Commissioner, which has been central to ensure simple and effective intervention with our academy trusts;
- opened 50 schools through the Priority School Building Programme 1 (PSBP1), and made significant advancements on PSBP2, with work completed on 5 schools and more than 30 construction contracts signed;
- opened 55 new free schools under the Free Schools Programme;
- allocated a designated programme budget of £56.6 million to 415 institutions/training providers to start the deployment of industrial placements, supporting the delivery of T levels from 2020;
- maintained our offer of around 3,500 qualifications designated for Advanced Learner Loans;
- released the updated 2017/18 funding system for the Adult Education Budget (AEB), European Social Fund (ESF) and Advanced Learner Loans bursaries;
- ran a partial re-procurement of AEB provision to meet the requirements of the Public Contract Regulations 2015, awarding new contracts to providers to operate from November 2017, for up to 3 years;
- developed and delivered a new funding system for apprenticeship training;
- launched the apprenticeship service, providing employers with a new digital system to enable them to use levy funds to invest in apprenticeships, with nearly 4,000 levy-paying employers having online accounts at the end of the year;

- launched a national network of young apprentice ambassadors, and 9 new Apprentice Ambassador Networks to engage in promotion and advocacy of the apprenticeship programme for potential apprentices and employers, and developed the Apprenticeships Diversity Champions Network;
- added 998 organisations to the Register of Apprenticeship Training Providers (RoATP) (with a total of 2,588 organisations on the RoATP at the end of 2017-18);
- achieved an ambitious target of 44% of National Careers Service customers (that received the full blended service delivered by professional careers advisers across the country) receiving a job or learning outcome in 2017-18;
- made payments of £140 million to college institutions via the Restructuring Facility, to support their internal restructuring to achieve greater financial sustainability;
- continued to implement the recommendations from the post-16 area reviews, supporting the implementation of 31 college mergers, and the conversion of 18 sixth-form colleges to academy status during the year; and
- delivered a programme of work to progress towards Agency compliance with the new General Data Protection Regulation (GDPR), which came into force on 25 May 2018.

Throughout the year there were, and remain, substantial challenges and risks related to the core funding IT systems that support the delivery of funding allocations to education, skills and training providers. The Agency has worked with the Department to manage these risks in 2017-18, but there remains the need for significant work and investment in our systems in 2018-19 and 2019-20, as the Agency delivers funding and payments to an ever increasing number of customers. We are therefore investing in developing our systems to be able to manage the increase in both volume and complexity of our work, and to bring more consistency to our operations across the Agency in a way that improves efficiency and the quality of service we provide to our customers.

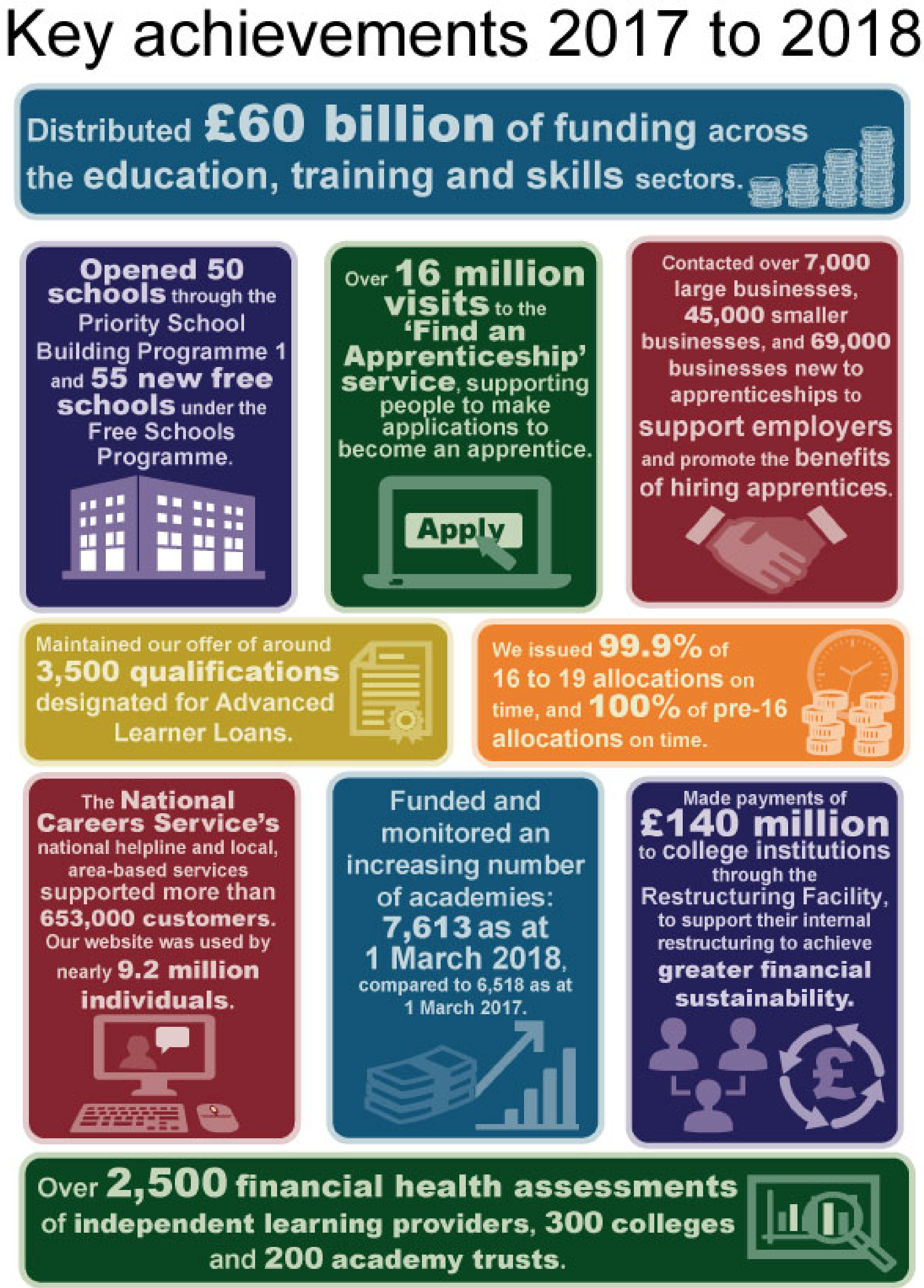
The Agency's remit continues to expand in terms of the number of users of our services, the volume of interactions with these users, and the scope of our activities. Despite this significant challenge, we have maintained a relatively stable cost base through 2017-18, which has been achieved through regular reviews of the operating model to identify opportunities which realise further efficiencies.

The Agency remains alert to the needs and expectations of the education, training and skills sectors to ensure that we properly resource delivery of the public money for which the Agency is responsible. We are also aware of continuing fiscal pressures and strive to play our part to closely manage operating costs. In 2017-18, we have strengthened central oversight of recruitment decisions, continue to proactively target savings on contracts for services, and drive forward efficiencies in our operating model.

However, as the Agency's remit expands further in 2018-19 and beyond, there is a risk that the Agency will not have the people resources it needs to be able to effectively deliver all of its priorities and remit. Discussions are taking place with the Department to review future year resource requirements and to seek agreement to fund sufficient skills and capabilities that are needed.

Performance analysis

Overview of the development and performance of the ESFA



Performance against the ESFA business plan objectives

This section provides analysis on ESFA performance against its business plan objectives for 2017-18[1]. The ESFA's objectives for 2017-18 were to:

1. Make accurate and timely revenue funding allocations.
2. Provide accurate and timely funding calculations, data and information to enable the Department to make payments of £60 billion of revenue and capital funding to ESFA-funded-providers.
3. Deliver capital programmes and funding effectively, managing risk and ensuring value for money.
4. Support the Government's reform of apprenticeships and the ambition of more high quality apprenticeships.
5. Champion opportunities for learners and employers to engage in high quality education and training opportunities (non-apprenticeships).
6. Ensure the proper use of public funds through financial assurance undertaken by the ESFA, or by others.
7. Contribute to the financial health of the sector by supporting ESFA-funded providers to improve their financial health.
8. Provide a service for all our users that is simple, clear, fast, and makes sure they can get what they need when they need it.

Objective 1: Make accurate and timely revenue funding allocations

Measure	2017-18 outcome
Proportion of pre-16 academy revenue funding allocations made on time	100%
Proportion of 16 to 19 revenue funding allocations made on time	99.9%

Revenue funding accuracy will be assessed part-way through 2018-19, when any queries from institutions have been resolved.

Pre-16 revenue funding allocations

The National Funding Formula (NFF) was rolled out to local authorities (LAs) across England in April 2018. Existing academies as at 31 March will receive payments for their allocations under the new calculations from September 2018. Academies that convert from April 2018 will receive payments based on these new calculations from the date of conversion, in line with the approach for maintained schools. This is to ensure there is no financial influence in their decision to become an academy. This is a significant reform to school funding. The aim is to build a simple, fair and predictable funding system.

[1] https://www.gov.uk/government/publications/esfa-business-plan

The ESFA is responsible for implementing the NFF and has worked closely with the Department to support the delivery of this major reform. To provide stability for schools during the transition to the NFF, LAs continue to be responsible for distributing money between schools in their area in 2018-19 and 2019-20. The ESFA works with LAs to ensure their funding formulae complies with the School Finance Regulations; and calculated academy allocations using the relevant LA formula.

The total number of academies has continued to increase and, as at 1 March 2018, there were 7,613 open academies (1 March 2017: 6,518). Despite this significant challenge, the ESFA issued all academy allocations by the end of March. For new academies opening during the financial year, 100% received their allocation documents 2 weeks prior to opening.

16 to 19 revenue funding allocations

The ESFA issued 99.9% of 16 to 19 revenue funding allocations on time. This comprised a total of 2,681 out of 2,683 allocations. This was a significant achievement, and ensured that critical funding information was provided to schools, academies and further education colleges in good time for them to confirm their plans for the new academic year.

In addition to the 2,683 allocations above, allocations for a further 25 institutions were on hold at the end of March 2018 due to a failure to submit data by the institution itself, and/or outstanding decisions on the continuation of funding. Accuracy of 2017-18 allocations will be assessed in 2018-19.

During the year, we sought feedback from 16 to 19 funding recipients on our products and services. Following this feedback we have made improvements so that:

- guidance documents about funding are shorter and easier to understand; and
- deadlines are more clearly set out.

We have also introduced short information videos about funding.

The aim of this work has been to increase customer ownership and responsibility for data. This will help us move increasingly towards a customer self-service model to reduce the number of referrals and enquiries sent to the ESFA, so we can improve service efficiency. Referrals are defined in the Agency as ‘specialist, technical or complex issues raised by our customers’. Enquiries are defined as ‘routine and general questions submitted by funding recipients’. Referrals received in February 2018 reduced by 32% compared to the previous year due to the actions identified above.

In 2017-18, we continued to support institutions to improve the quality and strength of their own data. This contributed to aims to further streamline allocation processes and achieve reductions in the number of business cases required from institutions to deal with queries where data must be re-verified. Work undertaken in 2017-18 included a school census tool[2] and provision of funding reports. Improvements in data quality contributed to a reduction of 40% in the number of business cases required from institutions in 2017/18. Early indications are that there will be further reductions for 2018/19 allocations.

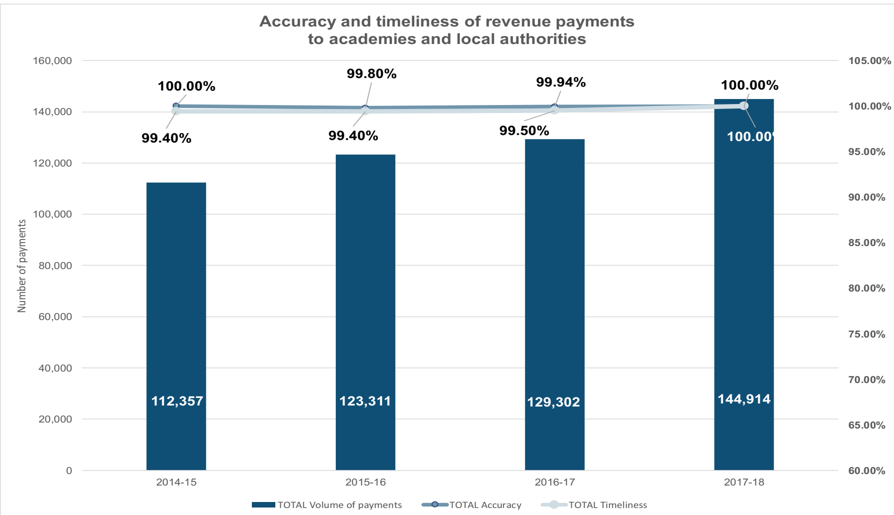
T level work placements
The Department announced in its T level implementation plan that a small number of institutions/providers would be invited to deliver T levels in 2020.

A crucial component for learners will be opportunities to undertake industrial placements with employers. In 2017-18, the ESFA successfully allocated its designated programme budget of £56.6 million to 415 institutions/training providers who submitted successful implementation plans, to build capacity for places and to start the deployment of industrial placements.

Objective 2: Provide accurate and timely funding calculations, data and information to enable the Department to make payments of revenue and capital funding to ESFA-funded providers

Academies and LAs

During 2017-18, a total of 144,914 payments were made by the Department to academies and LAs, representing expenditure of £47.5 billion excluding year-end adjustments. All payments were authorised on time and correctly (equivalent EFA data for 2016-17: 129,302 payment instructions made totalling £44.9 billion; 99.5% on time; and 99.94% accurate). The ESFA's role was to calculate allocations accurately through the interrogation of data supplied by academies and LAs. These allocations were then transferred into contract values so financial payments could be made by the Department.



Apprenticeships and adult funding
During 2017-18, the ESFA developed and delivered a new funding system for apprenticeship training. This was in addition to releasing the updated 2017/18 funding

[2] https://www.gov.uk/government/publications/interactive-post-16-school-census-tool

system for the Adult Education Budget (AEB), European Social Fund and Advanced Learner Loans bursaries. These new funding systems process significant volumes of data to trigger payments to training providers.

We processed 13,860 contracts and variations for adult funding in 2017-18. We processed payments for £2.8 billion of AEB and apprenticeships earnings, of which 99.7% of payments were accurate and on time.

European Social Fund
As at the end of 2017-18, the European Social Fund (ESF) 2014-20 programme currently delivers 296 contracts through 82 agreements in 38 (out of 39) local enterprise partnership areas. The programme spend to the end of March 2018 was £230 million, of a contracted amount of £420 million. At the end of 2017-18, the programme still had 2 years to run. ESF programmes traditionally span several financial years due to the scale and magnitude of their activities. To date, these contracts have supported over 233,000 learners.

Between April 2016 and March 2018, a total of 4,285 learners had progressed into an apprenticeship (the target is 21,116 learners by 2020) and for traineeships, we achieved 2,680 learners out of a target of 5,107 planned. In addition, the programme has created 20,581 employment opportunities, with a further 20,676 learners undertaking extra education opportunities.

External audits are underway for this programme and the first evaluation exercise has been completed.

No ESF funding errors were identified in 2017-18. The error rate for 2016-17 (when ESF was managed by the SFA) was just 0.6%, which was significantly below the 2% threshold. The threshold for the programme audit error rate is set by the European Commission, and is seen as an acceptable tolerance to the level of risk on the funding associated with the programme.

Objective 3: Deliver capital programmes and funding effectively, managing risk and ensuring value for money

PSBP is addressing the condition need of the 537 school premises across the country identified as most in need of urgent repair. This is happening through 2 phases.

Under the first phase (PSBP1), the needs of 214 schools are being addressed using ESFA funding, and 46 schools using private finance. Established in 2012, PSBP1 has successfully opened 50 schools this financial year bringing the total of schools delivered by PSBP1 in new or refurbished buildings to 237.

The second phase (PSBP2) was announced in February 2015. PSBP2 is focused on addressing condition need in specific buildings at 277 schools by the end of 2021. As of 31 March 2018, 99% of the schools had been contacted and their feasibility studies had commenced, with 45% of feasibilities approved. In 2017-18, work was completed at 5 schools and over 30 construction contracts had been signed.

The ESFA continues to work closely with the Department to deliver the Free Schools Programme. As of 31 March 2018, 474 free schools, university technical colleges (UTCs) and studio schools were open, 55 of which opened in 2017-18. The programme continues to approve and build new free schools where they are most needed, with over 300 schools in the pipeline to be delivered and a commitment to approve a further 110 free schools in future years.

The Condition Data Collection Programme started in early 2017 and captures data on the Government-maintained school estate, its condition and management. The data collected by the ESFA will enable funding to be better targeted and prioritised, and will increase our understanding of the issues facing the management of the school estate across England.

Following a pilot in February 2017, the programme was mobilised with significant improvements on the former Property Data Survey (PDS) programme, which ran between 2011 and 2014. Increased engagement with professional bodies and bodies responsible for the delivery of education led to improvements early in the programme, which supported surveying organisations gaining access to schools. The IT used to support the programme is a substantial improvement to the PDS, and further enhancements have been made throughout 2017-18 to improve the use of the software. Over 7,500 site visits were conducted to March 2018. There are approximately 400 surveyors and engineers trained to undertake school visits, which - as at the end of 2017-18 - were progressing at a rate of approximately 1,000 per month. The programme will run until autumn 2019.

Objective 4: Support the Government's reform of apprenticeships and the ambition of more high quality apprenticeships

Measure	2017-18 outcome
Number of visits to the *Find an Apprenticeship* website	16 million
Number of Apprenticeship Service accounts opened (as at March 2018)	13,600
User satisfaction of the Apprenticeship Service (March 2018)	62% positive opinion

The proportion of total apprenticeship starts[3] on the new apprenticeship standards between May 2017 and March 2018 can be found on GOV.UK.

The Agency launched the Apprenticeship Service in May 2017. This provides English employers with a new online digital system to enable them to use levy funds to invest in

[3] https://www.gov.uk/government/collections/further-education-and-skills-statistical-first-release-sfr

apprenticeships. For the first time this system enables employers to control the use of funding and invest in apprenticeships that deliver on their own strategic workforce priorities. By the end of 2017-18, nearly 14,000 levy-paying employers had online accounts, driving better decision making in the use of apprenticeship funding. Over the course of the year, 16 million visits were made to the *Find an Apprenticeship* website, supporting people to make applications to become an apprentice.

To support employers to take more control of the apprenticeship system, we continued to encourage more employers to deploy apprenticeships throughout their organisations to tackle skill shortages and to give companies the highly skilled workforces they need to compete in a global marketplace. This work, through our National Apprenticeship Service, also continued to work to promote apprenticeships to people of all ages.

In 2017-18, we worked through key businesses intermediaries to promote apprenticeships reaching in excess of 1 million members, to raise the profile and awareness of apprenticeships as a benefit to business. This work is in support of the Government's reform of apprenticeships to boost high quality apprenticeship starts in England.

Creating more apprenticeship ambassadors
In November 2017, we launched a national network of young apprentice ambassadors across 9 regions, comprised of volunteer apprentices that advocate and promote apprenticeships to their peers and share the impact their apprenticeship has had on them. We have also introduced 9 new Apprenticeship Ambassador Networks. They engage in business-to-business promotion and advocacy of the apprenticeship programme, reaching employers who are not accessing apprenticeships through the traditional routes. We have also begun the process of recruiting MP ambassadors to support these networks and are working on strategies to engage more employers at Chief Executive level.

Creating more diversity in apprenticeships
Since September 2017, the Apprenticeships Diversity Champions Network has been chaired by Helen Grant MP. The Network comprises of over 50 employers and has been developed to engage and inspire employers and communities. This is to ensure apprenticeships are undertaken by people from a diverse range of backgrounds, reflecting the widest spectrum of our society. It aims to influence the behaviour of other employers to support more people from underrepresented groups. Members aim to increase representation from Black, Asian and Minority Ethnic individuals in all industries, for learners with learning difficulties and disabilities, females in Science, Technology, Engineering and Mathematics (STEM), and those from disadvantaged areas.

Supporting small businesses
Small and Medium Enterprises (SMEs) make up the majority of businesses in England. As such, the ESFA works with SME advisory bodies, such as the British Chambers of Commerce and the Federation of Small Businesses, to champion the benefits of

apprenticeships. The procurement exercise carried out for employers not paying the apprenticeship levy created opportunities for SMEs to actively engage with apprenticeship opportunities. The ESFA also worked with Jason Holt who was appointed by the Government to act as an advocate for SMEs to recruit extra apprentices.

We also provide a service to non-levy employers through our telephone helpline. The ESFA advises and signposts for apprenticeships recruitment, offers guidance in choosing the right apprenticeship standard or framework, and helps to find the right training provider to deliver the apprenticeship training. The helpline also makes proactive calls and sends emails to keep employers up-to-date with changes to apprenticeships, ensuing they are kept informed.

Raising awareness and media campaigns
During 2017-18, we have successfully implemented employer engagement campaigns, delivered through a National Contact Centre to promote and encourage apprenticeship take-up and growth and to support employers in their apprenticeship journey. As a result of these campaigns we have made contact with just over 7,000 big employers, over 45,000 smaller businesses, and over 69,000 employers new to apprenticeships.

Register of Apprenticeship Training Providers
All training providers and employers that wish to receive ESFA funding for apprenticeships must first pass a series of rigorous financial health and quality tests. Organisations that are successful secure a place on the RoATP. The aim of the RoATP is to encourage diversity and competition in the provider market, supporting quality and employer choice. Providers can also be removed from the RoATP if their apprenticeship training is evaluated as inadequate by Ofsted. As of 31 March 2018, there was a total of 2,588 organisations on the RoATP, with 998 providers being added in 2017-18, and 92 removed. In addition to many long-standing and experienced training providers on the RoATP, a number of new market entrants gained a place during 2017-18. The addition of new providers to the RoATP increases employer choice, builds capacity and creates diversity of providers in the marketplace.

To assure high quality apprenticeship provision within this new training and funding landscape, the ESFA requires every provider that is new to direct delivery to follow a robust 'on-boarding' plan, including:

- mandatory technical workshops for new providers with follow-up webinars;
- a compliance framework which has been developed and implemented to monitor capacity and capability;
- a risk and assurance review framework, focussing on controls providers have in place relating to governance, finance, data, and apprenticeship compliance; and
- potential action against providers identified as posing significant risk to successful delivery.

Where providers have closed or exited their education provision, we have focused engagement to ensure records and data are accurate and up-to-date, to support the effective transfer of students and apprentices. In 2017/18, 55 providers left the market and we directly supported 47,000 learners to complete their studies prior to their provider's exit, or to be transferred into alternative provision.

Objective 5: Champion opportunities for learners and employers to engage in high quality education and training opportunities (non-apprenticeships)

Measure	Target	2017-18 outcome
Positive customer feedback for National Careers Service	90%	93%
Volume of website users for National Careers Service pages on GOV.UK	8 million users	9.2 million users
Volume of website visits for National Careers Service pages on GOV.UK	20 million visits	47 million visits
Satisfaction levels of website users for National Careers Service pages on GOV.UK	75% satisfaction	65% satisfaction

The National Careers Service provides free, up-to-date, impartial information, advice and guidance on careers, skills and the labour market to adults and young people via:

- local services that provide access to face-to-face and telephone advice;
- a national helpline that offers web chat and telephone support; and
- 24/7 access to the National Careers Service website, which offers a range of digital tools to help users find learning and training opportunities that are right for them.

Between April 2017 and March 2018 the National Careers Service's national helpline and local area-based services supported more than 653,000 customers. The website was used by nearly 10 million individuals. Local area-based advisers helped 198,700 customers (44%) out of a total of 451,000 customers to progress in or into learning and work.

The combination of the National Careers Service's telephone, face to face and digital offers and the service's strong links with Jobcentre Plus, further education colleges, training providers, LEPs, LAs and national and local employers means that the service is able to ensure that customers, learners and employers are exposed to, and guided through, the vast range of education and training opportunities in their local area.

In addition to its core work with individual customers, the National Careers Service is working directly with employers and employees in partnership with the Department for Work and Pensions and local enterprise partnerships. This helps older workers stay in work, retrain, upskill and look at how they can better balance their work and life.

Employers and employees are benefitting from expert careers information and advice and guided access to National Careers Service digital tools such as job profiles, the course directory, and the skills health check.

The National Careers Service website exceeded its target of 8 million users and achieved 47 million visits - well above its target of 20 million visits for this year. Customer satisfaction levels of the online service (from a survey of 8,000 respondents) were at 65%, lower than the target level of 75%. This expected dip in performance was attributed to the re-design of the website to make it compliant with the Government Digital Service requirements. During the transition to the new website, several of the online tools did not function at all times, causing understandable disappointment for some users.

The National Careers Service uses 7 area-based contractors in 12 locations. All 12 areas are inspected on an individual basis. In addition, the National Contact Centre Helpline was also rated as *Good* as Ofsted.

Advanced Learner Loans

Advanced Learner Loans are available for individual learners. In the Advanced Learner Loans programme[4], the ESFA designates the qualifications eligible to be funded with a loan, and determines the maximum loan amounts for these qualifications. In 2017-18, the ESFA has maintained its offer of around 3,500 qualifications designated for the loans.

In response to a small number of high-profile cases where training providers have not fulfilled their obligations to learners in full, we have tightened our performance management arrangements for qualification providers. This is to protect both the interests of learners as well as the taxpayer. We have removed the availability of subcontracting qualification provision from the loans programme. This has contributed to a reduction in the total number of providers to approximately 650, which are eligible to offer loans to learners and to receive loans payments. This represents a reduction from over 700 in 2016-17.

The number of learners participating has decreased. From the start of 2017/18 to the end of January 2018, 82,400 learners participated with an Advanced Learner Loan (compared to 91,800 for the same period the year before). Providers are being encouraged to promote the loans to eligible learners.

Adult Education Budget

The AEB provides participation and support funding for eligible learners aged 19 and over (excluding Adult Learner Loans, European Social Fund, and Apprenticeships). The purpose is to engage adults and provide them with skills and learning needed to progress into work, an apprenticeship or further learning. The AEB enables adults to achieve

[4] https://www.gov.uk/advanced-learner-loan

qualifications as well as tailored programmes of learning to help those furthest from learning or employment.

The AEB supports 3 legal entitlements in English and maths, a first full Level 2 qualification and a first full Level 3 qualification[5].

The AEB provided £1.5 billion to support approximately 1.4 million learners in both the 2016/17 and 2017/18 academic years, of which 6,400 young people started a traineeship.

We successfully completed the re-procurement of the AEB contract for services in October 2017, to meet the European Union Directive on procurement law. Contracts were awarded to support the delivery of priority provision for traineeships, English and maths, skills provision for the unemployed, and technical programmes for adults aged 19- to 23-years-old.

The procurement exercise has resulted in an additional 22 new training providers with a contract for service to deliver the AEB. The new contracts started on 1 November 2017.

Adult Education Budget devolution

In 2017-18, the ESFA worked with the Department on the devolution of the Adult Education Budget (AEB) to Mayoral Combined Authorities (MCAs) and delegation to the Greater London Authority (GLA). The orders transferring the adult education functions will be laid later in 2018, with responsibilities and associated budget transferred in time for the 2019/20 academic year.

Devolution of the AEB will apply to all providers delivering provision to 19+ learners who reside in an MCA or GLA area. The ESFA is committed to working with the provider network to support their understanding of AEB devolution.

The ESFA will continue to share knowledge, skills and experience with MCAs and GLA on key aspects of the AEB, including commissioning, allocations, contracting and performance related matters. These activities will support the operational readiness of MCAs and GLA, building their capabilities and thereby facilitating a smooth transition for them to undertake the adult education functions and distribute the AEB in time for the 2019/20 academic year.

T level delivery providers for 2020

The Department announced in its T level implementation plan that a small number of institutions/providers would be invited to deliver T levels in 2020. The aim was to select a wide range of high quality providers to be development and delivery partners to ensure a high quality start to T levels.

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[5] https://www.gov.uk/government/publications/adult-education-budget-funding-rules-2018-to-2019

The ESFA devised and ran an expression of interest exercise during 2017-18 which attracted 212 provider volunteers. From these, we selected over 50 using Ofsted grades, provider type, and location. These institutions cover around 11,000 students in all English regions, 8 of the 12 Department 'opportunity areas' (geographical areas where activity is piloted to improve social mobility opportunities), and 10 different provider types.

Advanced Maths Premium
In the 2018 Budget, the Government announced it would support the recommendations of the *Smith Review of Post-16 Mathematics*[6]. The aim is to encourage more students to take further maths qualifications. The Advanced Maths Premium will provide an extra £600 for each additional advanced maths student from 2018 onwards.

The Advanced Maths Premium is paid by the ESFA at a rate of £600 per year per additional student for one or 2 years, depending on the type and size of qualification studied. The premium will first be paid automatically in 16 to 19 funding allocations for the 2019/20 academic year. For this payment, the number of additional students will be measured between the average of the 2015/16 and 2016/17 academic years and the 2018/19 academic year. This was announced in February 2018.

Sporting excellence
The ESFA managed the transition of 1,550 elite young sports people (16- to 18-year-olds) from apprenticeship funding to study programme funding at a cost of c£4.5 million per year group in 2017/18. This will enable the next generation of this country's Olympic hopefuls to continue to receive the necessary support alongside their academic study.

Objective 6: Ensure the proper use of public funds through financial assurance undertaken by the ESFA, or by others

Measure	2017-18 outcome
Number of intervention notices issued[7]	26
Financial health assessments undertaken	• Independent Training Providers – over 2,500 • Colleges – 300 • Academy trusts - 200
Funding audits undertaken at academies, colleges and Independent Training Providers	185

The ESFA has a responsibility to ensure the legitimate use of all public funds that it is accountable for. We can be scrutinised by both the National Audit Office and the Public Accounts Committee for the funding that we administer. We have a wide range of

[6] https://www.gov.uk/government/publications/smith-review-of-post-16-maths-report-and-government-response

[7] This data covers academy trusts, further education colleges, sixth-form colleges, and independent training providers.

controls in place to ensure the proper use of public funds through financial assurance that we undertake.

The ESFA established a Risk, Intervention and Assurance Board in August 2017, to understand, oversee and challenge collective arrangements to ensure a robust and coherent strategy is in place for managing risk, intervention and assurance for providers of learning and training.

We delivered our academy assurance programme for 2017-18. This involved reviews of academy trust governance arrangements and financial statements, detailed testing and site visits. In the majority of cases, we were satisfied that academy trusts were fully compliant with the *Academies Financial Handbook*. Where we made recommendations for improvement, they were mainly around adopting good practice, or where we recognised that further time is required to ensure procedures were appropriately approved by trustees.

We design systems using rigid validation rules to ensure that training providers record learner data correctly and that it aligns with funding rules. Through our analysis, we have reduced the amount of errors being recorded in the system each year. We identify behaviour that indicates potential training provider compliance issues. Our monitoring helps to clarify and improve funding rules where appropriate, or correct data errors. This provides assurance that funding is being spent by recipients in line with funding rules.

For academies, oversight and compliance is based on proportionate risk assessment, and robust intervention when concerns arise. The ESFA's role has developed over the years with increased scrutiny providing checks and balances and targeted intervention activities, whilst providing the degree of autonomy and freedom for the majority of trusts. Where concerns arise, the ESFA works with the trust to prevent financial instability and enable them to recover their financial position and return to stable governance. When the ESFA intervenes, Financial Notices to Improve (FNtIs) and investigation reports are published so that lessons can be learned. The sector remains in a stable position, with just over 1% of academy trusts subject to an active FNtI.

During 2017-18, we have continued to embed and expand the role of data and analysis into the day-to-day work of the ESFA. We will continue to develop our data analysis and the harvesting and use of data in future years.

Restructuring Facility

During 2017-18, we introduced and continuously improved an end-to-end payment and repayment process to manage the release of a new funding line to the college sector – the Restructuring Facility. The facility provides grants or loans to college institutions to support their internal restructuring to achieve greater financial sustainability. The total commitment to 31 March 2018 from the Restructuring Facility to support colleges was around £300 million. During 2017-18, the ESFA:

- made payments of £140 million to college institutions to support their internal restructuring to achieve greater financial sustainability;
- introduced processes for the repayment of loans, and started to collect repayments; and
- reviewed monitoring processes and management arrangements, which are being standardised.

A new financial model, designed specifically to support the analysis of monitoring returns data, was developed by the ESFA during 2017-18. This will be released to Restructuring Facility recipients early in 2018-19 to support their restructuring implementation plans and the related ongoing monitoring requirements arising from their Restructuring Facility terms.

Programme assurance

The ESFA ensures that all providers in receipt of funding use the public funding we give to them properly. This includes academies, colleges, independent training providers, LAs and others. We plan and carry out an annual programme of audit and other work, to provide assurance over the proper use of public funds. In 2017-18, this work covered 3 main areas:

1. **Prevent**: activities that contribute to the ESFA's strategy of managing provider risk, including:
    - working with stakeholders in the academy and college sectors to develop the financial framework in which they operate, to ensure governance and financial management requirements are fit for purpose and well understood, including the sharing of good practice;
    - monitoring and assessing the financial health of providers, ensuring that the ESFA contracts with financially robust providers and continues to assess their ongoing financial stability, identifying those in danger of financial failure;
    - providing financial support in pre-intervention cases; and
    - undertaking financial reviews of new academies and providers of apprenticeship training.
2. **Detect:** risk-based direct assurance activities that support the annual assurance statement to the ESFA Accounting Officer and the Department's Principal Accounting Officer.
3. **Investigations and intervention:** activities to support specific cases with expertise in finance, regularity and counter fraud.

We delivered our 2017-18 assurance plan in full and were able to report overall substantial assurance. Matters arising have been reported with appropriate follow-up action being taken.

The key outputs from prevention activity in 2017-18 include:

- guidance and direction to the sector including the publication of Accounts Directions, the *Academies Financial Handbook*, and the *College Financial Handbook;*
- stakeholder engagement through steering and working group meetings, auditor forums, briefing workshops and conferences;
- over 2,500 financial health assessments of Independent Training Providers, 300 colleges and 200 academy trusts; and
- review and assessment of governance, financial management and controls at new providers, including 121 apprenticeship training providers and 110 academies.

The key outputs from detection activity in 2017-18 includes:

- over 180 provider funding audits at academies, colleges and independent training providers, providing assurance that grant funding has been appropriately earnt and that overall levels of funding error are not significant. It includes both risk and random samples, targeting risks identified from the Agency's data and weaknesses identified from previous assurance work;
- review of over 290 college and 540 academy trust financial statements, to provide assurance over the regularity of expenditure and to confirm the level of qualified external audit opinions across both sectors remains low (1.6% for academies and 0.32% for colleges);
- risk-based reviews of academy trust related party transactions and severance payments identifying less than 2% of the population had made payments in breach which is attributable to 0.03% of the total budget; and
- review of over 150 LA accounting officer statements confirming grant monies have been appropriately spent.

On intervention, the ESFA has provided specialist expert support for complex financial and governance intervention casework, including 73 academy trusts, 91 further education and sixth-form colleges, and a number of private providers. This work involves appraising and monitoring the effectiveness of provider recovery plans and providing financial expertise and challenge that underpins this process.

Objective 7: Contribute to the financial health of the sector by supporting ESFA-funded providers to improve their financial health

A key priority for the ESFA is to prevent and address risks to the sustainability and quality of education and skills provision. We are heavily committed to ensuring the sustainable financial health of all schools, academies, further education colleges and training providers so that all learners have the widest and strongest choice of provision that fits their needs; alongside the skills priorities of local communities.

We hold academies and colleges to account by communicating a clear financial framework, applying proportionate oversight of compliance and intervening robustly when concerns arise. We publish investigations and financial notices to improve, and continue to take action in other areas including where high executive salaries are awarded to ensure there is clear evidence for doing so.

In colleges, around 90% have satisfactory financial health or better. The assessment of financial health is based on the latest college financial statements, which are for the year ending 31 July 2017. Outcomes of the area reviews carried out by the ESFA are expected to put colleges on a stronger financial footing, although underlying sustainability problems remain.

Pre-16 financial management and intervention

The ESFA is working with the sector to continue building capacity and expertise in financial management and forecasting. We had 3 pilot projects underway in 2017-18 that contributed to the Department's School Resource Management and Financial Health programme:

1. We are working with academy trusts to promote better financial health, and for the first time this year we require trusts to submit 3-year financial forecasts. We are making best use of the data we routinely collect from academy trusts and we are engaging earlier with trusts that are forecasting declining financial health. This is also an opportunity for us to promote the range of initiatives available to help schools plan more effectively and deploy their resources more efficiently.
2. The School Resource Management Adviser project uses practicing school sector experts, deployed into schools to provide tailored advice on how to maximise resources in order to maintain and improve educational outcomes. We are piloting the project and working with the Institute of School Business Leadership, which is providing administrative and accreditation support as an interim measure during the pilot phase. We are planning to conduct an open competition to source, accredit and manage the ongoing supply of advisers from September 2018.
3. We are working with local authorities in their role to support maintained schools to operate in a financially sustainable way. We have piloted discussions with 50 LAs about their published financial data, to look at their plans for schools currently in financial difficulty and those which may be vulnerable in future years. It is essential that we take a collaborative approach with LAs, as they have direct relationships with their schools, as well as the expertise and local intelligence essential for this work.

Financial management in the vast majority of academy trusts is strong – 5.5% were in cumulative deficit in 2015/16. The ESFA assesses the financial health of academy trusts by reviewing their financial statements. Because of the timing with which these statements become available, the results of the 2015/16 assessment are the most recent available.

With the Department, we are helping trusts achieve long-term financial efficiency and strong financial management, based on 3- to 5-year financial forecasting. We are introducing School Resource Management Advisers, national deals for procurement and benchmarking data to support them in this.

Intervention in post-16 providers

Measure	2017-18 outcome
Number of successful implementation of post-16 area review recommendations	31 mergers and 17 academy conversions
Of those colleges meeting the triggers for early intervention on financial health grounds: a reduction in the proportion that subsequently meet the triggers for formal intervention on financial health grounds within 2 years of commencing the early intervention activity	12.1% within the period April 2016 to April 2018
Average time spent in formal intervention for all colleges which have been in formal intervention for more than 24 months	Median number of weeks in excess of 24 months was 60, as at March 2018

The ESFA publishes clear intervention thresholds for colleges. Where they are breached, the ESFA (and the Further Education Commissioner where escalated) sets out additional conditions of funding, which are required for the college to address issues within a specified timescale. The ESFA (and Further Education Commissioner where required) monitors progress closely and escalates where necessary.

The purpose of the ESFA's published early intervention strategy is to lower the risk of a college falling into the scope of formal intervention measures. We work with colleges to facilitate swift mitigating actions that focus on ensuring a return to sound financial resilience and, where required, improvement in quality. We target our early intervention using a risk-based approach. Initial evaluation of the early intervention strategy has demonstrated its impact and it has received support from the college sector.

In 2017-18, there were 110 colleges in early intervention at some point during the year. Of these: 4 moved to formal intervention; 27 were no longer in early intervention at the end of the financial year; and 9 colleges merged or became an academy.

Notices to Improve (NTIs) or Notices of Concern (NoCs) are used to apply additional conditions of funding. Where issued, they form part of the overall requirements set out in the funding agreement between a college and the ESFA. Historically, the former SFA issued NoCs and the EFA issued NtIs. To align the approach as a single agency, from September 2017 all newly issued notices are NtIs.

As at April 2018, 3 out of 63 sixth-form colleges and 39 out of 167 further education colleges were in formal intervention.

In 2017-18, 14 new NtIs or NoCs were issued across 9 general further education colleges and 2 sixth-form colleges. Of the 14 NtIs, 5 were for financial control, 7 were for financial health, and 2 for inspection. 28 NtIs or NoCs were lifted across 5 sixth-form colleges and 17 general further education colleges. Of these colleges, 16 were dissolved as part of a merger arising from area review recommendations.

In 2017-18, we redesigned the financial dashboards that we issue to colleges, incorporating the latest data and showing benchmarking and trend information for each individual college. The dashboards are sent directly to chairs of governors, as well as college principals. These redesigned dashboards help non-financial experts to challenge performance, resulting in stronger governance in the college sector, with an expected positive impact on college financial health.

Area reviews and Restructuring Facility in post-16 providers
In 2016-17, the former EFA helped deliver the Government's response to the weakening financial health of the non-school post-16 sector by running 37 area reviews across England, which were completed at the end of March 2017. The aim of the area reviews was to enable a transition towards fewer, larger, more resilient and efficient providers.

During 2017-18, we have worked across the sector to implement recommendations from these reviews. We have supported the implementation of 31 college mergers, taking the total number of mergers completed since the start of the area review programme to 41. This is more than two-thirds of the mergers agreed through area reviews and is the most concentrated period of structural change since the establishment of the further education sector in 1993. As part of our support for the implementation of area review recommendations, we have awarded Transition Grants of up to £100,000 to 44 colleges.

In addition to the mergers that have been completed, 18 sixth-form colleges have converted to academy status during the year, resulting in the further education sector now standing at 204 further education colleges and 64 sixth-form colleges.

The Restructuring Facility provides grants or loans to college institutions to support their internal restructuring to achieve greater financial sustainability. During 2017-18, we saw strong progress in the receipt, assessment, approval and completion of Restructuring Facility applications from post-16 education providers, and towards stabilising and refining business processes.

During the year, we approved 15 merger cases, 17 academy conversion cases, and 5 standalone restructuring cases. The ESFA undertakes a detailed investment appraisal of all cases, including an options appraisal to ensure decisions take account of value for money. All investment cases prepared by the ESFA are subject to rigorous governance and assurance including:

- internal review of readiness to proceed;
- Funding Committee approval;
- External Advisory Panel endorsement;

- ESFA Chief Executive approval;
- Ministerial approval; and
- Chief Secretary to the Treasury approval.

The total commitment to 31 March 2018 from the Restructuring Facility was approximately £300 million. Each deal was negotiated and agreed on an individual basis. The ESFA has successfully delivered a high volume of complex, challenging and high-value restructuring support projects over the period. It is too soon to evaluate the full benefits accruing from college sector restructuring projects. However, Restructuring Facility funds have halted the need for recurrent financial support in many cases and have reduced the exposure of many colleges to unsustainable and unaffordable debt, whilst preserving the continuation of good quality provision for learners and employers.

Objective 8: Provide a service for all our users that is simple, clear, fast, and makes sure they can get what they need when they need it

Measure	Target	2017-18 outcome
Percentage of LA, academy and further education enquiries resolved within 3 days	85%	84% (28,100) of which: - simple[8]: 95% (22,453) - complex[9]: 39% (5,647)
Percentage of training and skills programme enquiries resolved within 5 days	90%	88%
Responses to Parliamentary questions sent within published timescales	100%	90%
Responses to Freedom of Information requests sent within published timescales	90%	91%
Responses to Official correspondence sent within published timescales	90%	94.6%
Responses to complaints sent within published timescales	90%	93%
Satisfaction levels of ESFA-funded institutions	90%	85%

LA and academy trust enquiries

The total number of academies continued to increase in 2017-18. As the number of academies grow (7,613 as at 1 March 2018, compared to 6,518 as at 1 March 2017), we

[8] Simple enquiries are defined as those that can be answered with knowledge within the enquiry service, with no specialist help required.

[9] Complex enquiries are defined as those that require answers to be provided by a specialist team.

have created a single Academies Customer Interactions Unit to serve an increased volume of enquiries (from LAs and academy trusts), compliance issues about trusts, and admission cases. This allowed us to share expertise in a single team that manages our customer interactions efficiently and consistently, and provides national casework expertise on admissions and compliance issues as a central resource. In 2017-18, we dealt with 33,750 pieces of correspondence.

The ambition is to build on our existing customer insight to reduce the incoming traffic into the service through enhanced web-based customer self-service. Meanwhile, there has been a 7% growth in the number of interactions that the ESFA received from 2016/17 to 2017/18. Despite this, we have been able to demonstrate that:

- 95% of simple customer enquiries are closed within 3 working days;
- 67% of complex enquiries are closed within 5 working days; and
- we continue to improve the number of appeal and compliance cases we resolve, with 93% of complaints cases being resolved within 65 days and 94% of appeals cases resolved within 45 days.

Whilst we maintain a good level of customer service, with 85% positive feedback on the service experienced, we want to build on this in 2018/19. We will review our existing performance indicators to ensure we continue to measure the most relevant aspects of customer service. We also expect to develop our use of intelligence to better inform policy development, intervention and risk assessment of academies and trusts – this has led to a number of pieces of joint work with the looked after children and admission policy teams to ensure that we have a deliverable policy and process.

National Apprenticeship Service

Alongside the account management service provided to the top 1,000 levy paying employers paying 70% of the levy, we have introduced a telephone account management service for an additional 4,500 of the largest levy paying employers. These employers account for a further 25% of the levy paid. Our services help employers understand the benefits of apprenticeships and help them to make informed decisions on how to invest their levy to improve the recruitment of talent and the development of skills within their organisation.

The National Apprenticeship Service helpline provides free, impartial advice and support for employers looking to recruit an apprentice for the first time, or to grow or upskill their workforce through apprenticeships. The helpline is available to all employers, and offers guidance in choosing the right apprenticeship standard or framework as well as a suitable training provider. The helpline has also made proactive calls and emails to keep employers updated on changes to apprenticeships.

National Careers Service

The National Careers Service provides free, up-to-date, impartial information, advice and guidance to adults and young people (aged 13 and over) about careers, learning and skills, and the labour market. The service helps individuals to make informed choices about their future learning and career paths. It is delivered across England in more than 1,000 locations and by over 1,300 highly skilled, professionally qualified careers advisers. People can access the service in a number of ways as outlined below.

The National Careers Service telephone helpline is available to adults and young people from 8am to 10pm every day of the year except Christmas and New Year's Day. Customers can receive advice from qualified careers advisers by phone or web chat. Between April 2017 and March 2018, the helpline provided advice and information to more than 112,000 customers.

The service has a presence in more than 98% of Jobcentre Plus offices and is available to the public in local libraries, further education colleges, training providers, community venues and on the high street. In 2017-18, more than 451,000 customers benefitted from a personalised face-to-face careers advice session with a local adviser. Of those customers, just over 44% achieved a positive employment or learning outcome within 6 to 9 months of receiving support.

The National Careers Service website is the most popular route for individuals seeking careers information and advice. More than 9.9 million individuals used the website and viewed more than 51 million pages during the last financial year.

Further education provider enquiries

In 2017-18, the ESFA handled 5,951 enquiries from, or related to, further education providers. This is a 27% increase from 2016-17 (4,687 enquiries). The increase is largely attributable to recent announcements about T levels, and work to report cladding on publicly-funded education buildings following the Grenfell Tower fire.

77.2% of these enquiries were resolved within 3 working days. To strive for greater levels of customer service we have introduced a new target that 100% of enquiries should receive a first response within 3 working days. Timeliness of responses has been steadily improving since this was introduced. Over the last 3 months of 2017-18, we completed a first response within 3 working days for over 98.5% of enquiries.

We place a strong emphasis on providing good quality responses that are right first time. We work to a number of performance indicators relating to quality and timeliness. Each month, a sample of responses is taken and scored for quality against a range of measures. The result of this quality assurance work has shown a steady improvement, with responses now consistently scoring above 95%. Success has meant that we have been able to increase our performance indicator target from 90% to 95%.

Training and skills programme enquiries
The ESFA has seen an increase in programme queries related to funding, data and systems for training and skills provision, handling 38,233 enquiries in 2017/18 (compared to 33,625 in 2016/17). 88% of these enquiries were handled within the service timeframe of 5 days, against a target of 90%. The number of customers that we support continues to grow as more organisations are added to the RoATP, which has in part contributed to the increase in enquiries received, along with the impact of a more complex funding landscape during the implementation of apprenticeship reform.

Data science
The ESFA Data Science division has ensured the Agency supports the Department in delivering new infrastructure, tools and services to enable it to become an increasingly data driven organisation, and make effective decisions based on evidence.

In 2015-16, we changed the names of qualification success rates (QSR) to qualification achievement rates (QAR) in preparation for the introduction of a broader range of success measures in the future. In the 2017-18 funding year (1 August to 31 July 2018) we set out business rules that explain the method for calculating QARs for training providers delivering apprenticeships, education and training, including those with learners funded by Advanced Learner Loans.

The Agency has improved access to data for the ESFA and the Department by implementing a master data repository, meaning that data is now stored centrally in one location. We built infrastructure so data can be processed and analysed by our analysts quickly and securely, including the introduction of new software products so that analysts can visualise and interpret data quickly. We have also developed new data science and data analysis techniques to create intelligent machine learning and powerful automation tools.

We have continued to develop our use of data to spot fraud and assess provider risk so we can identify areas of underperformance and risk much quicker and more accurately.

Complaints to the Parliamentary Ombudsman

The Parliamentary and Health Service Ombudsman (PHSO) can investigate complaints against the administrative actions of a wide range of Government departments and other public bodies; or the actions of organisations acting on their behalf.

In 2017-18, the PHSO received 18 ESFA-related complaints. Of these, one was accepted for investigation. Following the conclusion of the investigation, the complaint was not upheld (2016-17: one case accepted, but not upheld).

During 2016-17, the former EFA undertook a review of its complaints process, looking at internal and external views as well as best practice. In June 2017, the newly formed ESFA’s complaints process was drawn up and incorporated the learning from this review as well guidance from the Department. The changes allow complaints about the ESFA to be centrally monitored, ensuring transparency and consistency. It also allows the ESFA to follow the Department's complaints process, allowing all complainants to have the opportunity to exhaust the 3-stage complaints process before seeking PHSO assistance.

The ESFA follows the Department's complaints policy. The target for responding to all complaints about the ESFA is 15 working days. The number and nature of complaints received is recorded centrally. In 2017-18, the ESFA received 377 complaint cases (EFA 2016-17: 61 cases. SFA June 2016 to April 2017: 176 cases). The increase since 2016-17 reflects the introduction of a more robust process for handling and recording complaints to improve customer service, meaning that an increased proportion of ESFA's correspondence meets the criteria to be categorised as a complaint.

Non-financial matters

Social and community issues

We published our vision, mission and core principles in the ESFA's 2017-18 business plan as set out in the sections below.

Vision

"A system that delivers the resources to provide excellent education and skills."

We recognise that education and skills lie at the heart of the Government's drive to extend opportunity, deliver real social justice and raise economic productivity. To support this, we will get the best value for money for the taxpayer and the best opportunities for learners. We will keep our customers and users at the heart of what we do so that learners, employers and providers in England can respond to local and national education and skills priorities.

Mission

"Every pound matters."

We want to deliver the best possible value for money for the taxpayer, and we want to be a great place to work and deliver. We will empower our staff and partners to find ways to improve what we do, delivering better and more efficient services.

Core principles

How we work and what we set out to achieve will be driven by our intent to deliver to the highest possible standards. This means that our work and the way we develop the single Agency is underpinned by 3 core principles:

- putting customers and users at the heart of what we do;
- improving and simplifying systems and services releasing benefits for the education, training and skills sectors, for service users and for ourselves; and
- supporting our people to develop the skills they need to succeed.

Respect for human rights
Under the Equality Act 2006, the Department encourages and supports the development of society in which:

- people's ability to achieve their potential is not limited by prejudice or discrimination;
- there is respect for and protection of each individual's human rights;
- there is respect for the dignity and worth of each individual;
- each individual has an equal opportunity to participate in society; and
- there is mutual respect between groups based on understanding and valuing diversity, and on shared respect for equality and human rights.

Anti-corruption and anti-bribery matters

The Department is committed to conducting its affairs in an ethical and honest manner, and is committed to implementing and enforcing systems that ensure bribery is prevented. The Department has zero-tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, wherever in the country we operate.

The Department will constantly uphold all laws relating to anti-bribery and corruption in all the jurisdictions in which we operate. The Department is bound by the laws of the UK, including the Bribery Act 2010.

This year, staff were required to complete mandatory training highlighting their responsibilities in recognising and preventing fraud and bribery. The Department also has a Standards of Behaviour policy, which sets out its expectations from staff in relation to theft and fraud.

Sustainability

We adopt the Department's policies on sustainability. We aim to manage our business in an environmentally sustainable way and the Department's Annual Report and Accounts describes our performance in this.

Eileen Milner
Chief Executive and Accounting Officer, ESFA
4 July 2018

Accountability report

Corporate governance report

Overview

This corporate governance report explains the composition and organisation of the ESFA's governance structures. This is intended to demonstrate how the ESFA has put in place arrangements for good corporate governance during its first year of operation, to ensure compliance with the *Corporate Governance Code for Central Government Departments* (published by Cabinet Office) where relevant to the ESFA and its remit. During 2017-18 no departures from the Code have been identified.

The directors' report

Directors

During 2017-18, the directors of the ESFA were:

Peter Lauener
Chief Executive and Accounting Officer

(Chief Executive from 1 April 2017 until 19 November 2017, and Accounting Officer from 1 April 2017 until 26 November 2017)

Eileen Milner
Chief Executive and Accounting Officer

(Chief Executive from 20 November 2017, and Accounting Officer from 27 November 2017)

Béatrice Lightfoot
Acting Director of Central Services and Transformation

(from 20 April 2017)

Kirsty Evans
Associate Director - Adult Education/Deputy Director of Funding Policy Implementation

(from 1 April 2017)

Keith Smith
Director of Funding and Programmes (Apprenticeships and Adults)

(from 1 April 2017)

Julian Wood
Acting Director of Capital Group

(Capital Acting Chief Operating Officer from 1 April 2017 until 28 January 2018 and Chief Operating Officer from 29 January 2018; and Acting Director of Capital Group from 26 October 2017 onwards)

Matthew Atkinson
Director of Transactions Unit

(from 1 May 2017)

Mike Green
Director of Capital Group

(from 1 April 2017 until 26 October 2017)

Mike Pettifer
Director of Academies and Maintained Schools Group

(Acting Director from 1 April 2017 until 28 January 2018, permanent Director from 29 January 2018)

Peter Mucklow
Director of Intervention and Young People's Funding Group

(from 1 April 2017)

Sue Husband
Director of National Apprenticeship Service

(from 1 April 2017)

Non-Executive board members

Ian Ferguson

Interim Chair - ESFA Management Board

Ian Ferguson is a non-executive board member of the Department for Education and chair of the Department's Audit and Risk Committee. He was appointed to the Department's Board in January 2016. Prior to this, Ian was a member of the Board of the Young People's Learning Agency, and then (from July 2012) of the EFA Advisory Group (which merged with the SFA Advisory Group from January 2017 in readiness for the formal merger of the 2 organisations on 1 April 2017).

Ian is Chairman of Trustees of Metaswitch Networks Ltd, a computer communications and telephony technology company he founded in 1981, after a career with Unilever and IBM. He received a CBE for services to education and training in 2005.

Mark Sanders

Chair – ESFA Audit and Risk Committee
Non-executive member – ESFA Management Board

Mark Sanders has an extensive background in public service, with 10 years (2001 to 2011) serving as Chief Executive of Bury Council. He formally chaired the Young People's Learning Agency Audit and Risk Management Committee. He is also a member of the Department's Audit and Risk Committee, the Board Member for finance of the Northern Education Multi-Academy Trust, and until recently, he was the Board Chairman of a large private health provider company. He also sits on the Lancashire Fusiliers Museum board.

Mark was awarded an OBE for his service to local government in 2011.

Karen Dukes

Interim non-executive member – ESFA Management Board
Interim non-executive member – ESFA Audit and Risk Committee

Karen Dukes has spent over 28 years advising corporates, not for profit businesses and charities. For the last 15 years, she has focused on assisting businesses restructure their operations, improve their cash forecasting, and cut costs whilst maintaining a focus on quality. She is experienced in strategic management, risk management, and financial forecasting, review and challenge.

Recently, Karen retired from a full-time role as a partner at PwC, working with a variety of businesses including NHS trusts, universities, further education colleges and businesses experiencing financial stress. She is a qualified accountant, and worked at both Deloitte and Baker Tilly for several years in previous roles.

Ian Hickman

Non-executive member – ESFA Audit and Risk Committee
Interim non-executive member – ESFA Management Board

Ian Hickman was appointed as a member of the SFA and EFA Audit and Risk Committees in August 2016.

Ian spent 15 years of his career at a national level at the Audit Commission, including 10 years from 2005 at director level. He also has 10 years' previous experience at chief officer level in education and cultural services departments working for London boroughs, district and unitary authorities.

Ian was Chief Operating Officer at Northern Education Trust, a multi-academy trust of 20 schools, for 3 years to September 2017. He now has a portfolio career working in public sector leadership development and education support service improvement specialising in finance and governance.

Nigel Johnson

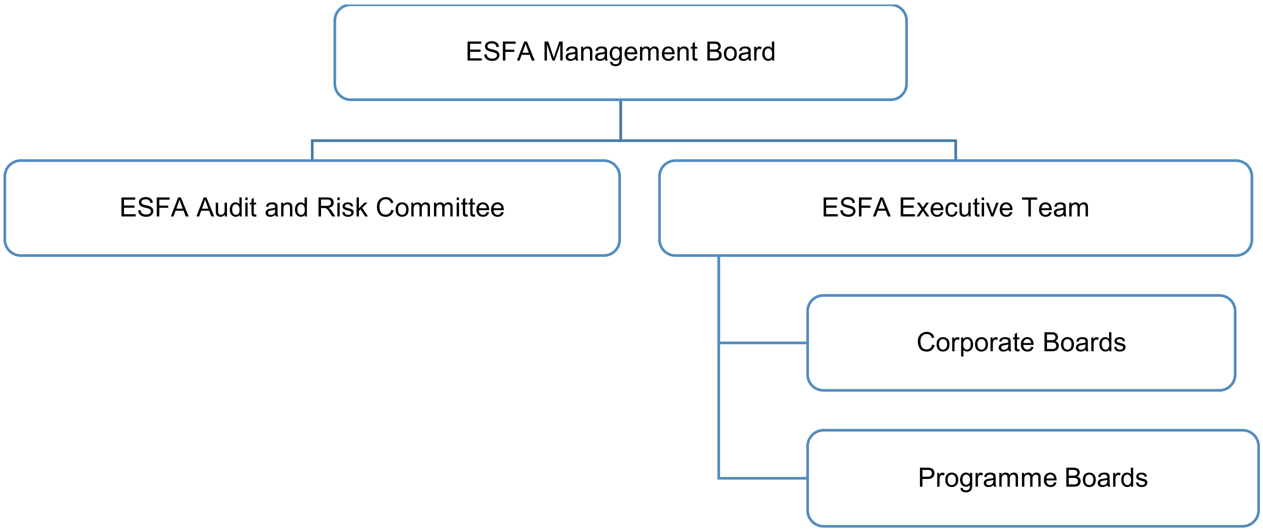
Non-executive member – ESFA Audit and Risk Committee
Interim non-executive member – ESFA Management Board

Nigel Johnson was appointed as a member of the SFA Audit and Risk Committee in September 2014. He is also a member of the Department's Audit and Risk Committee.

Prior to Nigel's retirement, he was employed most recently at Deloitte, the international professional services firm, holding various senior partner roles including Staff Partner, Partner in Charge of Quality, and Lead Public Sector Partner. Nigel was a member of the firm's public sector executive team, representing the audit function and a member of Deloitte's Public Sector Council, which oversaw and directed the relationship between the firm and key Government/public sector stakeholders including politicians, Government departments and regulators.

ESFA board and committee structure

During 2017-18, the ESFA board and committee structure was as follows. More information on each board and committee can be found in the following sections.



ESFA Management Board

The Management Board was created following the establishment of the ESFA on 1 April 2017. It is formed of non-executive members and provides strategic leadership, direction, support and guidance to ensure the delivery of ESFA business plan objectives, organisational effectiveness and performance, and alignment with the Department's mission, strategy and purpose.

During 2017-18 the Board was chaired on an interim basis by Ian Ferguson, a non-executive director on the Department's Board. The non-executive membership was formed of 3 interim members and one permanent member whilst a public appointments process took place to appoint permanent membership. This process is due to conclude in 2018-19. The non-executive members in 2017-18 were:

- Ian Ferguson (interim Chair);
- Mark Sanders (member);
- Karen Dukes (interim member);
- Ian Hickman (interim member); and
- Nigel Johnson (interim member).

The Chief Executive attends Board meetings. Directors from the ESFA and the Department are invited to attend meetings when necessary.

The first meeting of the ESFA Management Board was in October 2017, following Ministerial agreement of the ESFA governance framework. Meetings take place quarterly, and the Board met 3 times in the 2017-18 financial year. A record of members' attendance at meetings can be seen in the table below.

Member	Role	Meetings attended (out of a possible)
Ian Ferguson	Chair	3/3
Karen Dukes	Interim member	3/3
Nigel Johnson	Interim member	3/3
Ian Hickman	Interim member	3/3
Mark Sanders	Member	3/3

Audit and Risk Committee

The Management Board has established the Audit and Risk Committee (ARC) as a committee of the Board. The ARC supports the Board in its responsibilities for issues of risk, control and governance by reviewing the comprehensiveness of assurances in meeting the ESFA's assurance needs and reviewing the reliability and integrity of these assurances.

In 2017-18, the non-executive membership was formed of 2 members and one interim member, in addition to the Chair. The interim membership was agreed with Ministers to enable the ARC to operate effectively whilst a public appointments process took place between December 2017 and April 2018 to appoint permanent membership. The outcome of this recruitment exercise will be known at the start of 2018-19.

Others that attend ARC meetings include the Chief Executive, the National Audit Office and the Government Internal Audit Agency. Directors from the ESFA and the Department are invited to attend ARC meetings when necessary.

The first formal meeting of the ARC following the establishment of the Management Board was in September 2017. A preliminary meeting was held before this in July 2017. Meetings take place quarterly, and the ARC met 3 times in the 2017-18 financial year (not including the preliminary meeting). A record of members' attendance at meetings can be seen in the table below.

Member	Role	Meetings attended (out of a possible)
Mark Sanders	Chair	2/3
Karen Dukes	Interim member	3/3
Nigel Johnson	Member	3/3
Ian Hickman	Member	3/3

Executive Team

The Executive Team assists the Chief Executive, as the Accounting Officer, in the discharge of her duties and to ensure the efficient and effective management of the Agency. The Executive Team is responsible for implementing the strategies agreed by the Management Board and for overseeing operational delivery, performance and risk against the Agency's business plan. The Executive Team provides the Chief Executive with a forum in which to hold directors and their programmes to account, along with carrying out forward-looking strategic thinking.

The Executive Team is comprised of the Chief Executive and other directors. Also in attendance at each meeting are representatives from the Department's finance and HR teams.

In this financial year, Executive Team meetings took place monthly from April 2017. From February 2018 frequency increased to every 2 weeks. It met 14 times in 2017-18.

Corporate boards

The Executive Team has established several corporate boards, and kept the effectiveness of these under review throughout the year. Each corporate board was chaired by a director.

Change Programme Board
The Change Programme Board was established in 2016-17 under the former EFA and SFA. The focus of the Change Programme Board was on delivering successful business change and transformation of services from the ESFA's predecessor organisations, as well as ensuring efficient delivery of new service capabilities. A renewed terms of reference was introduced in July 2017.

Change board meetings in the ESFA took place from July 2017 to March 2018. During the year, the Board held regular additional strategic planning sessions with Executive Team members.

One of the main projects for which the Change Programme had oversight was the SFA IT transition project, with a focus on enabling the ESFA to work collaboratively by moving all staff onto the same IT platform. In 2017-18, £660,000 of savings were achieved by this project. This will continue to be reviewed in 2018-19. Alongside the above monetary savings, the move of users within the ESFA onto the same IT platform as the rest of the Department has enabled greater collaboration and reduced time and effort spent on workarounds.

The Change Programme also oversaw the funding and allocations project, which has been established to bring together the allocation responsibilities of the former EFA and SFA. The aim is to drive efficiency by moving to single allocations processes and systems. This project will continue into 2018-19. A new funding calculation capability is being developed to:

- increase the traceability between policy, funding, and the source of provider information used in funding calculations; and
- reduce the effort in specifying, developing and quality assuring funding calculations, whilst increasing quality assurance coverage across all providers.

The programme also led the customer experience project, the purpose of which is to define who the ESFA's customers and service users are; what services we provide to them; and how we provide them. We set out our existing model for managing relationships and interactions with our customers and service users. We then made recommendations on the future model to enable us to deliver better, faster and more cost effective services to our customers. This project will continue into 2018-19.

The programme also ran a 'getting to know' campaign to bring together the former EFA and SFA, starting with our leaders and our main functions. It engaged with our people to keep them informed of progress being made in bringing together the 2 agencies, and define the Agency's vision, mission and strategy.

People Board

The People Board was established from May 2017 to develop and deliver the ESFA people strategy and workforce plan. A revised terms of reference and membership were introduced in March 2018.

In January, the ESFA Executive Team and the People Board introduced a workforce planning group, and paid particular attention to the number of contingent workers in the Agency. As a result we have reduced our contingent workforce from 259 to 150 between January and March 2018. Contingent workers are being replaced with permanent staff where appropriate, and some contingent labour remains where it is deemed best value for money.

We use the annual Civil Service People Survey as our main tool for measuring staff engagement. The survey has a high completion rate, with 85% of staff completing it in 2017. We established a baseline during the 2017 survey in our first year of operation, and have also analysed responses alongside that of the ESFA's predecessor agencies.

The ESFA has been delivering a number of people initiatives, which are shown in the table below, mapped against staff engagement scores from the 2017 People Survey. The results in 2017 showed that employees were broadly more content than they were in predecessor agencies.

ESFA people initiative delivered in 2017-18	Benefits achieved	Civil Service People Survey		
		EFA score 2016	SFA score 2016	ESFA score 2017
Workshops were held for all ESFA staff to develop a shared ESFA culture statement	Reduced overall % of colleagues who have experience of bullying and harassment, as measured through the Civil Service (CS) People Survey	9%	14%	9%
An ESFA learning catalogue was launched to make learning and development (L&D)	Improvement in overall People Survey 2018 L&D score	55%	53%	59%

ESFA people initiative delivered in 2017-18	Benefits achieved	Civil Service People Survey		
		EFA score 2016	SFA score 2016	ESFA score 2017
opportunities more accessible to staff				
Equality and diversity was embedded in all projects that formed part of the people programme and HR	Increased scores for People Survey Inclusion and Fair Treatment Index from December 2018 onwards	82%	79%	82%
Wellbeing events, surveys, and resources delivered for staff, as well as training for over 40 ‘Mental Health First Aiders’	Increase in satisfaction levels as measured by questions W01: ‘Overall, how satisfied are you with your life nowadays?’ and W02: ‘Overall, to what extent do you feel that the things you do in your life are worthwhile?’ in the 2018 People Survey	69% 74%	67% 72%	71% 75%
Coaching and mentoring training delivered to 50 staff and a service introduced to facilitate finding a coach or mentor	Increases in the score for People Survey question 'There are opportunities for me to develop my career in [my organisation].'	57%	40%	60%
Talent management programme ran for 60 employees looking to develop their careers	Annual increases in People Survey scores for question 'Learning and development activities I have completed while working for [my organisation] are helping me to develop my career.'	47%	52%	50%
Internal apprenticeship recruitment strategy mapped current take-up and raised awareness of the new levy approach across the Agency	Annual increases in People Survey learning and development index score from December 2018	55%	53%	59%

Risk, Intervention and Assurance Board

The Risk, Intervention and Assurance Board (RIAB) was established from August 2017. It has a remit to understand, oversee and challenge the collective arrangements across the Agency to manage risk, intervention and assurance for providers of learning and training. The Board reports into the ESFA Executive Team, and Audit and Risk Committee.

The focus of RIAB has been to undertake thematic case study reviews covering contract closures, fraud and non-compliance cases. This has led to a number of changes to the way delivery risks are managed. As a result of this work, actions have been taken to improve areas such as supporting the closure of private training providers where contracts are ended, and reviewing terms and conditions across different contracts with schools, colleges and other types of providers to make them simpler and more consistent.

Over the coming year, RIAB will give attention to how the Agency will aim to drive improvement in the sector, through sharing best practice, triggering earlier intervention and consequences for wrongdoing.

Security and Business Continuity Board

In 2017-18, the Security and Business Continuity Board was established to provide leadership and assurance related to ESFA business continuity and protective security (including physical, system, cyber and information security). During 2017-18 the Security and Business Continuity Board:

- formally appointed 36 ESFA Information Asset Owners (IAOs), key in supporting implementation of GDPR from May 2018 in the Agency and Department;
- agreed to the ESFA adopting all Departmental security policies;
- amended Departmental security incident reporting processes to recognise the ESFA Senior Information Risk Owner (SIRO) role, appointed a SIRO, and agreed their responsibilities in security and data incident management;
- implemented monthly reporting of security incidents to the ESFA SIRO;
- instigated a programme of education and awareness across the ESFA on GDPR; and
- supported the ESFA and the Department in implementing changes to meet the requirements of GDPR.

Other information

Auditor remuneration for non-audit work

The Comptroller and Auditor General, appointed by statute, audited these accounts. The certificate and report appear in the Parliamentary and Audit Report section of this Annual Report and Accounts. The notional audit fee incurred for the year was £330,000 and relates to the statutory audit of the ESFA’s accounts.

Public sector information

The ESFA is a holder of public information. We do not charge for any data we provide.

Political donations

We did not make any political donations during 2017-18.

Financial Instruments and financial risk management

The most significant credit risk to the ESFA arises from non-payment of debts relating usually to insolvency of provision of learning by commercial and charitable providers. The position for the financial year is shown in the notes to the accounts in this document.

Important events after 31 March 2018

Between 1 April 2018 and the date these accounts were signed, there have been announcements about the future structure of the ESFA. These are as follows:

- As part of wider Department structural changes, the Agency's capital functions will move from the ESFA to the Department. This is planned for autumn 2018. The priority will be to continue the close working relationship between the ESFA and the Department to achieve a smooth transition of capital programmes and services to the Department, and minimise any impact on the service that our customers receive.
- Staff from the Department's Professional and Technical Education and Apprenticeships groups will move into the ESFA from 1 September 2018. This will fully integrate the policy and delivery functions and create a clear platform for end-to-end delivery across both programmes. Responsibility for the delivery of T levels and apprenticeships will transfer to the ESFA.

There have been no other significant events between 1 April 2018 and the date the accounts were signed that have a material impact on the ESFA.

Future developments

In 2018-19, the Agency will continue to respond to key developments in Departmental policy and in the education, training and skills sectors. Specific developments anticipated in the year ahead are listed below.

- The Agency will deliver year 2 of the transition to a schools' NFF, a historic reform and for the first time school funding is being distributed according to a formula based on the individual needs and characteristics of every school in the country.
- The Agency will continue to support the Government's work to replace 13,000 existing technical qualifications with T levels, which will begin to be delivered in 2020. We will agree a funding methodology for a second year of work placements in 2019/20, and first delivery of T levels in 2020.
- The Agency will continue to support AEB devolution and seek to protect the financial stability of providers in the transition.
- The Agency will continue to respond to the requirements of GDPR by reviewing contracts with education, training and skills providers to ensure that obligations related to data protection are documented and understood.

Research/development activities

There has been no expenditure on research and development in the current financial year.

Statement of the Accounting Officer's responsibilities

Under Section 7 of the *Government Resource and Accounts Act 2000*, the Department has directed the ESFA to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the ESFA and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, as Accounting Officer I am required to comply with the requirements of the *Government Financial Reporting Manual* (published by HM Treasury) and in particular to:

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

The Principal Accounting Officer of the Department appointed me as the Accounting Officer of the ESFA from 27 November 2017, replacing Peter Lauener as Accounting Officer. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the ESFA's assets, are set out in *Managing Public Money*. I can confirm that I have discharged these responsibilities properly, and have sought assurance that these responsibilities were also carried out by my predecessor before my appointment.

As Accounting Officer, I can confirm that:

- there is no relevant audit information of which the auditor is unaware;
- I have taken all the steps that I ought to in order to ensure that I am aware of relevant audit information; and
- I have taken all the steps that I ought to in order to establish that the ESFA's auditor is aware of the information.

The Annual Report and Accounts as a whole is fair, balanced and understandable and I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance statement

The purpose of the governance statement

This statement explains how I, as Chief Executive and Accounting Officer of the ESFA, have put in place corporate governance arrangements, and reviewed the effectiveness of these in complying with the *Corporate Governance Code for Central Government Departments* (Cabinet Office).

Scope of responsibility

As Accounting Officer, I have had personal responsibility for maintaining a sound system of governance, internal control and risk management to support the achievement of the ESFA's objectives, whilst safeguarding public funds and assets. This was in accordance with the responsibilities assigned to me in *Managing Public Money* and the *Corporate Governance Code for Central Government Departments*.

I have sought assurance on governance arrangements from my predecessor, Peter Lauener, for the period prior to my appointment as Chief Executive on 20 November 2017. I am satisfied that this governance statement accurately reflects the full financial year from 1 April 2017 to 31 March 2018.

The ESFA has designed its system of governance, internal control and risk management to manage risk to a reasonable level rather than completely eliminating all risk of failure. Therefore, it can only provide reasonable assurance of effectiveness. The system of internal control is based on a risk framework designed to:

- identify and prioritise risks to the achievement of the ESFA's objectives;
- evaluate the likelihood and the impact of these risks being realised; and
- take reasonable steps to manage them efficiently and effectively.

I am satisfied that effective internal control has been in place in the ESFA from its launch on 1 April 2017 and up to 31 March 2018.

Governance framework

The ESFA has put in place arrangements for good corporate governance. I have regularly reviewed the effectiveness of these arrangements to ensure compliance with the *Corporate Governance Code for Central Government Departments* where relevant to the ESFA and its remit. This includes seeking assurance from the Executive Team that these arrangements have been in operation for the entirety of the financial year. I have not identified any departures from the Code.

The Government Internal Audit Agency reviewed the ESFA's governance arrangements in January 2018 and found them to be generally strong. The overall rating was *Moderate*, and it was recommended for the Agency to continue to strengthen how risk management, benefits realisation and counter-fraud activities are embedded. There has been good progress in implementing this recommendation.

The ESFA maintains financial information on the delivery of all programmes corporately and, where appropriate, at programme level.

The ESFA has continued to embed systems to monitor performance throughout the year. The Executive Team received performance and risk updates monthly, and the Management Board quarterly. The Executive Team regularly reviewed the reports and considered the quality of the data sufficient to serve its purposes.

Boards and committees

Management Board

The Management Board was created following the establishment of the ESFA. It is formed of non-executive members and provides strategic direction, support and guidance to ensure the delivery of ESFA business plan objectives, organisational effectiveness and performance, and alignment with the Department's mission, strategy and purpose.

The Board agreed a terms of reference which was kept under regular review in 2017-18.

During 2017-18 the Board was chaired on an interim basis by Ian Ferguson, a non-executive director on the Department's Board. The non-executive membership was formed of 3 interim members and one permanent member whilst a public appointments process took place to appoint permanent membership. This process is due to conclude in 2018-19. The non-executive members in 2017-18 are listed in the *Directors' Report* in this Annual Report and Accounts.

I attend Board meetings as Chief Executive. Directors from the ESFA and the Department are invited to attend meetings when necessary.

The Chair and each non-executive member completed an annual declaration of interests so the Board could effectively manage any potential or actual conflicts of interest. At the start of each meeting members also declared any conflicts of interest related to the agenda. No conflicts of interests were identified at any meeting during 2017-18.

The Chair provided me with a statement summarising the Board's work during the year, and its assurances on the effectiveness of the ESFA's operations. A summary is below:

> *"We should acknowledge the good work both of the ESFA executive in this first year of operation, and also of the executives and the advisory boards of the EFA and SFA, not least in preparing for the merger.*
>
> *Following a major review of decision making in the newly formed ESFA in April 2017, it was agreed by the Secretary of State and Permanent Secretary of the Department that the top tier of the ESFA governance structure should be:*

- *the Management Board;*
- *the Audit and Risk Committee; and*
- *the Executive Committee.*

To facilitate the early implementation of the Management Board, it was agreed that Ian Ferguson, as a Departmental non-executive board member, be appointed Chair and that the members of the Audit and Risk Committee, including the Chair, should be appointed to the Board on a temporary basis. Recruitment for permanent Board members is ongoing.

The Board met 3 times in 2017-18 and has split its focus between setting up the formal administration of its structure and also providing leadership, support and challenge to the management of the ESFA.

The Board has established a governance framework for the ESFA, having:

- *reviewed and agreed the terms of reference for the Executive Team and the Board;*
- *confirmed the establishment of the Audit and Risk Committee; and*
- *agreed the ESFA risk appetite statement and risk management framework.*

The Board has:

- *provided strategic leadership and direction to ensure the delivery of the ESFA business plan objectives, organisational effectiveness and performance;*
- *reviewed the vision and mission for the future of the ESFA ensuring alignment with the Department's mission, strategy and purpose;*
- *reviewed progress on establishing a single organisation structure and culture for the ESFA and its people;*
- *ensured a focus on continuous improvement and helped set the direction for the ESFA Change Programme to transform our systems, services and processes to realise the benefit of a single Agency;*
- *monitored and challenged the ESFA's performance and risks against its business plan objectives;*
- *assessed the risks and improvement plans related to the performance of ESFA digital systems; and*
- *reviewed the ESFA's people plan and survey results to ensure that the ESFA's committed professional workforce continues to deliver.*

The first year of the operation of the ESFA and the work of the Board has put ESFA governance in a strong position, with more to do.

- *The Agency and the Board have agreed to bring more focus to the management of strategic and cross cutting risks and that benefits realisation, counter-fraud activities and cyber security are embedded within the management and governance structure.*
- *The Board has not identified any departures from the* Corporate Governance Code for Central Government Departments.

- *The Board will review its own performance on an annual basis starting in July 2018.*
- *Board members have been assigned particular responsibilities aligned to the ESFA's strategic objectives. This will increase the Board's collective and individual knowledge of, and influence on, ESFA business.*
- *Having the same membership of the Board and Audit and Risk Committee is not ideal, but it has worked well and allowed the above activities to be satisfactorily achieved – without there being any conflicts which could have impacted effective operations.*
- *The information the Board receives, both the routine quarterly performance and risk report and the financial dashboard, as well as the topic specific papers are of a high quality and fit for purpose – but with room for increasing the focus by reducing their length.*
- *The Board reviews the minutes of the Executive Team and the ARC after each of their meetings and has concluded that they are operating satisfactorily.*

In its first year of operation, the ESFA and its Board have operated effectively but with there being much more to do. We have nevertheless built firm foundations for the future."

From the December 2017 meeting onwards, a summary of Board discussions[10] has been published on GOV.UK following each meeting.

Audit and Risk Committee

The Management Board has established the Audit and Risk Committee (ARC) as a committee of the Board. The ARC supports the Board in its responsibilities for issues of risk, control and governance by reviewing the comprehensiveness of assurances in meeting the ESFA's assurance needs and reviewing the reliability and integrity of these assurances. The Management Board agreed the terms of reference for the ARC.

The ARC is chaired by a non-executive who is also a member of the Department's ARC, and the Management Board. They are responsible for giving assurance to the Department's ARC on ESFA audit and risk activity at each meeting. Throughout the year, the Chair is responsible for making the Management Board and the Department's ARC aware of concerns and progress.

In the 2017-18 financial year the non-executive membership was formed of 2 members and one interim member, in addition to the Chair. The interim membership was agreed with Ministers to enable the ARC to operate effectively whilst a public appointments process took place between December 2017 and April 2018 to appoint permanent membership. The outcome of this recruitment exercise will be known in 2018-19.

The Chair and each member completed an annual declaration of interests so the ARC could effectively manage any potential or actual conflicts of interest. At the start of each

[10] https://www.gov.uk/government/organisations/education-and-skills-funding-agency/about/our-governance

meeting members were asked to declare any conflicts of interest related to the agenda. During meetings in 2017-18, one potential conflict was raised but was not deemed to have an impact due to the interest being related to a previous role with which the member no longer had involvement.

The Chair of the ARC has provided me with an annual report summarising the ARC's conclusions from its work during the year, and assurances on the effectiveness of the ESFA's operation of its system of internal control:

> *"The Audit and Risk committee was established as a committee of the Management Board following the merger of the EFA and SFA on 1 April 2017.*
>
> *Membership was made up of non-executive members from both the EFA ARC, and the SFA ARC. It was agreed in January 2018 that ARC members should be aligned to different areas of the ESFA to bring a greater level of understanding of the organisation. The induction of members into their respective specialisms is currently being implemented.*
>
> *As Chair of the ARC, supported by my colleague members, I can confirm that we have carried out our role in providing independent scrutiny of the internal control and risk management processes of the ESFA during 2017-18. In fulfilling this role, we have received the full support of the Chief Executive and officers of the ESFA, its internal and external auditors (Government Internal Audit Agency and National Audit Office), and the Department.*
>
> *We have reviewed the regular and ad hoc reports provided on the main issues affecting the ESFA. We agreed the Provider Risk and Assurance 2017-18 Assurance Plan to provide assurance over ESFA funding to providers of learning, prepared for the Chief Executive as Accounting Officer. It was noted that work so far on ESFA change management following the establishment of the Agency shows that the process has been managed effectively overall. The ARC also reviewed an assessment of the risks associated with GDPR and mitigations that the Agency is taking. We have also expressed concern with the IT system issues outlined in this Annual Report and Accounts, and system reliability in relation to the core purpose of the Agency. We will therefore be wanting to keep this matter under regular review to ensure that progress is achieved.*
>
> *As a Committee, we support the annual governance statement made by the Chief Executive, which is included in the Annual Report and Accounts."*

The ARC is accountable to the Management Board and reports to the Board each quarter. The Board is expected to review the ARC's effectiveness on an annual basis. The next review is planned for summer 2018.

Executive Team

The Executive Team has been established to assist the Chief Executive, as the Accounting Officer, in the discharge of their duties and to ensure the efficient and effective executive management of the Agency. The Executive Team is responsible for implementing the strategies agreed by the Board and for overseeing operational delivery, performance and risk against the Agency's objectives.

The Executive Team is comprised of the Chief Executive and directors. Also in attendance at each meeting are the finance business partner, and HR business partner.

The focus of the Executive Team for the 2017-18 financial year has been to review performance, risks and forward planning for delivery of the ESFA's objectives. It has also focused on reviewing progress, planning and risks following the launch of the new Agency on 1 April 2017, and bringing together the operations of the ESFA's predecessor organisations (the EFA and the SFA). Each month the Executive Team reviews the management accounts which report the financial position and forecasts against the budgets for which they are responsible.

The Executive Team has taken a horizon-scanning role at points in the year. This included additional planning sessions which were held in January, February and March 2018 to consider the ESFA's future priorities, challenges, risks and delivery plans. The outcome of these discussions have also been used in the development of the ESFA's business plan for 2018-19, which will be approved by the Management Board.

Since January 2018, the Executive Team has held an all-staff briefing session once a month to update staff on its discussions and take questions from ESFA staff.

Risk management framework

Risk

The ESFA has a clear risk framework, introduced in 2017-18, that defines the Agency's approach to risk. This aligns with the Department's risk framework and risk management guidance used across Government.

In 2017-18 the Agency also set a statement of risk appetite that sets out the level of risk that is acceptable to the organisation.

Directors led the management of risks by promoting and supporting risk management within their projects, programmes and groups during the year. Directors are responsible for the overall success of their programmes and projects, including ensuring effective management of risk.

Each month during 2017-18, the Executive Team collectively reviewed significant risks related to the ESFA's operations and delivery of its objectives. The committee escalated key strategic risks to the Board and the Department as appropriate. Each quarter, the Audit and Risk Committee was kept sighted on all significant ESFA risks to enable it to provide challenge and scrutiny around the management of these risks.

The Executive Team escalated one risk to the Department's Leadership Team during the 2017-18, that IT services provided to the ESFA by the Department may not support the delivery of timely and accurate funding allocations to ESFA-funded providers. This risk was also escalated to the Management Board and the management of the risk was scrutinised by the ARC. The Management Board and the Department's Leadership Team has agreed urgent actions to mitigate this risk. The risk is described in the *Key Issues and Risks Facing the Agency* section in this governance statement.

Assurance

I required every senior civil servant working in the ESFA to complete an assurance framework record throughout the year to detail their compliance with the Department's assurance framework. This record sets out arrangements in place across the ESFA for risk, control systems, use of resources and any issues.

The final assurance framework records were reviewed at the end of the financial year to evaluate the effectiveness of management and control within each senior civil servant's areas of responsibility. This has given me assurance that the ESFA has managed its agenda well and will continue to do so while delivering efficiencies.

The ESFA Provider Risk and Assurance team provided an annual report to me detailing the results of their work, including over the funds paid to providers of learning and skills during the year. The assurance plan of work was agreed by the ARC and encompasses a wide range of routine planned and responsive work covering assurance, intervention and investigations. I and the ARC receive regular update reports during the year of the progress made and any emerging issues which need to be addressed by the Agency. The overall opinion provided by the Provider Risk and Assurance team is substantial assurance over the funds paid to providers.

Internal audit

Internal audit and assurance services are provided to the ESFA by the Government Internal Audit Agency (GIAA), based on a service level agreement. The GIAA's ESFA Head of Internal Audit has provided me with his annual report, which incorporates his opinion the ESFA's system of governance, risk management and internal control. His opinion has been informed by the internal audit work completed during the year, in line with the internal audit plan agreed by management and the ARC.

Of the 4 possible opinion ratings, the rating given by GIAA for 2017-18 was *Moderate*. A *Moderate* rating states that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. The opinion direction is made on the basis of the work and assurance provided during 2017-18 to date, meetings with senior management, and the provision of our advisory work.

I have accepted this assessment, and ESFA officials either have implemented or are working to implement the suggested improvements from GIAA's work.

In 2017-18, GIAA issued 2 ESFA-specific reports (out of a total of 26) with assurance rated as *Limited*. A *Limited* rating states that there are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective. The reports which received a *Limited* were:

- Professional Career Development Loans; and
- Apprenticeship Service benefit realisation.

Management has accepted the conclusions and recommendations of the *Limited* assurance reports, and actions arising are all either in progress or completed.

In addition, of the reviews in the wider Department internal audit plan which provide assurance to the Chief Executive, there was one *Unsatisfactory* opinion and 4 *Limited* opinions. The *Unsatisfactory* opinion for was for the GDPR review in the Department. However, a recent update provided evidence of significant progress towards meeting the requirements of GDPR within the ESFA. The reports which received a *Limited* opinion within the wider Department are:

- IT asset management;
- data quality assurance (review of Parliamentary Question responses);
- newly opened free schools on temporary sites; and
- risk management.

External assurance: National Audit Office
In December 2017, the NAO published its report on its investigation into the circumstances surrounding the monitoring, inspection and funding of Learndirect Ltd. The report followed an Ofsted inspection of Learndirect where its overall effectiveness was rated as 'inadequate', and subsequent decisions made by Government bodies about ongoing funding of the company. In particular, as a result of the inspection, funding from the ESFA is due to end in July 2018.

The NAO investigation sought to set out facts relating to the case, including monitoring activities carried out by the ESFA and its predecessor body (the SFA), and the funding of Learndirect. It did not seek to evaluate the value for money of the ESFA's work, or to draw wider conclusions about Government funding and oversight of the further education sector.

Following the NAO report[11] and a Public Accounts Committee (PAC) meeting in January 2018, the PAC published its conclusions on the Learndirect case in March 2018. The Government will formally respond to the PAC report and recommendations at the start of the 2018-19 financial year, and the ESFA will implement any recommendations that the Government response commits the Agency to.

[11] https://www.nao.org.uk/report/investigation-into-the-circumstances-surrounding-the-monitoring-inspection-and-funding-of-learndirect-ltd/

In March 2018, the PAC published its academy schools' finance report[12], which welcomed the publication of the first Academies Sector Annual Report and Accounts (SARA), which is published by the Department. The report highlighted a number of recommendations relating to the ESFA's work on academy intervention, high salaries in academy trusts, related party transactions and the management of asbestos in schools. The Government formally responded to the report and recommendations in the formal Treasury Minute[13] response, which was published on GOV.UK on 23 May 2018. A letter from the Department's Permanent Secretary to the PAC[14] in June 2018, set out our work on high pay, intervention, and our risk strategy for multi-academy trust failure.

The ESFA continues to develop its approach to intervention where there are financial management and governance concerns in academy trusts. We are working closely with other Departmental teams to combine school improvement and financial management intelligence, so that intervention is joined up and consistent and the Department is supporting a single conversation with trusts, on top of our priority to reduce workload and burdens on the system that arise from intervention. In the Treasury Minute, the Department noted its agreement with the PAC recommendation to write to the PAC with details on its progress in improving its intervention policies and processes. The above letter from the Permanent Secretary set out the ESFA's processes for reviewing trusts' accounts, the importance of proportionate intervention that responds to financial risk and preserves the effective education of children and trusts' own audit and financial control systems.

The ESFA is also generating wider improvements by working with academy trusts to prevent future financial issues and promote effective school resource management. In March 2018, I wrote to academy trusts, setting out the requirement for all academy trusts to submit 3-year financial forecasts. As noted in the Permanent Secretary's letter to the PAC above, the ESFA, using financial data supplied by trusts, is also generating wider improvements and delivering value for money for the taxpayer by working with trusts to support effective school resource management, 3-year financial forecasting and developing buying hubs and national deals for all schools.

The School Resource Management Adviser pilot has been underway since January 2018 and is providing advice, support and challenge to schools developing financial recovery plans. All School Resource Management Advisers must pass an accreditation process devised and coordinated by Institute of School Business Leadership. The accreditation process was tested with representatives from the sector before implementation. Freedom and Accountability for Schools, National Association (FASNA) has participated in accreditation panels to support the delivery and provide an independent consistency

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[12] https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/760/760.pdf

[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/708982/Treasury_Minute_-23_May_2018_Cm9618__web.pdf

[14] https://www.parliament.uk/documents/commons-committees/public-accounts/Correspondence/2017-19/academy-schools-finances-report-dfe-120618.pdf

check. The pilot phase enables us to test the School Resource Management Adviser concept and embed the learning, both in the existing support and guidance provided by the ESFA to the sector and in the procurement of longer-term supply of School Resource Management Advisers.

The ESFA continues to reinforce the importance of adhering to the *Academies Financial Handbook* and the need for robust financial management standards. An updated financial handbook was published in June 2018, which strengthened requirements and expectations in several areas, including related party transactions, executive pay and budget management. In the small number of instances where there is non-compliance, the ESFA will take proportionate action to ensure accountability. To hold trusts to account and further increase transparency, from September 2018 the ESFA will publish an annual list of academy trusts that are late, or do not submit, 2 or more of the annual financial returns. The SARA means there is now more information published than ever about academy trusts' finances. In addition, when the ESFA intervenes, FNtI and investigation reports are published on GOV.UK so that lessons can be learned.

The ESFA has a responsibility to ensure best practice on all expenditure, including pay, is exemplified in the system to ensure accountability. It is essential that we have the best people to lead our schools if we are to raise standards, but salaries in academy trusts should reflect the individual's responsibilities and be justifiable. That is why the 2018 *Academies Financial Handbook* re-emphasised that the board of trustees must ensure its decisions about levels of executive pay follow a robust evidence-based process and are reflective of the individual's role and responsibilities.

The *Academies Financial Handbook* now goes further to state that no individual can be involved in deciding his or her remuneration, and that the board must discharge its responsibilities effectively, ensuring its approach to pay is transparent, proportionate and justifiable. The ESFA agreed with the PAC's recommendation to extend its challenge to trusts paying high salaries and is ensuring where high salaries are awarded, that there is clear evidence for doing so. The ESFA is actively challenging the small number of trusts paying salaries in excess of £150,000 and trusts paying 2 or more people more than £100,000 to do the same. For these trusts, information about the role and percentage teaching time of the staff has been requested.

Following the February 2018 NAO report on converting maintained schools to academies[15], the ESFA is working with Departmental colleagues to further strengthen the conversion process. The ESFA is strengthening the welcome pack for newly incorporated trusts to both meet the needs of existing trusts and, especially, new Chief Executives, Chief Financial Officers and trustees needing to know about trust responsibilities and the opportunities available to support schools improvement and multi-academy trust development. The pack forms part of wider action to emphasise the link between

[15] https://www.nao.org.uk/report/converting-maintained-schools-to-academies/

effective financial management and strong educational performance and the further development of a self-improving system with more ‘capacity givers’ that contribute to school improvement.

Counter fraud and investigations

In October 2017, the ESFA established a dedicated counter fraud function to ensure sufficient focus on the Cabinet Office cross-Government professionalisation agenda for counter fraud. The new Counter Fraud and Investigations (CFI) team will work across the Agency to support business areas to manage their fraud risks and ensure appropriate action, including investigation by qualified staff is undertaken where issues occur.

The ESFA Risk, Intervention and Assurance Board works collaboratively to challenge and monitor activity by the ESFA and its providers of learning and training, to reduce opportunities for fraud and irregularity. It maintains responsibility for oversight of counter fraud across the Agency.

Counter fraud strategy

In December 2016, the Cabinet Office announced that cross-Government Counter Fraud Functional Standards would come into force from 1 April 2017. In response, the ESFA assessed its position against the standards and was able to report positively against all areas, being either compliant or having activities in progress to further develop counter fraud arrangements.

The ESFA has assured the continuous improvement of the counter fraud framework through:

- a review of existing investigation processes and procedures to establish a consistent approach to investigations across all ESFA funds, ensuring the response is timely, risk based, proportionate, and unbiased; and
- the establishment of a CFI team with specialist, professionally trained and highly experienced people that delivers a range of services to both investigate and strengthen ESFA defences against fraud and financial irregularity.

Work is planned for 2018-19 to further develop counter fraud arrangements in the ESFA. Our aim is to reduce risk of loss to the public purse from fraud and error in the services we provide on behalf of Government and, over the longer term, joining up our approach across Government to reduce the risk of wider financial loss. The nature of fraud is itself constantly changing, presenting fresh challenges we need to anticipate, intercept and prevent.

Investigations: academy trusts

During 2017-18, the ESFA brought forward 3 cases and triaged 31 fraud and/or financial irregularity allegations relating to academy trusts (36 in 2016-17). This resulted in: 5 fact-finding visits; 8 formal financial management and governance reviews; and 4 investigations into 17 academy trusts (16 in 2016-17).

There are 6 ongoing cases and 11 that are closed. Of the 11 closed cases, we found no evidence of irregularity in 7 cases and evidence of irregularity in 4 (5 cases in 2016-17). In each of the 4 cases, the ESFA identified inadequate governance and financial control arrangements. The findings were discussed and agreed with the trust boards, including recommendations to resolve the issues and improve control arrangements.

The 6 on-going cases are at various stages with 2 nearing completion. Of those 6, one case of irregularity has already been confirmed in relation to an academy.

In accordance with the *Academies Financial Handbook* requirement to report instances of fraud exceeding £5,000 individually or cumulatively in any academy financial year, the ESFA also received 39 notifications of fraud and theft. Trusts reported losses of £694,573 (£1,025,453 in 2016-17) of which £494,948 (£713,857 in 2016-17) has been recovered or is covered by insurance.

Investigations: colleges, charitable and commercial providers, and private providers

Our participation in fraud challenge panels and our close working with other Government departments and agencies allows us to access information about the latest fraud trends and to influence emerging solutions in the public sector. We are implementing wider cultural and organisational development in the ESFA which is a long-term ongoing objective involving organisation-wide education and awareness development.

We have worked to establish ways of working and investigation processes in response to the introduction of the apprenticeship levy in May 2017. In addition, we continue to work with AEB colleagues in terms of preparations from an investigation perspective following devolution of the AEB budget to MCAs in 2019-20.

During 2017-18, the ESFA brought forward 20 cases from 2016-17 and received 55 new allegations (53 in 2016-17) of suspected fraud and/or financial irregularity giving a total of 75 (73 in 2016-17). Of these, 39 (24 in 2016-17) cases did not have sufficient weight and/or detail to proceed to an investigation. Of the remaining 36 cases:

- 22 (23 in 2016-17) investigations were closed following investigation; and
- 14 (20 in 2016-17) cases were still in progress at the end of 2017-18 and have been carried forward into 2018-19.

In addition, 4 triages have been done on post-16 referrals (7 in 2016-17), leading to one fact finding visit (no issues), and one funding audit (no irregularities identified) (one case in 2016-17 identified irregularities).

Funds of £3,101,050 (£2,103,063 in 2016-17) were identified for recovery in 2017-18, of which £2,904,911 (£1,445,788 in 2016-17) has been classified as error and £196,139 (£657,274 in 2016-17) as irregularity. As at 31 March 2018, a total of £905,713

(£1,816,497 in 2016-17) has been recovered. Work is ongoing to recover the remaining amounts.

Financial management

As Accounting Officer, I have responsibility to ensure that there were effective systems to manage and monitor all funds granted for me. I am content that overall processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money during 2017-18. I consider that the ESFA's financial management was sound throughout the process of managing a £60.7 billion budget, including allocating over £60 billion of capital and revenue funding.

The Department has put in place clear lines of accountability for all administrative, programme and capital expenditure. Each member of my Executive Team received a delegation of financial authority from the Chief Executive in accordance with their respective responsibilities for 2017-18. Financial guidance and policies clearly explained these lines of accountability. This enabled budget holders to ensure payments were regular and proper, and to follow a clear process for seeking agreement for needs-based payments outside of ordinary business. I am satisfied that spend managers have received sufficient information and resources to make affordable spending decisions that secured value for money.

The Department's Financial Management Team provided financial reporting monthly to the Executive Team and quarterly to the Management Board. This covered a range of information and analysis including the spend to date, full year and future year forecasts, to enable the ESFA to effectively manage its finances. The team also provided a monthly expenditure return to budget holders in the Department and completed monthly consolidation into the Department Group, to ensure the ESFA's business was transparent and reported in line with requirements.

The ESFA managed variances in close cooperation with the Department, allowing maximum flexibility in the Department's management of public funds. Where we identified significant underspends, the Department redeployed them to Ministerial priorities.

Key issues and risks facing the Agency

Performance of core funding IT systems

Throughout the year, there were substantial challenges and risks related to the core funding IT systems that support the creation, delivery and communication of funding allocations to education, skills and training providers. A potential impact was that the systems would not perform to the standard, accuracy and timeliness the Agency needed to deliver its core funding allocations.

The Department provides the ESFA with a number of shared services, including digital and technology and many of the ESFA's business IT systems (set out in more detail in the *Shared Services* section below). To overcome the immediate risks, negotiations took place with the Department's Insight, Resources and Transformation Directorate as the ESFA's main supplier of these services, to improve the service delivery management and rapidly improve both system functionality and incident response times. The risk was escalated to the Department's Leadership Team.

These proactive steps and contingency plans ensured the risks were mitigated in 2017-18, but there remains the need for significant work and investment in our systems in 2018-19 and 2019-20 to manage the long-term risks, which still remain. Our business IT systems are central to our success going forward as we deliver allocations and payments to an ever increasing number of customers, and it is vital that we secure the necessary improvements to ensure effective operations. In 2018-19 and beyond, we are investing in developing our systems to be able to manage these increases in both volume and complexity, and to bring more consistency to our operations across the Agency in a way that improves efficiency and the quality of service we provide to our customers.

Resourcing and expansion of the ESFA's remit

The Agency's remit continues to expand in terms of the number of users of our services, the volume of interactions with these users, and the scope of our activities. Despite this significant challenge, we have maintained a relatively stable cost base through 2017-18, which has been achieved through regular reviews of the operating model to identify opportunities which realise further efficiencies.

However, as the Agency's remit expands further in 2018-19 and beyond, there is a risk that the Agency will not have the people resources it needs to be able to effectively deliver all of its priorities and remit. Discussions are taking place with the Department to review future year resource requirements and to seek agreement to fund sufficient skills and capabilities that are needed.

National Funding Formula

The introduction of the NFF is a historic reform. For the first time, school funding is being distributed according to a formula based on the individual needs and characteristics of every school in the country.

The ESFA undertook an ambitious programme of engagement with LAs to secure the successful delivery of the NFF. This was to ensure that all academies and maintained schools received their final funding allocations on time by the end of March 2018. The NFF included some significant changes, including a ring-fence on the money to be allocated to schools. This increased the risk that large numbers of LAs would request changes to their local formulae to enable them to fully mirror the NFF and to address local funding pressures within their high needs provision; resulting in more work for the Agency to validate any requests on an individual basis. It was not possible to predict how many LAs would want to make changes to their funding blocks.

In total, the Agency had to consider 233 requests for changes. These are categorised as ‘disapplications’. The number of disapplications in the previous 12-month period was 208. Regular and clear communications to LAs about the importance of early planning played a part in ensuring that the quantity of changes being asked for remained at a similar level to previous years despite the significant changes; mitigating potential delays to allocations being sent out.

Apprenticeship procurement

A second apprenticeship procurement exercise took place between July and September 2017 for providers to deliver training to employers who were not apprenticeship levy payers. The timetable for activities covering evaluation, publishing award notices, and issuing contracts was undertaken in a fixed timeline to comply with procurement regulations set by European Union procurement rules. The procurement ran successfully and on time.

Funding compliance

The implementation of any new funding system carries a risk that some parties involved may attempt to benefit through fraudulent means. The introduction of the apprenticeship levy in April 2017 – resulting in increased investment in apprenticeships – posed a risk where, potentially, some training providers or employers could try to collude or ‘game’ the apprenticeship programme for financial gain. The result would be public money paid out and not used for its intended purpose.

To mitigate this risk during the year, a robust apprenticeship funding compliance strategy was established. The emphasis is on the prevention of non-compliant funding activities as a first priority, followed by detection. This includes close monitoring of the funding claimed by employers and training providers alongside in-depth audit activities.

A non-compliance governance framework was also in place that used data and intelligence from across the Agency and Government; this identified employers and providers posing the greatest risk to money being used that is not in accordance with the Agency’s published funding rules. Appropriate action to negate any risks was then undertaken rapidly.

In addition, a strategy for supporting new providers entering the apprenticeship marketplace was developed to ensure they were fully compliant in claiming funding correctly. This assessed all first-time apprenticeship providers in all stages of their operations. This included mandatory training, on-site visits from Agency staff, and funding audits. Some providers were identified as high-risk because they had no history of delivering any apprenticeship training using public money.

New provider assurance

Only training providers who have secured a place on the RoATP are able to access funding by working with employers on apprenticeships. The Agency had identified a number of new training providers in 2017-18 where compliance visits had generated concerns (such as capability, infrastructure or governance). Where this represented a risk of potentially poor performing providers receiving public money, appropriate actions were taken, including removing some from the register.

Each compliance visit was scored using internal Agency measures. The lowest score would indicate a potential concern where a provider may not be able to provide the overall high quality apprenticeship training that has been funded. Should a concern be identified, the ultimate sanction is that the training provider is removed from the RoATP. However, there has been detailed work with legal advisors taking place throughout the year to ensure we take action that is safe from legal challenge. This means, as at the end of 2017-18, there remains a residual risk that some new and inexperienced training providers will fall below our quality expectations.

Provider failure
In 2017-18, the Agency managed a risk of an increased volume of provider failure – predominantly across the adult education sector, including apprenticeships. This was due to financial health issues, quality of provision, employer closures/redundancies, and an enhanced focus on safeguarding by Ofsted during inspection visits.

With any independent training provider that is awarded Ofsted's lowest grade (Grade 4), its contract is terminated by the ESFA. Providers can also go into administration or other insolvency process. In both cases, there are resource implications for the Agency to manage the efficient and timely transfer of learners to a new high quality provider; minimising disruption to both the learners and their employers. In response, the process has been streamlined, with the employer involved having the ultimate decision on the choice of training provider as part of the wider reform agenda.

The Agency dealt with a very high profile failure in the case of Learndirect Ltd, which received an Ofsted Grade 4. The ESFA and the Department's handling of the situation was subject to a National Audit Office investigation and Public Accounts Committee hearing in Parliament. The Agency committed to changing some of its rules on subcontracting as a result.

Alongside this work and our detailed assurance visits, the Agency used dedicated trend analysis to identify providers within scope of financial failure at a very early stage. There is a genuine risk to the apprenticeship brand if learners and employers do not have confidence in the viability, integrity and high quality of training provision.

Carillion
Carillion was the second largest provider of construction apprenticeships in England. The Agency funded Carillion to deliver apprenticeships to 1,148 of its own employees; over 90% of which were 16- to 18-year-olds. Following an announcement on 15 January 2018 regarding the collapse of Carillion, the ESFA enacted robust contingency plans.

The Agency identified the Construction Industry Training Board (CITB) (sponsored by the Department) as the best placed alternative apprenticeship provider. CITB established a large dedicated team of advisers to support this activity and developed a comprehensive offer of support. It worked with its established network of college partners and employer contacts to support affected apprentices and other learners to complete their programmes.

CITB has engaged directly with learners and the official receiver has reported that it has secured new employment, with wages, for 776 apprentices. CITB continues to support a number of learners engaged in the matching process and to actively pursue any learners who have failed to engage to date.

Carillion was also responsible for the facilities management of a relatively small number of schools. The Agency contacted the schools and LAs that had contracts with Carillion to ensure that their own contingency plans were ready to be implemented immediately if there was any chance of services not being provided.

Grenfell Tower fire

In the immediate aftermath of the tragic Grenfell fire, the department acted quickly to ensure the education estate was safe. An online survey was undertaken of all ESFA-funded education institutions, including all 22,000 schools in England. This survey was to ensure that all institutions were aware and fulfilling their duties with regards to fire safety, and also to identify any cladding that may require removal on safety grounds.

The Agency also responded quickly to ensure the pupils from Kensington Aldridge Academy, the school at the foot of the Tower, had alternative accommodation found for the remainder of the summer term. The Agency also delivered one of the fastest school building projects to date, in designing and constructing a new temporary school. By 18 September 2017, all pupils at the academy were able to start the new school year in their new school. The school has continued to thrive in the meantime and was judged as Outstanding by Ofsted at its first inspection in December 2017.

We also engaged directly with other local schools after the fire, and the department contributed £450,000 to the Tudor Trust to distribute via the Children and Young People's fund. This was to support schools, voluntary and community organisations working in North Kensington to help children, young people and families affected by the fire. In addition, we allocated £336,000 to the Royal Borough of Kensington and Chelsea Council to reflect the fact that a number of local schools lost pupil-place funding for children temporarily displaced by the fire who did not appear on school rolls on census day in January 2018.

The Department, predominantly through the ESFA, has been very closely involved in the cross-Government response to the fire throughout the year. That will continue as we focus in particular on the response to Dame Judith Hackitt's report following the Independent Review of Building Regulations and Fire Safety.

Free school sites

High demand for land across both commercial and residential sectors meant that securing sites for new free schools at competitive cost remained challenging in 2017-18. The Department has set up LocatED (Located Property Limited, a non-departmental public body) to improve its capacity and capability to secure sites. LocatED met 55 commissions from the ESFA to secure sites, which represents good progress for a new body.

Building programmes and construction market strategy

The Agency has continued the delivery of the Free Schools Programme and the Priority School Building Programme. We identified the need to ensure our school construction projects remain as attractive propositions for the construction sector. As a result, the Agency's new £8 billion construction framework was tailored to secure a wider breadth of contractors across a broader range of projects. The Agency also committed to undertaking regular financial analysis reviews of contractors connected to our building programme portfolio to protect public money.

General Data Protection Regulation

A key risk managed during 2017-18 was the introduction of GDPR in May 2018.

In preparation, the Department commenced a programme of work during 2017-18. Specific actions taken by the ESFA to progress the Agency towards compliance with GDPR included the appointment of an ESFA Senior Information Risk Owner, as well as Information Asset Owners across the Agency. Information assets were reviewed, and the register of information assets updated. Privacy notices were updated, and as at the end of the financial year, contracts with providers were under review to ensure that obligations related to data protection were documented and understood.

We also delivered GDPR awareness sessions for all staff, and targeted training sessions for Information Asset Owners through webinars, team events and videos. A dedicated section on the Agency intranet held more comprehensive presentations that was updated on a regular basis.

Personal data incidents

All departments are required to report personal data related incidents that have occurred during the financial year in accordance with the standard disclosure format issued by the Cabinet Office.

A 'personal data related incident' is defined as a loss, unauthorised disclosure or insecure disposal of protected personal data. 'Protected personal data' is data which the organisation holds whose release or loss could cause harm or distress to individuals, including as a minimum:

- information that links one or more identifiable living person with information about them whose release would put them at significant risk of harm or distress; and
- any source of information about 1,000 or more identifiable individuals, other than information sourced from the public domain.

The ESFA had no protected personal data related incidents that were judged significant enough to be formally reported to the Information Commissioner's Office in 2017-18.

The ESFA had no protected personal data related incidents reported in 2017-18 which did not fall within the criteria for reporting to the Information Commissioner's Office, but which were significant enough to be recorded centrally at department level. Smaller, localised incidents are not included.

Shared services

The Department provides the ESFA with a number of shared services, which provide many of the ESFA's business systems to protect business continuity. This includes digital and technology, finance, security, legal and HR services. We are in the process of setting up formal service agreements so that the ESFA and the Department can monitor and challenge the effectiveness of these services. These will be agreed in the 2018-19 financial year.

In 2017-18 issues and risks were escalated via the Executive Team and to the Department as necessary. The section on *Key Issues and Risks* in this governance statement sets out key risks and challenges related to core funding IT systems.

Conclusion

On the basis of what I set out here, I am confident that based on the review outlined above, that the ESFA has a sound system of governance, risk management and internal control that supports its aims and objectives.

Financial commentary

The Agency is consolidated into the Department and further information on the financial outcomes are given in the financial overview section of the Departmental Group's Annual Report and Accounts. As such, only a high level analysis is provided here.

As the ESFA is a newly created agency there is no comparative data presented in the primary statements and notes to the accounts. For ease we have provided an appendix (page 127) detailing the financial information from EFA and SFA that formed the basis of the transfer of function.

The Agency's budgetary control total, as set at the Supplementary Estimates exercise, was £60.7 billion and the actual outturn was £0.3 billion below this budget. This was made up of £159 million underspend (0.3% of budget) on Revenue Departmental Expenditure Limits (RDEL) and £155 million (3.3% of budget) under spend on Capital Departmental Expenditure Limits.

The RDEL under spend of £159 million included:

- £99 million further education Restructuring Facility, due to inherent uncertainties on the timing and amount of the grants; and
- £67 million across apprenticeships, adult education and early years budgets. These are demand-led programmes where variances to the Supplementary Estimate are expected.

The CDEL under spend of £155 million included:

- £127 million schools capital, primarily due to some slippage into the following financial year against earlier forecasts; and
- £29 million further education Restructuring Facility capital grants which, as above, is due to inherent uncertainties on the timing and amount of the grants.

The ESFA reported losses of £67 million for this year, the majority of which related to waiving Exceptional Financial Support loans as part of the college restructuring programme. During 2017-18, we have worked across the sector to implement recommendations from the area reviews of post-16 colleges. As part of restructuring colleges, the affordability of repaying Exceptional Financial Support loans or conditional grants is considered alongside the requirement for restructuring funding. In some cases Ministers in the Department and HM Treasury agreed to waive the repayment of the Exceptional Financial Support loans and conditional grants.

All investment cases prepared by the ESFA are subject to rigorous governance and assurance. The ESFA undertakes a detailed investment appraisal of all cases, including an options appraisal to ensure decisions take account of the best use of taxpayers' money. Experts on the Funding Committee and External Advisory Panel review the cases and, once agreed, seek approval from the ESFA Chief Executive, Ministers and Chief Secretary to the Treasury.

Statement of Comprehensive Net Expenditure

The total comprehensive net expenditure reported for the year was £60.2 billion.

The operating income totalled £256 million, of which £202 million was income from the European Commission to fund various skills programmes.

Resource grants account for the majority of ESFA expenditure, totalling £56 billion. The biggest element of this is the Dedicated Schools Grant, followed by grants to academies.

Capital grants total £4 billion, primarily funding Basic Need grant payment to schools and the Free Schools Programme.

The merger of the EFA and SFA has been brought in as a transfer of function within the Statement of Comprehensive Net Expenditure, with a net deficit of £384 million.

Statement of Financial Position

The net book value of non-current assets at 31 March 2018 was £924 million, an increase on the assets acquired of £540 million. Key movements were:

- increase in assets under construction and land and buildings of £484 million, through centrally managing construction to gain efficiencies, where previously academy trusts individually managed their own construction on sites bought in their name; and
- increase in loans balances of £70 million due to heavy demand for college restructuring.

Current assets include:

- an asset being assessed as held for sale following a review of the ESFA estate;
- the proportion of college loans due to be repaid in the following year; and
- receivables including European Social Fund and VAT recovery relating to academies.

Current and non-current liabilities include payables and accruals made during the normal course of business.

During the year there was a newly identified provision due to the potential liabilities to construction claims on capital projects.

No pension liability is recognised as the ESFA operates an unfunded multi-employer defined benefit pension provided by the Principal Civil Service Pension Scheme (PCSPS) or the Civil Servant and Other Pension Scheme (CSOPS).

Statement of Changes in Taxpayers Equity

The ESFA is funded by the Department and records this as draw down of Supply. This year saw comprehensive expenditure less than the draw down of Supply, leading the Agency to have a surplus in reserves at year-end.

Long-term expenditure trends

In November 2015, the Department agreed a settlement with HM Treasury for the next 4 financial years, as part of the 2015 Spending Review[16]. Following this settlement, the Department's Single Departmental Plan[17] was published and is revised annually. The figures for the Agency are included within the Departmental spending plans.

[16] https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents

[17] https://www.gov.uk/government/publications/department-for-education-single-departmental-plan

Remuneration and staff report

Overview

The remuneration and staff report sets out the Agency's remuneration policy for directors, reports on how that policy has been implemented, and sets out the amounts awarded to directors and where relevant the link between performance and remuneration.

In addition, the report provides details on remuneration and staff that Parliament and other users see as key to accountability.

Remuneration Part A: Unaudited

Chief Executive and Executive Team members' remuneration policy

The Chief Executive and all Executive Team members are senior civil servants whose pay is decided by the Senior Civil Servant Pay Committee, chaired by the Permanent Secretary, and comprising members of the Department's Leadership Team and a Departmental non-executive board member. The Senior Civil Servant Pay Committee makes decisions within the limits and delegated authorities set by the Government in response to the annual report of the Senior Salaries Review Body.

As staff employed by an executive agency of the Department, the Executive Team's performance management and contractual terms are as described in the Department's Annual Report and Accounts. As such, the Department manages performance management and non-consolidated performance award for members of the senior Civil Service within the framework set by the Cabinet Office. The contractual terms of Executive Team members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the Civil Service website[18].

Service contracts

The *Constitutional Reform and Governance Act 2010* requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

[18] Cabinet Office Framework - https://www.gov.uk/government/organisations/civil-service

Readers can find further information about the work of the Civil Service Commission on its website[19].

Part B: Audited

Remuneration (including salary) and pension entitlements

Official	Salary £000	Bonus payments £000	Pensions benefits £000	2017-18 Total £000
Peter Lauener Chief Executive (from 1 April 2017 to 26 November 2017)	95-100 (140-145)	20-25	-	120-125
Eileen Milner Chief Executive (from 20 November 2017)	45-50 (140-145)	-	19	65-70
Mike Green Director of Capital Group (from 1 April 2017 to 29 October 2017)	80-85 (155-160)	5-10	32	120-125
Peter Mucklow Director of Intervention and Young Peoples funding Group (from 1 April 2017)	90-95	5-10	-	100-105
Mike Pettifer Acting Director of Academies and Maintained Schools Group (from 1 April 2017)	100-105	-	30	130-135
Sue Husband Director of National Apprenticeship Service (from 1 April 2017)	105-110	-	42	145-150
Keith Smith Director of Funding and Programmes (from 1 April 2017)	110-115	5-10	26	145-150
Kirsty Evans Associate Director of Adult Education (from 1 April 2017)	95-100	5-10	61	165-170
Julian Wood Acting Director of Capital Group (from 1 April 2017)	90-95	5-10	36	130-135
Béatrice Lightfoot Acting Director of Central Services and Transformation Group (from 20 April 2017)	80-85	5-10	32	120-125
Matthew Atkinson Director of Transactions Unit (from 1 May 2017)	120-125 (130-135)	-	47	165-170

[19] Civil Service Commission - http://www.civilservicecommission.org.uk/

Salary

'Salary' includes gross salary; 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. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

Benefits-in-kind

The monetary value of benefits-in-kind covers any benefits provided by the Agency and treated by HM Revenue and Customs as taxable emolument.

Bonuses

The Department awards bonuses as part of the performance management process. The Agency sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high quality public services. The Agency follows the arrangements for the senior civil servants as set out in the *Performance Management Arrangements for the Senior Civil Service*[20], and the Department's performance management framework for managing and rewarding performance throughout the year.

Historically bonuses related to the performance in the year prior to that in which they become payable to the individual. However, the timing of awards has changed in 2017-18, formerly being wholly retrospective (awarded in 2016-17 but paid in 2017-18) to current (awarded in 2017-18 and paid in 2017-18). Therefore, the performance awards disclosed in 2017-18 cover both 2016-17 and 2017-18 performance from the 2 predecessor agencies. From 2018-19 all performance awards will be in-year.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

	2017-18
Band of highest paid director's remuneration (£000)	160-165
Median (£000)	40
Range (£000)	19-164
Remuneration ratio	4.0

The banded remuneration of the highest-paid director in the Agency in 2017-18 was £160,000-165,000. This was 4.0 times the median remuneration of the workforce, which was £40,209.

In 2017-18, no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,000 to 164,000.

[20] https://www.gov.uk/government/publications/senior-civil-service-performance-management

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Pension benefits

Civil Service pensions

As an executive agency of the Department, ESFA staff are members of the principal Civil Service pension scheme that provides pension benefits. The Department's Annual Report and Accounts provides information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the Civil Service Pensions' website[21].

	Accrued pension and related lump sum at pension age as at 31 March 2018	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	Nearest £100
Peter Lauener Chief Executive (from 1 April 2017 to 26 November 2017)	Not a member of the PCSPS during the accounting period, no disclosure required	-	-	-	-
Eileen Milner Chief Executive (from 20 November 2017)	0-5	0-2.5	15	10	-
Mike Green (from 1 April 2017 to 29 October 2017)	15-20	0-2.5	214	16	-
Peter Mucklow (from 1 April 2017)	35-40 plus a lump sum of 110-115	0-2.5 plus a lump sum of 0-2.5	773	(1)	-
Mike Pettifer (from 1 April 2017)	25-30	0-2.5	436	11	-
Sue Husband (from 1 April 2017)	5-10	0-2.5	100	17	-
Keith Smith (from 1 April 2017)	35-40 plus a lump sum of 90-95	0-2.5	551	5	-
Kirsty Evans (from 1 April 2017)	20-25 plus a lump sum of 45-50	2.5-5 plus a lump sum of 2.5-5	319	34	-

[21] http://www.civilservicepensionscheme.org.uk/

Julian Wood (from 1 April 2017	5-10	0-2.5	77	13	-
Béatrice Lightfoot (from 20 April 2017)	15-20	0-2.5	182	13	-
Matthew Atkinson (from 1 May 2017)	0-5	2.5-5	25	16	-

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the PCSPS. The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha (pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate - where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the 2 schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership.

At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the *Finance Act 2004*.

Partnership pension

The partnership pension account is a stakeholder pension arrangement. The Agency makes a basic employer contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the 2 schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the Civil Service Pensions' website[22].

Cash equivalent transfer values

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 cash equivalent transfer value 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the principal Civil Service pension scheme. They

[22] https://www.civilservicepensionscheme.org.uk/

also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. Cash equivalent transfer values are worked out in accordance with the *Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008* and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in cash equivalent transfer value that is funded by the employer. It does not include 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

Compensation for loss of office

The Agency paid no compensation for loss of office in 2017-18.

Staff report Part A: Audited

Staff costs

			2017-18
	Permanently employed staff £000	Others £000	Total £000
Wages and salaries	52,367	9,000	61,367
Social security costs	7,555		7,555
Pension costs	14,011		14,011
	73,933	**9,000**	**82,933**
Less recoveries in respect of outward secondments	(58)		(58)
Transfer to programme	(8,030)		(8,030)
	65,845	**9,000**	**74,845**

The ESFA pays a flat fee for Agency staff which includes social security, holiday pay, pension costs etc. This note discloses the total sum as wages and salaries.

The ESFA incurs staff costs arising from the creation of non-current assets (predominantly school building projects). However, the Agency will usually not be the end user of the final operational assets, so is not usually able to recognise these construction projects as assets under construction; the assets fail the asset recognition test. Most costs incurred by the Agency in managing and funding such constructions sites are recognised as capital grants-in-kind to reflect the external asset creation nature of the costs. The Agency has reached agreement with HM Treasury for internal staff costs incurred in managing these construction sites to be included in the capital grants-in-kind expense. This totalled £24.9 million. There may be a small number of assets under construction sites for which there is no occupation agreement in place between the ESFA and the academy trust at year-end. Such sites continue to be recognised by the ESFA, and will include internal staff costs as agreed with HM Treasury.

Average number of persons employed

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

	Permanently employed staff Number	Others Number	2017-18 Total Number
Directly employed	1,502	263	1,765
Other	-	-	-
	1,502	**263**	**1,765**

Pension schemes

The ESFA operates 2 pension schemes for its employees: Principal Civil Service Pension Scheme (PCSPS) and partnership pension accounts.

Principal Civil Service Pension Scheme

The PCSPS and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit schemes, but the Department is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office.

For 2017-18, employers' contributions of £13.9 million were payable to the PCSPS and CSOPS at one of 4 rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands.

The schemes' actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners

No individuals retired early on ill health grounds, the total additional accrued pension liabilities in the year amounted to £nil.

The scheme actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Partnership pension accounts

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £164,000 were paid to one or more of the panel of 3 appointed stakeholder pension providers.

Employer contributions are age-related and range from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £5,253 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and CSOPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £16,000. Contributions prepaid at that date were £nil.

Staff by grade and gender

The headcount for permanent staff as at 31 March 2018 is as follows:

Grade	Male	Female	Total
CEO	-	1	1
Director	6	1	7
Deputy Director	13	22	35
Grade 6	171	108	279
Grade 7	180	194	374
Senior Executive Officer	164	178	342
Higher Executive Officer	137	209	346
Executive Officer	91	116	207
Executive Assistant	19	28	47
	781	**857**	**1,638**

Reporting of Civil Service and other compensation schemes

In 2017-18 there were no early exit costs.

Part B: Unaudited

Analysis of staff policies and statistics

Our people

Recruitment practice

The Agency has a duty to ensure it is fully compliant with the Civil Service Commissioners' recruitment principles. The Agency's approach to recruitment reflects its commitment to equal and fair opportunity for all. All recruitment processes comply with the *Equality Act 2010.*

Sickness absence

	2017-18
Total days lost	4,937
Sickness absence days per FTE	3.3

The figures disclosed above compare well with figures across the Civil Service, which currently average 7.0 working days lost per FTE[23].

Commitment to improving diversity

The Agency adopts the Department's diversity and inclusion strategy, launched in January 2018. It sets out action that the Department will take in 5 areas – leadership; recruitment and attraction; talent and progression; collection, sharing and use of data; and inclusive culture and behaviours.

The strategy is underpinned by 4 key principles:

- everyone has a role to play in creating an inclusive culture and making the Department a truly great place to work;
- we are all able to 'be ourselves' at work to be different from each other in many ways and feel supported, empowered, valued, respected and fairly treated;
- all of us are able to build successful careers and achieve our potential; and
- we put openness, honesty, challenge and innovation at the core of what we do.

The Agency makes use of the Department's active diversity networks, including a BAME network, a LGBT+ network, a disability group and a neurodivergence network. It also takes advantage of the mental health first aiders providing first line support.

Unconscious bias training is mandatory for all staff, whilst other diversity and inclusion training includes leading inclusive teams workshops and disability confident line manager focus groups.

[23] https://www.gov.uk/government/publications/civil-service-sickness-absence

Addressing under-representation

The Department's diversity and inclusion strategy includes specific targets which have been agreed by Cabinet Office. The Agency is working to support representation of BAME and disabled staff at all levels.

Staff policies for disabled persons

The Department gained Disability Confident Leader level 3 status in 2017, which extends to the Agency. This means that it is seen as a champion for disability confidence, with a role in supporting other employers to become disability confident.

The Agency operates a policy which allows disabled staff to take disability leave rather than sickness absence when they need to attend appointments or have treatment related to their disability. It also in its recruitment policies guarantees an interview to any disabled candidate who demonstrates that they meet the minimum standard required for the role.

Engagement with employees

The ESFA's ambitious People Plan sets out our approach to ensure the Agency operates in the best interests of all its people. It sets out our offer to staff on career development and skills enhancement to enable us to deliver our business plan.

Our vision is for the plan to act as a catalyst for career development, because we want everyone working to their full potential to make the ESFA the best it can be.

We are looking at the ways we work - that is, the culture and behaviours we all use - ensuring that everyone is empowered to succeed regardless of their background, age, regional location, or any other factors that staff feel prevent them from succeeding.

Our People Board has agreed the plan. The Board will oversee progress on the priorities highlighted in the plan. Our priorities for change include developing staff to improve both core and specialist skills, enhancing career development opportunities, managing the wellbeing of our staff, promoting a positive culture, developing our leaders and supporting our line managers.

The People Survey has helped us to identify gaps in skills. We are addressing the gaps through a comprehensive development programme. The core needs of our business are to develop high skills standards in leadership, customer service, communications and writing skills.

Other key areas of development to support the business are use and analysis of data, digital skills, financial awareness and commercial skills, programme and project management, leadership, management skills, and continuous improvement. We intend to use apprenticeships as a tool for achieving this too.

We are planning to use the results of the annual Departmental people survey to monitor the satisfaction levels of our staff in their roles, the development opportunities they have, and to monitor wellbeing.

People management

Our staff are a mix of civil servants and contractors. Our civil servants are employed by the Department on its terms and conditions. Responsibility has been delegated to me, as Chief Executive, for the recruitment of staff within the parameters provided by the Department's policies and procedures.

The Department's diversity delivery plan covers the ESFA. This plan sets out the Department's objective to be an exemplary equal opportunities employer, to create a workplace that values diversity and to be free from unfair discrimination. The Department's policies include explicitly the employment of disabled people, women, lesbian, gay, bisexual and transgender people and black and minority ethnic staff.

Consultancy and temporary staff

We engage contractors who are employed on short-term contracts. The cost of these contractors in 2017-18 was £18.4 million. This includes £9.9 million for specialist contractors that work directly on the delivery of capital programmes in the creation of third party building assets. It is the responsibility of the hiring managers to ensure that all contractors comply with their tax obligations. The framework contracts for contingent workers placed by the ESFA, or drawn upon as part of the Department, include provision for workers supplied by these companies to meet their obligations.

Review of tax arrangements of public sector appointees

As part of the *Review of Tax Arrangements of Public Sector Employees* published by the Chief Secretary to the Treasury on 23 March 2012, departments were directed to publish information pertaining to the number of off-payroll engagements, at a cost of over £58,200, that were in place on, or after, 31 January 2012 and any off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018. The tables below set out this information.

For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than 6 months

	2017-18
Number of existing engagements as at 31 March 2018:	54
Of which	
less than one year at time of reporting	2
between one and two years at time of reporting	9
between two and three years at time of reporting	11
between three and four years at time of reporting	8
four or more years at time of reporting	24

All existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax, and where necessary, that assurance has been sought.

All new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than 6 months

	2017-18
No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	2
Of which:	
No. assessed as caught by IR35	-
No. assessed as not caught by IR35	2
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	-
No. of engagements reassessed for consistency / assurance purposes during the year	-
No. of engagements that saw a change to IR35 status following the consistency review	-

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

	2017-18
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-
Total no. of individuals on payroll and off-payroll that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure should include both on payroll and off-payroll engagements	11

Trade union facility time

The *Trade Union (Facility Time Publication Requirements) Regulations 2017* requires relevant public sector organisations to report on trade union facility time in their organisations. 2017-18 is the first year of reporting and this information can be found in the Department’s Annual Report and Accounts. We are unable to split this information between the Department and its executive agencies.

Parliamentary accountability and audit report

Overview

This report includes details of the Agency’s losses and special payments.

Parliamentary accountability disclosures

Public sector losses and special payments: audited

A1 Losses statement

Value	2017-18 £000
Bookkeeping losses	4
Fruitless payments	2,582
Claims waived or abandoned	64,727
	67,313

Number of cases	2017-18
Bookkeeping losses	1
Fruitless payments	83
Claims waived or abandoned	26
	110

A fruitless payment is a payment which cannot be legally avoided because the recipient is entitled to it even though nothing of use to the ESFA will be received in return, including staff travel purchased but unable to be used.

A1.1 Fruitless payments and constructive losses over £300,000

	Value of fruitless & constructive losses £000
Free school cancellations	
Capital losses	
Daubeney Gate AP Primary Free School	488
UTC Guildford	316

Free schools

Due to improved financial management in the Department, we’d identified 44 free school project cancellations between 2013/14 and 2017/18, of which 23 cases had capital losses of £2,579,595. From the 23 cases, 9 relate to 2017/18 and 14 are historical. When free school applications are approved, they carry with them a number of risks and conditions of approval. Pipeline free schools projects can be cancelled/withdrawn because the Department judges that the free school trust is not in a position to open a financially viable school offering a good or better standard of education. For this reason, the programme has, since inception, tolerated a level of attrition associated with projects we approve at assessment stage but do not go on to open

A1.2 Claims waived or abandoned over £300,000

	Value of claims £000
Exceptional financial support	
Bournville College	10,500
Central Sussex College	12,098
Hull College	21,267
Lowestoft College	1,367
Somerset College of Arts and Technology	4,440
Sussex Downs College	1,800
Telford College of Arts and Technology	4,500
West Cheshire College	1,650
University Technical College closures	
Daventry UTC	1,315
Greater Manchester Sustainable Engineering UTC	645
Lancashire UTC	1,177
Overpaid grant recoveries	
Theale Green School	830
John Madejski Academy	987
Wakefield Council	543
Vision Studio School	342

Details of cases over £300,000

Exceptional Financial Support loans waived

The ESFA provides Exceptional Financial Support to colleges when funding is urgently required to meet college liabilities in order to protect education and training provision for learners. The policy intention is to provide funding as a loan wherever possible. Where a loan repayment schedule cannot be agreed immediately, funding is provided as conditional grant with one of the conditions being that it will be converted to a loan subject to the ESFA's determination, to support recovery. In very exceptional circumstances a non-repayable grant may be provided. To support the implementation of recommendations from the area reviews of post-16 education and training, funding has been made available for college restructuring. The affordability of repaying Exceptional Financial Support loans or conditional grants has been considered alongside the requirement for restructuring funding, and in some cases Ministers in the Department and HM Treasury have agreed to waive the repayment of the Exceptional Financial Support loans and grants recognised as assets by the ESFA.

University technical college closures

There were 5 UTC closures leaving balances of £3.2 million. The balances relate to pre- and post-16 pupil number adjustments for excess pupil funding and recoverable deficit funding.

Unrecoverable grant over-payments

In certain circumstances, over-payments of grants can occur when grant payment profiles for educational bodies are based on expected learner numbers which are not supported by actual numbers. One example relates to academies which are funded based on expected pupil numbers that are not matched by actual numbers sourced from the October pupil census. The ESFA seeks to recover the over-funding across the rest of the funding year.

However, in a limited number of occasions the ESFA may decide to waive its claim to recover the over-payment to support its wider policy aim to support education. One example is to facilitate the re-brokerage of an academy to a better performing multi-academy trust to strengthen the educational outcomes for pupils.

A2 Special payments

Number of cases	2017-18
Total number of cases	**6**
Values	**£000**
Total value of cases	**2,762**

A2.1 Special payments over £300,000

	Special payments £000
Reading Borough Council	800
Southall College	750
Saddleworth	545
Kingston on Thames Community School	500

Special payments over £300,000

Saddleworth

The special payment is to facilitate the delivery of a new build school on a rural site. The proposed site is contentious with complex land and planning issues and has been subjected to lengthy delays due to judicial review enquiries and resubmission of a planning application.

Reading Borough Council

The special payment to Reading Borough Council was to facilitate the move of the John Madejski Academy from its original single academy trust to a strong multi-academy trust. The payment settled a repair liability back to the council for part of the academy site; which was too large for either trust to address. Failure to settle to liability was preventing the transfer, impacting the educational opportunities of the pupils.

Southall College

The special payment is a settlement figure with Southall College for costs incurred by the college in relation to the proposed new school (Floreat Southall School Project) opening.

Kingston Upon Thames Community School

The special payment relates to an out of court settlement to resolve a legal dispute relating to the property. In reaching a settlement agreement with the intentions of having the school open in 2019, we intend to relieve the capacity pressure on the school.

A3 Gifts and hospitality statement

Number of cases	2017-18
Total number of cases	3
Values	**£000**
Gifts, Prizes or Hospitality Given	15,479

Gifts and hospitality over £300,000

UTC Lancashire

UTC Lancashire closed at the end of 2016/17 at which point the site reverted to the ESFA which recognised the asset on its SoFP.

The ESFA completed a review to assess the best use of the site and identified the University of Central Lancashire (UCLan), as the most suitable occupier. The transfer of the UTC site to UCLaN resulted in a gift of £10.3 million being recognised as the asset was removed from the SoFP.

Devon School Studio

Devon Studio School closed at the end of 2016/17. The ESFA doesn’t own the site (it is leased from a third party), so no asset came back to the ESFA upon closure.

The total capital refurbishment and equipment costs paid for Devon Studio School were £3.6 million. This capital investment has been tapered in line with a clawback agreement with the academy trust. The amount payable to the ESFA under the clawback agreement in 2017/18, if the lease is surrendered to the landlord, is £2.1 million. This is the value of the gift.

Future Tech Studio School

Following the closure of the studio school on 31 August 2017 the ESFA took over the lease of the site from the academy trust that operated the studio school. The site was recognised as a land and building asset on our SoFP valued at £3.2 million.

The ESFA does not intend to occupy the site for its own operations and has assessed appropriate exit strategies for the site in an educational context. The site has been leased to another educational provider, Warrington Vale Royal College, for their use.

Consequently, the ESFA has de-recognised the asset and recognised a gift valued at the asset's carrying value.

A5 Remote contingent liabilities

This part of the report is subject to audit.

	At start of year £000	Transferred in from EFA & SFA £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	As at 31 March 2018 £000	Sum notified to Parliament by departmental minute £000
In respect of lease arrangement with Church Commissioners for England	-	5,000	-	-	-	5,000	5,000
Tenant default agreements	-	2,901	-	-	-	2,901	
In respect of lease arrangement with Tottenham Hotspur Property Company	-	12,500	-	-	-	12,500	
In respect of commercial lease of Free Schools Norwich	-	110	-	-	-	110	
Rent deposit deed for Turing House School	-	470	-	-	-	470	
Conditions of grant aid conditions on a children's centre and playground	-	359	-	-	-	359	
In respect of the Central Ipswich Free School project	-	-	250	-	-	250	
In respect of the REAch2 Colchester project	-	-	1,100	-	-	1100	
In respect of apprenticeship grant for employers	-	4,500	-	-	(4,500)	-	
	-	**25,840**	**1,350**	**-**	**(4,500)**	**22,690**	**5,000**

Indemnity provided to the Church Commissioners for England
The contingent liability is in relation to a lease arrangement for an academy site.

Tenant default agreements
The ESFA has entered into a number of tenant default agreements that give rise to a contractual obligation to pay monies to the landlord up to a fixed cap in certain circumstances where the free school tenant is in breach of its lease.

In respect of lease arrangement with Tottenham Hotspur Property Company
This contingent liability is in relation to an indemnity in respect of 35-year lease arrangement with Tottenham Hotspur Property Company for an academy site.

In respect of commercial lease of Free School Norwich
The ESFA has provided a guarantee to the lessor of the Free School Norwich in respect of the lease payments due over the life of the lease.

Turing House School
This contingent liability is in relation to a rent deposit. It can be withdrawn by the landlord if there is a default on rental payments. The money will be recovered in May 2020.

Conditions of grant aid conditions on a children's centre and playground
The ESFA will require the Deanery Church of England Primary School to repay 2 grants received from Birmingham City Council for a children's centre and playground if the academy trust breaches the conditions of the grant aid agreement attached to the grants.

Central Ipswich Free School project
In order to progress the deal it was necessary to agree a capped figure in respect of the asset management indemnity. ESFA property experts' advice is that £250,000 is an acceptable budget figure for managing a town centre site in this part of the country and this has been agreed. It is anticipated that the school will be built and this contingent figure will not need further consideration – but it is a commercial risk for the ESFA, hence the cap.

REAch2 Colchester project
A £1.1 million indemnity for REAch2 Colchester project for costs dependent on the planning permission decision by the LA. If satisfactory planning permission for the school is not granted and the £1.1 million 'top up' is therefore not paid, then the overage clause will take effect. This provides that on the grant of planning permission for an alternative higher value use, 50% of the net increase in value (if any) from the purchase price will be due on either a) a sale of the property or b) commencement of development. The purchase price is to be index linked using RPI from completion of purchase to the date of the overage payment to establish the overage due.

Free School for principal designates

A contingent liability to underwrite the salaries of principle designates or other key essential teaching staff of new free schools, UTCs or studio schools before they open.

Apprenticeship Grant for Employers

The contingent liabilities relating to payments for the Apprenticeship Grant for Employers was due up to June 2017, as apprentices complete 3 months of employment. This has now fully expired in 2017-18.

Eileen Milner
Chief Executive and Accounting Officer, ESFA
4 July 2018

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of the Education and Skills Funding Agency (ESFA) for the year ended 31 March 2018 under the *Government Resources and Accounts Act 2000*. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that are described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the ESFA's affairs as at 31 March 2018 and of net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the *Government Resources and Accounts Act 2000* and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with *International Standards on Auditing (ISAs) (UK)* and *Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'*. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2016*. I am independent of the ESFA in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the *Government Resources and Accounts Act 2000*.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ESFA's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ESFA's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's

report. However, future events or conditions may cause the entity to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions made under the *Government Resources and Accounts Act 2000*;
- in the light of the knowledge and understanding of the ESFA and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the governance statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse 17 July 2018
Comptroller and Auditor General

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

Financial statements

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2018

	Note	2017-18 £000
Operating income	3	(255,748)
		(255,748)
Staff costs		74,845
Resource grants	4.1	55,908,646
Capital grants	4.2	3,999,147
Operating expenditure	5.1	69,114
Depreciation, impairments & other non-cash charges	5.2	18,675
Total operating expenditure		**60,070,427**
Net operating expenditure		**59,814,679**
Finance income		(941)
Finance expense	6	48,894
Net expenditure for the year		**59,862,632**
Other comprehensive expenditure		
Items that will not be reclassified to net operating costs		
Net (gain)/loss on:		
transfer of function - EFA	2	604,610
transfer of function - SFA	2	(220,652)
Total other comprehensive expenditure		**383,958**
Comprehensive net expenditure for the year		**60,246,590**

All income and expenditure reported in the Statement of Comprehensive Net Expenditure are derived from continuing operations.

Staff costs detail can be found in the remuneration report

The notes on pages 100 to 126 form part of these accounts.

Statement of Financial Position

as at 31 March 2018

	Note	2018 £000
Non-current assets		
Property, plant and equipment	7	778,952
Intangible assets	8	31,395
Loans	11	98,802
Receivables	12	14,825
		923,974
Current assets		
Assets held for sale		15,337
Loans	11	31,172
Receivables	12	426,210
Cash and cash equivalents	13	425,590
		898,309
Total assets		**1,822,283**
Current liabilities		
Payables	14	(807,497)
Provisions	15	(4,931)
		(812,428)
Total assets less current liabilities		**1,009,855**
Non-current liabilities		
Payables	14	(580,936)
Provisions	15	(17,854)
Financial liabilities	16	(23,394)
		(622,184)
Assets less liabilities		**387,671**
Taxpayers' equity		
General Fund		387,671
Revaluation Reserve		-
		387,671

Eileen Milner
Chief Executive and Accounting Officer, ESFA
4 July 2018

The notes on pages 100 to 126 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2018

	Note	2017-18 £000
Cash flows from operating activities		
Net operating cost		(59,862,632)
Adjustments for non-cash transactions		216,336
Movement (Increase) between transfers in and receivables	12	(414,835)
Movement Decrease between transfers in and payables	14	1,362,233
Use of provisions	15	(6,577)
Finance income	11	(983)
Financial guarantees	16	(6,311)
Net cash outflow from operating activities		**(58,712,769)**
Cash flows from investing activities		
Purchase of property, plant and equipment	7	(534,782)
Purchase of intangible assets	8	(4,563)
Purchase of assets held for sale		(14,326)
Proceeds of disposal of property, plant and equipment	7	48,711
Loans:		
academy trusts	11	(895)
colleges	11	(76,102)
Net cash outflow from investing activities		**(581,957)**
Cash flows from financing activities		
Exchequer supply from sponsor department		60,456,073
Receivables and payables movement acquired through the transfer of function (EFA & SFA)		(1,126,800)
Cash acquired through transfer of function (EFA & SFA)	2	391,043
Net cash inflow from financing activities		**59,720,316**
Net increase (decrease) in cash and cash equivalents (net of overdrafts)	13	**425,590**
Cash and cash equivalents (net of overdrafts) at beginning of the year	13	**-**
Cash and cash equivalents (net of overdrafts) at end of the year	13	**425,590**

The notes on pages 100 to 126 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2018

	Note	Total £000
Balance at 1 April 2017		**-**
Transfer of function – EFA 1 April 2017	2	(604,610)
Transfer of function – SFA 1 April 2017	2	220,652
Net Parliamentary funding - drawn down		60,456,073
Comprehensive expenditure for the year		(59,862,632)
Cost borne by the Department:		
Salaries		83,948
Other costs		102,391
Non-cash balances		(49,749)
Auditor's remuneration	5	330
Notional shared service recharges	5	41,268
Balance at 31 March 2018		**387,671**

The notes on pages 100 to 126 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These accounts have been prepared in accordance with the 2017-18 *Government Financial Reporting Manual* (FReM) issued by HM Treasury, as set out in a statutory Accounts Direction issued pursuant to section 5(2) of the *Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) Order 2016*. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ESFA for 2017-18 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The ESFA has produced these accounts as set out in a statutory Accounts Direction issued by HM Treasury pursuant to section 7 (2) of the *Government Resource and Accounts Act 2000*. The ESFA has produced the accounts using accruals accounting.

1.1 Accounting convention

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

On 1 April 2017 the ESFA was formed, replacing both the EFA and SFA. In line with the FReM (4.2.9), a transfer within a departmental boundary should be accounted for as Transfer by Absorption. As such the net assets of both EFA and SFA were transferred to the ESFA with no restatement of comparatives in the financial statements. No comparative information is available owing to this being the Agency's first year of operation.

Comparative information from the 2 predecessor bodies is available in the EFA Annual Report and Accounts 2016-17[24] and the SFA Annual Report and Accounts 2016-17[25]. Also in the Appendix at the end of this document.

1.2 Going concern

The Departmental Group's Estimates and forward plans include provision for the ESFA's continuation and it is

[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630097/EFA_2016-17_Annual_Report_and_Accounts_PRINT.pdf

[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630971/2016_to_2017_SFA_ARA_PRINT.pdf

therefore appropriate to prepare these accounts on a going concern basis.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis. Other than for the determination of liabilities and charges, impairments and financial guarantees, we made no material accounting estimates or judgements in preparing these accounts.

Management has specifically made such judgements on:

1.3.1 Accounting for capital expenditure and assets under construction

The structure of the ESFA and the scale of its capital programme means that accounting for capital expenditure is inherently complex for the ESFA and involves judgement over the capitalisation of costs.

Capitalisation of expenditure is reviewed as part of regular monthly controls and the year-end process in determining the appropriate value to capitalise for each project in accordance with the requirements of *IAS 16 Property, Plant and Equipment* (IAS 16).

1.4 Adoption of FReM amendments

There have been no significant FReM changes in 2017-18.

1.5 Early adoption

The ESFA has not early adopted any accounting standards in 2017-18.

1.6 IFRSs in issue but not yet effective

In order to comply with the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, the ESFA must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The ESFA has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment. The full impact of the IFRSs in issue but not yet effective is not known and could be material to the accounts: the ESFA has therefore, chosen not to early adopt requirements of the following accounting standards and interpretations, which have an effective date after the start of these accounts:

Standard	Effective	FReM Application	Change and impact
IFRS 9 Financial Instruments	1 January 2018	Subject to consultation	**Change:** This change simplifies the classification and measurement of financial assets, as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. This will result in impairments being recognised earlier than under *IAS 39 Financial Instruments: Recognition and Measurement.* **Impact on ESFA:** The ESFA does not anticipate material changes arising from adopting IFRS 9 regarding its loan and receivables balances. The ESFA expects that its separate loan portfolios and receivables balances will continue to be recognised at amortised cost under IFRS 9, since they exhibit standard characteristics of loans and receivables and the ESFA does not have a business model involving selling portions of the portfolios.
IFRS 15 Revenue from Contracts with Customers	1 January 2018	2018-19	**Change:** The changes set out steps for revenue recognition along with requirements for accounting for contract costs. The aim of the change is to report information that is more useful about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The initial adoption of IFRS 15 will be retrospective but as an opening balance adjustment as at 1 April 2018. **Impact on ESFA:** The ESFA does not recognise significant levels of contract revenue, the majority of income is grant income for joint programmes. Consequently, the ESFA does not anticipate material changes following adoption of the standard.

Standard	Effective	FReM Application	Change and impact
IFRS 16 Leases	1 January 2019	2019-20 (Subject to EU adoption and consultation)	**Change:** The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months to be recognised as a finance lease (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised. **Impact on ESFA:** The removal of the academy trusts has removed the bulk of the ESFA's leases from the consolidation boundary. Consequently, the ESFA does not anticipate any material effect of bringing on-balance sheet former operating leases through applying the new standard.

1.7 Segmental reporting

In accordance with *IFRS 8: Operating Segments*, the ESFA has considered the need to analyse its income and expenditure relating to operating segments. The ESFA has assessed that all lines of operation fall within the same geographical location and regulatory environment as envisaged by IFRS 8. Since segmental information for total assets and liabilities is not regularly reported to the chief operating decision-maker and in compliance with the FReM, it has not been produced in the accounts.

See the *Performance Report* for operational disclosures.

1.8 Income

The ESFA receives the following income streams and accounts for it as follows:

1.8.1 Draw down of supply from the sponsoring department

The ESFA has recorded all draw down of supply by the Department as financing, as the ESFA regards draw down of supply as contributions from the Body's controlling party giving rise to a financial interest. The ESFA records draw down of supply as financing in the Statement of Cash Flows (SoCF) and draw down of supply to the general reserve.

1.8.2 Operating income

Operating income is income which relates directly to the operating activities of the ESFA.

Income is stated net of recoverable VAT where applicable.

1.9 Grant expenditure

1.9.1 Grants payable

The majority of grants made by the ESFA are recorded as expenditure in the period in which the claim is paid, as the grant funding cannot always be directly related to activity in a specific period. The claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient. However, recognition of the entitlement of grant varies according to the individual programme. Where entitlement to the grant has arisen during the period but not paid it is accrued in the Statement of Comprehensive Net Expenditure (SoCNE) and shown as a liability on the Statement of Financial Position (SoFP).

1.9.2 Grant recoveries

Grants paid to end users that are unspent at the year-end may be retained to fund future activity. The ESFA does not recognise a prepayment if the end user has not spent the grant due to timing or delays.

Some grants will result in recognition of a receivable at the year-end if there has been over-funding or un-spent amounts:

- Where the ESFA pays end users according to a grant payment profile established before the final grant obligation is known, and the actual spend shows over-funding.
- Un-spent amounts will arise where time bound grants have been provided and not spent within the stipulated timescale.

The accounts will only recognise a receivable when either of the above instances crosses the year-end.

1.10 Pensions

The ESFA has adopted *IAS 19 Employee Benefits* (IAS 19) to account for its pension schemes.

Where the ESFA makes contributions to defined contribution and unfunded defined benefit pension schemes (which do not have underlying assets and liabilities) the ESFA recognises contributions payable in the SoCNE.

Further details of the pension schemes are available in the Remuneration and Staff Report.

1.11 Property, plant and equipment

The minimum level of capitalisation for expenditure on property, plant and equipment ranges between £500 and £10,000. In the case of IT equipment and furniture all items recorded as capital expenditure are capitalised and if they fall below the capitalisation threshold they are grouped together and recorded as bulk assets. The asset value on capitalisation is measured at cost plus all direct costs, such as installation, attributable to bringing them into working condition.

Land and buildings are measured initially at cost and are restated to current value (depreciated replacement cost) using external professional valuations in accordance with *IAS 16 Property, Plant and Equipment* (IAS 16) every 5 years, and in the intervening years by use of appropriate indices supplied by Valuation Office. The ESFA has stated other property, plant and equipment at existing use value using appropriate indices published by the Office for National Statistics. Some assets are of short life, of low value and have used depreciated historical cost as a proxy for fair value.

One of the ESFA's purposes is to, as appropriate, fund the acquisition of premises or sites that academy trusts will ultimately use. The ESFA will also fund all the required construction works and associated professional services needed to bring the premises or sites into use.

The ESFA measures the value of Assets under Construction (AuC) at cost plus direct costs directly attributable to bringing the assets into working condition in line with IAS 16. Direct costs include all costs associated with purchasing the land and property and bringing the assets into use, and a fair proportion of the ESFA's internal costs. The ESFA recognises AuC assets where it has control over the asset, and the right to the future economic benefit from that asset. At the time at which either or both is no longer the case, the asset is removed from the ESFA SoFP.

In the unlikely situation where circumstances existing prior to the year-end indicate that assets cannot be opened as an academy school, and will have to be sold to the open market, then an asset will be recognised and treated under *IFRS 5 Assets held for Sale and Discontinued Operations*. In that case, any difference between carrying value and fair value would be recognised as an in-year impairment and the asset separately presented.

If a project ceased, or an asset became surplus through circumstances not yet existing at the year-end, the changes in asset treatment would not take effect until the following financial year.

1.12 Depreciation

Depreciation is provided at rates calculated to write off the valuation of buildings and other property, plant and equipment by equal instalments over their estimated useful lives. Land and assets under construction are not depreciated.

Asset lives are in the following ranges:

- Freehold buildings 50 – 60 years
- Furniture and fittings 5 years
- Plant and machinery 5 years

- IT hardware 5 years

1.13 Intangible assets

Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. Assets are amortised over their estimated useful economic lives. Development expenditure is not amortised but assessed for impairment annually.

Asset lives are in the following ranges:

- Software licences 2 – 5 years or the licence period, whichever is shorter

1.14 Revaluation and impairment of non-current assets

Increases in value are credited to the Revaluation Reserve, unless it is a reversal of a previous impairment, which is credited to the SoCNE to the extent of the previous impairment and then to the Revaluation Reserve, in accordance with *IAS 36 Impairment of Assets* (IAS 36).

Impairments of revalued assets that do not result from a clear consumption of economic benefits are debited to the Revaluation Reserve up to the level of depreciated historical cost. Any excess devaluation is charged to the SoCNE. Each year, the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the General Fund.

Impairment losses that result from a clear consumption of economic benefit are taken directly to the SoCNE. Where the impairment relates to a revalued asset, the balance on the Revaluation Reserve to which the impairment would have been charged is transferred to the General Fund to ensure consistency with IAS 36.

On disposal of a revalued asset, the balance on the Revaluation Reserve in respect of that asset becomes fully realised and is transferred to the General Fund. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognised in the SoCNE. All non-current assets are reviewed for impairment if circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.15 Non-current assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and not depreciated. They are also presented separately on the face of the SoFP and in the Notes.

1.16 Financial instruments

The ESFA applies *IFRS 7 Financial Instruments: Disclosures* (IFRS 7), *IAS 32 Financial Instruments: Presentation* and *IAS 39 Financial Instruments: Recognition and Measurement*. Financial assets and financial liabilities are recognised when the ESFA becomes party to the contractual provisions of the instrument. Embedded derivatives are recognised if separable from the host contract.

1.16.1 Financial assets

Financial assets are classified where appropriate as loans and receivables; available-for-sale; and financial assets at fair value through profit and loss. Financial assets include cash and cash equivalents, trade and other receivables and loans. The ESFA determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable costs. Presently, the ESFA does not have any financial assets that need to be classified as financial assets at fair value through profit or loss, neither does it have cash equivalents or derivative financial instruments.

The subsequent measurement of financial assets depends on their classification, as follows:

Trade and other receivables

Trade and other receivables have fixed or determinable payments that are not quoted on an active market. They do not carry any interest and are initially recognised at their face value. They are then carried at amortised cost using the effective interest method. Appropriate allowances (provisions/write-offs) for estimated irrecoverable amounts (bad debts) are recognised in the SoCNE when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the estimated future recoverable amount.

Loan and receivable assets

The loans are not traded on any active market and are carried at amortised cost using the effective interest method. Appropriate allowances (provisions/write-offs) for estimated irrecoverable amounts (bad debts) are recognised in the SoCNE when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the estimated future recoverable amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash in-hand and on-demand deposits.

Where there are restrictions upon the ESFA’s ability to access cash, for example through being held in escrow with a solicitor pending a transaction, the ESFA discloses these restrictions separately in the notes to the financial statements. However, in accordance with IAS 7 the ESFA continues to present balances as cash in the Statement of Financial Position and Statement of Cash Flows.

1.16.2 Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities include trade and other payables and loans. The ESFA does not currently have financial liabilities measured at fair value through profit or loss; neither does it have derivative financial instruments. The ESFA determines the classification of its financial liabilities at initial recognition.

The measurement of financial liabilities depends on their classification, as follows:

Trade and other payables

Trade and other payables including accruals are generally not interest bearing and are stated at their face value on initial recognition. Subsequently, they are measured at amortised cost using the effective interest method.

1.17 Contingent liabilities

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

1.18 Financial guarantees

Financial guarantees are initially recognised at fair value on the date that the guarantee was given in accordance with IAS 39. At each year end, they are subsequently re-measured at the higher of the amount determined in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), and the amount initially recognised, less when appropriate, cumulative amortisation.

1.19 Provisions

The ESFA makes provisions in the accounts where the following criteria are met in accordance with IAS 37. The criteria are as follows:

- a legal or constructive obligation exists that will result in the transfer of economic benefit;
- the transfer is probable; and
- a reliable estimate can be made.

The provision's value is discounted when the time value of money is considered material. Changes in the discount rate applied will be recognised in the year in which the change occurred. Comparative figures are not adjusted as this constitutes a change in accounting estimate.

The ESFA applies HM Treasury's discount rate to discount its provisions and the rates are as follows:

- the real discount rate applied to cash flows of short term (0-5 years) general provisions is (2.70%);
- (1.95%) for medium term general provisions (between 5 and 10 years);
- (0.80%) for long term general provisions (more than 10 years); and

- early departure costs provisions are discounted at 0.24%.

1.20 Value Added Tax

Most of the activities of the ESFA are outside the scope of VAT. In general, output tax does not apply, or where it does, input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property and equipment and intangible assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.21 Service concession arrangements

Under a service concession arrangement, a Government entity contracts with the private sector to construct, operate and maintain public sector infrastructure; allowing the private sector to deliver services directly or indirectly to the public. However, the Government entity retains control, or regulates, the services provided (including access fees) and controls significant residual interest in the infrastructure at the completion of the arrangement.

The ESFA has adopted *IFRIC 12 Service Concession Arrangements* (IFRIC 12) as interpreted by the FReM for the grantor to account for the 46 schools the private sector will construct and then operate for the ESFA under the Private Finance 2 (PF2) scheme over a 25-year period. The transaction is part of the wider PSBP programme sponsored by the Department that is addressing condition issues across the school estate. Within these accounts the transaction is referred to as PF2.

The assets being constructed under the terms of PF2 are, in the main, not recognised by the ESFA. In accordance with the ESFA's existing asset recognition approach for PSBP assets, the ESFA does not recognise school assets being constructed under PSBP (including PF2). The ESFA does not judge any economic benefit to flow to the ESFA Group from the PSBP assets during and after construction. The ESFA instead recognises the value of the assets during construction for schools as capital grants-in-kind.

As well as potential asset recognition IFRIC 12 application also results in the ESFA recognising the financing liability arising from constructing the assets originally. The financing liability is repaid over the term of the service concession arrangement through the unitary charges settled by ESFA.

Interest on the financing liability and expenditure on services provided under the service concession arrangement are recognised in the SoCNE as they accrue. Unitary charges are apportioned between 3 elements: an element to pay for services; an element to pay interest on the liability and an element to repay the financing liability.

1.22 Shared services

The Departmental Group provides a number of corporate functions as a shared service reflecting the Department's operating model. The Departmental Group has provided the following services to the ESFA's:

- human resources;
- estates and facilities management;
- communications;
- legal services;
- information, communication and technology services; and
- corporate finance and procurement.

The accounts include a notional recharge from the Department to the ESFA to reflect the costs of these shared services. The Department makes direct charges in relation to these services that can be directly apportioned to the ESFA whilst the remainder of the departmental recharge to the ESFA is an apportionment of costs. The departmental calculates the apportionment as a cost per full time equivalent employee within the Departmental Group multiplied by the number of the ESFA's full time equivalent employees.

2. Transfer of function

	Note	EFA £000	SFA £000	Total £000
Non-current assets:				
Property, plant and equipment	7	294,967	218	295,185
Intangible assets	8	5,693	39,046	44,739
Loans	11	2,684	24,763	27,447
Trade and other receivables	12	15,903	415	16,318
Total non-current assets		**319,247**	**64,442**	**383,689**
Current assets:				
Receivables	12	257,353	78,757	336,110
Loans	11	1,932	25,217	27,149
Cash and cash equivalents	13	121,492	269,551	391,043
Total current assets		**380,777**	**373,525**	**754,302**
Total assets		**700,024**	**437,967**	**1,137,991**
Current liabilities:				
Payables	14	(777,559)	(183,698)	(961,257)
Provisions	15	(9,104)	(1,269)	(10,373)
Total current liabilities		**(786,663)**	**(184,967)**	**(971,630)**
Total assets less current liabilities		**(86,639)**	**253,000**	**166,361**
Non-current liabilities				
Payables	14	(517,971)		(517,971)
Provisions	15		(2,643)	(2,643)
Financial guarantee	16		(29,705)	(29,705)
Total non-current liabilities		**(517,971)**	**(32,348)**	**(550,319)**
Assets less liabilities		**(604,610)**	**220,652**	**(383,958)**
(Gain)/loss on transfer of function		**604,610**	**(220,652)**	**383,958**

On 1 April 2017, the ESFA was formed, replacing both the EFA and SFA. The net assets at that time of both EFA and SFA were transferred to the ESFA. The Department views the combination of the EFA and SFA as a merger into a new body; one agency has not ‘taken over’ the other, they have merged together to become one, more efficient, agency. The 2 agencies will be treated as having ceased on 31 March 2017, with their responsibilities transferred into the ESFA on 1 April 2017, with the carrying value recorded as non-operating gain/loss from the transfer of function through net expenditure with entries in EFA and SFA.

3. Operating income

	2017-18 £000
EU funded	
EU income	201,811
Other	
Rental income	3,145
Joint programme income	10,394
Adult Skills (Offender Learning And Skills Service)	12,031
Capital project contributions from local authorities	28,118
Other income	249
	255,748

Offenders' Learning and Skills Service (OLASS) activities are funded by MoJ and administered by the ESFA

Joint programme income includes LA capital contributions towards capital projects.

The European Commission provides funding for certain projects. This income is matched to the expenditure profile for each project concerned. Income not matched to expenditure at the end of the financial year is transferred to deferred income. If expenditure exceeds income, an accrual may be made for the balance of the income.

4. Grant expenditure

4.1 Resource grants

	2017-18 £000
Local authority	
Dedicated Schools Grant	26,438,965
Local authority and other maintained schools with sixth-forms	501,714
Pupil Premium	1,462,383
Universal Free School Meals	523,524
PFI special grant	751,050
Education Services Grant	129,819
Academy Trusts	
Grants to academies for young people under 16	16,994,072
Grants to academies with sixth-forms	1,594,060
Universal Free School Meals	168,160
Apprenticeships	
16-18	745,209
18+	813,717
Funding to support apprenticeships	20,963
Other bodies	
16-19 further education	3,581,092
16-19 bursary funding	158,230
Adult Education Budget and support funding	1,452,627
European funding	202,054
Adult Skills (OLASS)	12,031
Other current grants	
Schools	279,692
Further and higher education	37,175
Temporary sites for schools	42,109
	55,908,646

4.2 Capital grants

	2017-18 £000
Capital grant expenditure	
Basic Need schools capital grant	1,500,914
Maintenance capital grants to local authority and voluntary aided schools	760,918
Academy capital grants and Free Schools Programme	1,237,892
Priority School Building Programme	471,418
Other grants	28,005
	3,999,147

5. Other expenditure

5.1 Operating expenditure

	2017-18 £000
Staff related costs	1,634
Consultancy and other professional fees	13,547
Premises costs including rates and service charges	3,413
IT and telecommunications costs	28,520
Travel and subsistence	3,929
PF2 service costs	3,344
Other expenditure	14,727
	69,114

The costs above include notional recharges of £41.2 million for the shared services provided by the Department. The majority of ‘other’ expenditure costs are HR and accounting services recharges.

5.2 Depreciation, impairment and other non-cash charges

	2017-18 £000
Depreciation	93
Amortisation	17,944
Impairment:	
intangible assets	1,163
loans	(2,403)
Loans write off	4,150
Auditor's remuneration	330
Provisions:	
provided in year	603
change of discount rate	
unwinding of discounts	
not required and written back	(3,205)
	18,675

6. Finance expenditure

	2017-18 £000
PF2 imputed lease interest	48,882
Bank charges and interest	12
	48,894

7. Property plant and equipment

	Land and buildings £000	Assets under construction £000	Furniture and fittings £000	Plant and machinery £000	IT hardware £000	Total £000
Cost of Valuation						
At 1 April	-	-	-	-	-	-
Transfer of function (Note 2)	3,597	291,370	7,917	135	3,421	306,440
Additions	13,700	277,152	412			291,264
Transfers from academies	31,924	211,594				243,518
Disposals	(1,011)	(48,711)				(49,722)
Impairments	(1,200)					(1,200)
At 31 March	**47,010**	**731,405**	**8,329**	**135**	**3,421**	**790,300**
Depreciation						
At 1 April			-	-	-	-
Transfer of function (Note 2)			(7,779)	(135)	(3,341)	(11,255)
Depreciation charge			(53)		(40)	(93)
At 31 March	**-**	**-**	**(7,832)**	**(135)**	**(3,381)**	**(11,348)**
Carrying value at 31 March 2018	**47,010**	**731,405**	**497**	**-**	**40**	**778,952**
Asset financing:						
Owned	47,010	731,405	497	-	40	778,952
	47,010	**731,405**	**497**	**-**	**40**	**778,952**

Assets under construction (AuC) represent school building projects under the Free Schools Programme. Where the ESFA does not yet have documentary agreements in place with the academy trust end users, management judge the sites to be the ESFA's as they control the assets. Once the ESFA has an occupation agreement in place with an academy trust, who will operate the free school from the site when operational, the ESFA de-recognises the AuC assets as a disposal. £24.9 million for the Free Schools Programme staff costs have been included in the value of AuC as they are directly attributable to these projects.

8. Intangible assets

	Software £000	Development expenditure £000	Total £000
Cost or valuation			
At 1 April 2017	-	-	-
Transfer of function (Note 2)	158,403	8,399	166,802
Additions	-	4,563	4,563
Impairments	(43,481)	310	(43,171)
Reclassifications	7,032	(7,032)	-
At 31 March 2018	**121,954**	**6,240**	**128,194**
Amortisation			
At 1 April 2017	-	-	-
Transfer of function	(122,063)	-	(122,063)
Charged in year	(17,944)	-	(17,944)
Impairments	43,208	-	43,208
At 31 March 2018	**(96,799)**	**-**	**(96,799)**
Carrying value at:			
31 March 2018	**25,155**	**6,240**	**31,395**
Asset financing:			
Owned	25,155	6,240	31,395
	25,155	**6,240**	**31,395**

9. Financial instruments

9.1 Financial assets by category

	Note	2018 £000
Available for sale investments		
Cash	13	425,590
Loans and receivables		
Loans	11	129,974
Receivables	12	164,744
		720,308

9.2 Financial liabilities by category

	Note	2018 £000
Trade and other payables	14	40,788
Accruals	14	688,132
PFI liability	14	647,372
PCDL financial guarantee	16	23,394
		1,399,686

10. Financial risk

10.1 Financial risk management

As the cash requirements of the ESFA are met through the Department's Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body.

Credit risk
The ESFA is exposed to some levels of credit risk, arising from the non-payment of debts with educational providers funded by the ESFA. The main cause of such default is the insolvency of commercial and charitable providers. The Agency mitigates its credit risk exposure by subjecting funded providers to quality and financial status reviews prior to the Agency awarding these providers contracts and monitoring providers' delivery of learning against the value of profile payments made during the term of the contracts.

Prompt payment data for the ESFA is published on GOV.UK[26].

Liquidity risk
Parliament votes annually on the financing of ESFA resource requirements via the Department's estimate process. The ESFA does not consider itself exposed to any significant liquidity risks.

Interest rate risk
The ESFA financial liabilities carry either nil or fixed rates of interest. The ESFA does not consider itself exposed to any significant interest rate risk.

[26] DfE prompt payment data - https://www.gov.uk/government/publications/prompt-payment-data-for-dfe

11. Loans

11.1 Loan analysis

	Loans to academy trusts £000	Exceptional Financial Support loans £000	EFS (Grant) Repayable £000	Restructuring Facility £000	2018 Total £000
Balance at 1 April	-	-		-	-
Transfer of function (Note 2)	4,616	47,130	-	2,850	54,596
Loan advances	2,933		34,793	45,838	83,564
Loan interest		1,658		430	2,088
Repayments received in year	(2,038)	(3,000)		(1,529)	(6,567)
Loan write off		(3,707)			(3,707)
Reclassification		(5,218)		5,218	-
Balance at 31 March	**5,511**	**36,863**	**34,793**	**52,807**	**129,974**
Presented as:					
Current assets	1,708	27,570	-	1,894	31,172
Non-current assets	3,803	9,293	34,793	50,913	98,802
	5,511	**36,863**	**34,793**	**52,807**	**129,974**

All the above financial assets are classified as loans and receivables under IAS 39 since the ESFA intends to recover the assets' value through receipts of principle and interest, the loans will be held to maturity and there is no active market for these financial assets. Accordingly the assets are recognised at amortised cost. Assets are initially recognised at fair value (cash advanced) and then subsequently re-measured by applying the effective interest rate approach. EFS repayable grants may be waived and not converted to loans, resulting in losses to the ESFA, further information can be found in the losses section of the Parliamentary accountability and audit report.

Loans to academy trusts

Loans are provided to academy trusts on conversion to settle any local authority deficit and repaid by general annual grant (GAG) abatement over an agreed period of time.

Exceptional Financial Support (EFS)

EFS is intended to safeguard learner provision where a further education college declares that it is encountering financial, or cash flow, difficulties that put the continuation of provision at risk; and that it cannot resolve from its own resources or through arranging borrowing facilities. A loan is a payment of funds that is expected to be paid over a period of time as set out in a legally binding document.

Restructuring Facility

The Government's facility is for further education or sixth-form colleges in England who are impacted by a substantive area review recommendation with the exception of becoming an academy or relating solely to VAT, and need to make major changes. If they are unable to fund the change themselves, they can seek from the Government's Restructuring Facility.

12. Receivables

	2018 £000
Amounts falling due within one year:	
Trade receivables	148,652
Other receivables	1,267
Prepayments and accrued income	276,291
	426,210
Amounts falling due after one year:	
Trade receivables	14,825
	14,825

Trade receivables are stated net of a provision for doubtful debts of £12 million at 31 March 2018.

13. Cash and cash equivalents

	2018 £000
Balance at 1 April	-
Transfer of function (Note 2)	391,043
Net change in cash and cash equivalent balances	34,547
Balance at 31 March	**425,590**
The following balances are held at:	
Cash at bank and in hand:	
Government Banking Service	396,398
Cash held with solicitors	29,192
Balance at 31 March	**425,590**

Cash held by solicitors for capital purchases taking place at the year-end.

14. Payables

14.1 Current payables

	2018 £000
Trade payables	22,562
VAT payables	9,499
PF2 imputed lease liability	66,436
Other payables	18,226
Accruals and deferred income	690,774
	807,497

Accruals include amounts due at year end for capital construction £172 million, Pupil Premium £252 million, and apprenticeships £140 million.

14.2 Non-current payables

	2018 £000
PF2 imputed lease liability	580,936
	580,936

The PF2 liability recognised is in relation to the building of 46 schools constructed and operated through the ESFA's PFI arrangement. The liability shown is that recognised under IFRIC 12 and represents the indirect finance taken on by the ESFA, through the PF2 transaction, to construct the schools.

15. Provisions for liabilities and charges

15.1 Analysis

	2018 £000
As at 1 April 2017	-
Transfer of function (Note 2)	13,016
Provided in the year	20,085
Not required written back	(3,739)
Utilised in the year	(6,577)
Balance as at 31 March	**22,785**
Presented as:	
Current provisions	4,931
Non-current provisions	17,854
	22,785

15.2 Analysis of expected timing of discounted flows

	2018 £000
Not later than one year	4,931
Later than one year but not later than five years	17,796
Later than five years	58
Balance of provision at 31 March	**22,785**

15.3 Analysis by provision type

	Early departure costs £000	Academy closure £000	PCDL £000	AUC £000	Other £000	Total £000
As at 1 April 2017	-	-	-	-	-	-
Transfer of function (Note 2)	1,122	7,934	1,304	1,170	1,486	13,016
Provided in year		603	948	18,534		20,085
Provision utilised in year	(846)	(3,751)	(1,475)	(500)	(5)	(6,577)
Provision reversed during the year	-	(3,205)	-	-	(534)	(3,739)
Balance as at 31 March 2018	**276**	**1,581**	**777**	**19,204**	**947**	**22,785**
Not later than one year	153	1,581	777	2,184	237	4,932
Later than one year and not later than five years	123	-	-	17,020	652	17,795
Later than five years	-	-	-	-	58	58
Balance of provision at 31 March	**276**	**1,581**	**777**	**19,204**	**947**	**22,785**

Other provisions

This includes the ESFA's potential liabilities in relation to its current reorganisation programme and includes elements relating to severance costs and surplus space in ESFA properties. Also, the ESFA's potential liability for costs that may be incurred by suppliers that make individuals redundant as a consequence of the ESFA's supply chain transformation (SCT) work. In line with Government objectives, the ESFA's SCT programme is reforming the way we use our ICT. One aspect of this work is to provide opportunities for SMEs to support and deliver ICT services to achieve value for money through competition and innovation.

Early departure

This covers the ESFA's additional pension contributions payable for all early retirements up to October 2010. These paid to the pension scheme administrator for the period up to normal retirement age for individuals that retired early under the former Learning and Skills Council's reshaping programme.

AuC
This includes potential liabilities for capital construction claims that may be incurred by the ESFA. The claims could cover multiple of things from delays that restrict the contractors to discovery of asbestos, and any other identified issues that may delay construction.

Academy closure
Academy closure provision relates to potential liabilities to academies or their trust towards subsequent closure. The costs of closure include outstanding PNA funds owed to the ESFA and pension liabilities, with expected completion in the next 12 months.

Professional and Career Development Loans interest (PCDL)
The ESFA has a liability to cover interest payments that occur under this programme while the learners are in learning. Under the terms of the programme, the ESFA covers the interest charge, arising from support loans, learners incur during the term of the course. The ESFA also has liability for the default of PCDL loans (see *Note 16: Financial Liabilities*).

16. Financial liabilities

16.1 Analysis

	2018 £000
Opening balance 1 April 2017	-
Transfer of function (Note 2)	29,705
Movement in year	(4,054)
Utilisation in year	(2,257)
Balance at 31 March 2018	**23,394**
Presented as:	
Non-current financial liabilities	23,394
	23,394

16.2 Exposure to risk

The PCDL programme operates by securing loans to learners to enable them to complete a course of study. High street banks offer the loans to learners at a rate of interest below what might ordinarily be offered to them in such circumstances. The ESFA has a liability for the cost of default on such loans and for the interest costs of the loans while the learners are in learning. The ESFA recognises a provision for its PCDL interest charge obligation due to level of certainty of making payments to the third party lenders) (see Note 15 for more details). The remaining loan default risk is classified as a financial guarantee, in accordance with IAS 39, and recognised above.

Credit risk: exposure at end of period
Most of the liability arises from the credit default risk that learners will not repay the loans. The value recognised above is the expected value of this liability remaining at the year-end. The values have been estimated as 12% of the total forecast value of loans outstanding at the year-end. The exposure to credit risk is mitigated by the application of credit and other checks by the commercial banks operating PCDL schemes, before the loan is granted.

In accordance with the terms of the agreement with the lenders, the maximum value of the guarantee is capped at 15% of the total loan portfolio advanced under the programme. The total potential liability over the duration of the programme is estimated to be £50 million.

Liquidity risk
As an organisation funded by the Department, it is unlikely that the ESFA will encounter any difficulty meeting its obligations under this financial guarantee.

17. Capital and other commitments

17.1 Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below.

	Land and buildings £000	Total £000
Not later than one year	4,178	4,178
Later than one year and not later than five years	12,143	12,143
Later than five years	517	517
	16,838	**16,838**

17.2 Capital commitments

The table below shows the Agency's commitments for the free school and PSBP programmes including both commitments for grants payable to academies and assets being constructed by the ESFA.

	2018 £000
Free schools	2,630,597
Priority School Building Programme	195,003
National Colleges	337
	2,825,937

These capital commitments do not include the cost of contract workers engaged in the delivery of the Free Schools Programme.

17.3 Commitments under private finance initiative contracts

	2018 £000
Not later than one year	66,436
Later than one year and not later than five years	270,295
Later than five years	1,404,270
	1,741,001

Commitments to the PF2 private financing of 46 schools over a 25-year funding agreement.

17.4 Education grant funding commitments

	2018 £000
Not later than one year	1,181,667
Later than one year and not later than five years	3,008,254
Later than five years	8,249,985
	12,439,906

The ESFA has commitments for private finance initiative grants to local authorities and voluntary aided schools and also grants to colleges for the remainder of the academic year to July 2018.

17.5 Apprenticeship Levy funding

	2018 £000
Not later than one year	454,580
Later than one year and not later than five years	277,118
Later than five years	2,325
	734,023

Income from the Apprenticeship Levy is accounted for by HMRC, and as such, no Apprenticeship Levy income is shown in the ESFA's accounts. Grants paid by the ESFA to apprenticeship training providers are funded through the Supply Estimates process and are accounted for in line with our grant recognition policy (see Note 1.9).

The ESFA has commitments to apprenticeship training providers for English apprentices already enrolled on training courses as at the year-end. The commitments shown in the table above are for the full duration of the apprenticeship training course. The ESFA's commitments will only crystallise when the apprenticeship training has taken place; it is at this point that the funding becomes due for payment.

17.6 Other education grants

The Secretary of State is committed to funding the on-going provision of education at a wide variety of providers. The ESFA cannot quantify the commitments as the ESFA typically agrees funding for one year even though the Secretary of State's commitment is for a much longer period.

18. Contingent liabilities

18.1 IAS 37 contingent liabilities

18.1.1 Quantifiable

The ESFA holds the following quantifiable contingent liabilities disclosed under IAS 37.

PSBP asbestos removal and dark ground rectification

There are a number of asbestos and dark ground (contamination) rectification claims covering 56 schools that have been notified by contractors. It is standard ESFA practice to negotiate with PSBP contractors and for ESFA to partially meet the cost of asbestos or dark ground rectification works found during PSBP projects. There are too many cases, at 56, to mention individually. In many cases we are still awaiting quantification of potential impact.

PFI arrangement

As a result of entering into a PFI arrangement for the building of schools (PF2) there are a number of contracts in place which have clauses that could give rise to liability for the ESFA. These are considered by ESFA to be remote as they relate to breach of contractual conditions.

Overage clauses

As a result of entering into contracts on site purchases, the ESFA is subject to a number of overage clauses. These are considered to be remote as they relate to changes in contractual arrangements.

18.1.2 Unquantifiable

The ESFA has no unquantifiable contingent liabilities.

19. Related party transactions

The ESFA regards the Department for Education as a related party. During the year, the ESFA had a number of material transactions with the Department and with other entities in the departmental group.

In addition, the ESFA has had a number of transactions with other Government departments and central bodies. Most of these transactions have been with BEIS (Department for Business, Energy and Industrial Strategy) and DWP (Department for Work and Pensions).

The ESFA's senior civil servants are each required to complete an assurance framework record where they declare potential related party relationships, from which the ESFA is able to identify related party transactions. The ESFA considers the following relationships as related parties and the ESFA has disclosed the relationships in line with *IAS 24 Related Party Disclosures*:

- Eileen Milner is the Chief Executive of the ESFA, from 20 November 2017;
- Peter Lauener was:
    - the Chief Executive of the ESFA, to 19 November 2017;
    - Chief Executive of the Institute of Apprenticeships, to 26 November 2017, a Departmental Group body;
    - Chief Executive of the Student Loans Company, from 27 November 2017, a Departmental Group body;
    - a Trustee of Educators International;
    - a non-executive Director of Sheffield Children's Hospital; and
- Mike Green is a non-executive member on the Northern Estate Programme Board

The remuneration report lists remuneration to the ESFA's senior management.

At year-end there is a payable outstanding of 205k with the Institute for Apprenticeships.

20. Events after the reporting period

No events occurred after the year-end that require disclosure.

20.1 Authorisation

The Accounting Officer authorised these accounts for issue on the date they were certified by the Comptroller and Auditor General. These accounts do not consider events after that date.

Appendix - Unaudited

Comparative information

The ESFA is a newly formed executive agency created on 1 April 2017. To assist users understanding this appendix provides comparative information of the 2 previous agencies whose operations moved into the ESFA.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

	EFA £000	SFA £000	Total £000
EU Income	-	(30,824)	(30,824)
Operating income	(45,687)	-	(45,687)
Other operating income	-	(4,133)	(4,133)
	(45,687)	**(34,957)**	**(80,644)**
Staff costs	52,626	32,199	84,825
Revenue grants	52,467,595	-	52,467,595
Programme Expenditure	-	3,221,359	3,221,359
Capital grants	4,972,960	-	4,972,960
Other Operating expenditure	91,967	44,703	136,670
Net operating cost / Net operating expenditure	**57,539,461**	**3,263,304**	**60,802,765**
Non-operating expenditure			
Gain on transfer of EFS Loans	-	(45,159)	(45,159)
Total Comprehensive Expenditure / Net operating expenditure	**57,539,461**	**3,218,145**	**60,757,606**

Statement of Financial Position

as at 31 March 2017

	EFA £000	SFA £000	Total £000
Non-current assets			
Property, plant and equipment	294,967	218	295,185
Intangible assets	5,693	39,046	44,739
Loans	2,684	24,763	27,447
Receivables	-	415	415
Trade and other receivables	15,903	-	15,903
Total non-current assets	**319,247**	**64,442**	**383,689**
Current assets			
Receivables	257,353	78,757	336,110
Loans	1,932	25,217	27,149
Cash and cash equivalents	121,492	269,551	391,043
Total current assets	**380,777**	**373,525**	**754,302**
Total assets	**700,024**	**437,967**	**1,137,991**
Current liabilities			
Payables	(777,559)	(183,698)	(961,257)
Provisions	(9,104)	(1,269)	(10,373)
Total current liabilities	**(786,663)**	**(184,967)**	**(971,630)**
Total assets less current liabilities	**(86,639)**	**253,000**	**166,361**
Non-current liabilities			
Payables	(517,971)	-	(517,971)
Provisions	-	(2,643)	(2,643)
Financial guarantee	-	(29,705)	(29,705)
Total non-current liabilities	**(517,971)**	**(32,348)**	**(550,319)**
Assets less liabilities / Total assets less total liabilities	**(604,610)**	**220,652**	**(383,958)**
Taxpayers' equity			
General Fund	(604,610)	220,652	(383,958)
Total taxpayers’ equity	**(604,610)**	**220,652**	**(383,958)**

Grant expenditure/Programme expenditure

	EFA 2016-17 £000	SFA 2016-17 £000	Total 2016-17 £000
Revenue grant expenditure			
Dedicated Schools Grant	26,804,852	-	26,804,852
Local authority and other maintained schools with sixth-forms	636,182	-	636,182
Pupil Premium for local authority schools	1,595,548	-	1,595,548
Academies – grants to academies for young people under 16	15,213,124	-	15,213,124
Academies – grants to academies with sixth-forms	1,493,403	-	1,493,403
16-19 further education	3,661,361	-	3,661,361
16-19 bursary funding	167,012	-	167,012
16-18 apprenticeships	814,926	-	814,926
PFI special grant	750,610	-	750,610
Education Services Grant	496,938	-	496,938
Universal Free School Meals	670,750	-	670,750
Other current grants	162,889	-	162,889
Adult apprenticeships	-	816,613	816,613
Adult education budget	-	1,503,166	1,503,166
Youth-funded programmes	-	834,474	834,474
ESF and other programmes	-	32,235	32,235
	52,467,595	**3,186,488**	**55,654,083**
Capital grant expenditure/Capital expenditure			
Basic Need schools capital grant	1,575,000	-	1,575,000
Maintenance capital grants to local authority and voluntary aided schools	903,639	-	903,639
Academy capital grants and Free Schools Programme	1,429,569	-	1,429,569
Priority School Building Programme	1,055,625	-	1,055,625
Other capital grant	9,127	-	9,127
Further education buildings	-	4,495	4,495
National Colleges	-	25,949	25,949
HMRC Levy initial start up costs	-	3,381	3,381
LEA Loan liabilities	-	2,816	2,816
PCDL	-	(1,770)	(1,770)
	4,972,960	**34,871**	**5,007,831**
Total grant expenditure/programme expenditure	**57,440,555**	**3,221,359**	**60,661,914**

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