Department for Education

Department for Education

Consolidated annual report and accounts

For the year ended 31 March 2016

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Department
for Education

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Consolidated annual report and accounts

For the year ended 31 March 2016

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Contents

Performance report

1. Overview

1.1 The Department had three key objectives in the 2015-16 financial year:

- Safety and wellbeing
- Educational excellence everywhere
- Prepared for adult life

1.2 The Department acted decisively to start delivering the government's manifesto commitments to create 500 free schools, provide 30 hours of free childcare for working parents of 3 and 4 year olds, and much more besides, as set out in this annual report.

1.3 Since the year end Rt Hon Justine Greening MP has been appointed as Secretary of State for Education and Minister for Women and Equalities, on 14 July 2016. At the same time the Department gained additional responsibilities for further and higher education, from the Department for Business Innovation and Skills. The Department is actively taking forward this new agenda, and the Secretary of State's new priorities, and will report on them fully in the 2016-17 accounts, to be published next summer.

Organisation

1.4 The corporate centre of the Department was strengthened over the year under director general leadership. This allowed us to pursue greater efficiency and effectiveness in our finance, commercial, IT, HR, analytical and change functions.

1.5 The Department continued to improve the management of strategic risk in the Department. The Audit and Risk Committee scrutinised near misses and the biggest organisational risks facing the education and children's services sectors.

1.6 As my predecessor set out in the 2014-15 Annual Report and Accounts, we will be implementing a new approach in the production of our 2016-17 accounts. The accounts of academies will not be consolidated into the core department, and there will instead be a separate Sector Annual Report and Accounts. We have developed this method of financial reporting on consultation with Parliament, HMT and NAO.

1.7 I would like to thank everyone in the Department for their hard work and dedication throughout the year in delivering the Department's objectives.

Jonathan Slater
Permanent Secretary

9 December 2016

Non-executive board member's report

1.8 In 2015-16, the Department continued to deliver an ambitious programme of reforms, and laid the foundation for organisational changes to meet the challenge of its increasing focus on delivery.

The departmental board

1.9 The Department's board met four times in 2015-16. It discussed a wide range of issues, including: strategic priorities; organisational change; the management of risk; and progress of delivery programmes.

1.10 Outside board meetings, non-executive board members provided challenge and support on a wide range of issues, including commercial matters, the performance of executive agencies and IT. The non-executive team met regularly.

Membership

1.11 There were changes to board membership in 2015-16. Caroline Dinenage MP joined the board following the 2015 general election. Richard Calvert was appointed Director General for Strategy and Resources in September 2015.

1.12 On the non-executive team, Ruby McGregor-Smith transferred from the Department for Culture, Media and Sport board in December 2015, following the move of the Government Equalities Office to the Department for Education. I joined, and took over as chair of the Audit and Risk Committee, in January 2016.

1.13 Since the end of the financial year, the Department has welcomed Jonathan Slater as our new Permanent Secretary. In July, we welcomed a new Secretary of State and two new ministers: Jo Johnson MP and The Rt Hon Robert Halfon MP. Sir Paul Marshall stepped down as lead non-executive, following the completion of his three-year term; the process of identifying his successor is underway.

Committees

1.14 The Performance Committee, which includes both officials and non-executives, met monthly. The committee oversaw the development of data-driven planning across the department's main delivery priorities. It also reviewed the systemic risks that could affect delivery of the department's priorities, and actions in hand to reduce the likelihood they materialised.

1.15 The Audit and Risk Committee met five times in 2015-16. The committee provided advice on the complex accounting issues arising from the consolidation of academy accounts, and reviewed plans for the introduction of a new reporting framework from 2016-17. It also regularly reviewed risks, issues and near misses.

1.16 Ruby McGregor-Smith led a review of board effectiveness. This showed that overall the board and its committees were felt to be operating effectively. In response to the evaluation, the board is adopting a more structured approach to planning its agenda.

The Performance Committee has increased its focus on problem-solving focused support and challenge for SROs.

Looking ahead

1.17 The Department has seen significant change since the end of the financial year, assuming responsibility for higher and further education policy, apprenticeships and skills from the former Department for Business, Innovation and Skills, as part of the machinery of government changes of July 2016.

1.18 There is no doubt that, in total, these changes plus the Department's own prior plans, create a challenging agenda which will stretch the organisation and its resources.

1.19 The work completed since summer 2016 on the Department's transformation programme places the organisation in a strong position to make the most of the opportunity presented by bringing all skills and education policy together in a single place. The non-executive team will continue to provide advice and scrutiny to help the Department achieve its strategic objectives.

Ian S Ferguson 9 December 2016

Non-executive board member, chair of Audit and Risk Committee

Statement of performance and activities

Strategic aims

1.20 During 2015-16 the Departmental Group work was focused on the delivery of three system goals, and was summarised in twelve delivery priorities[1].

1.21 Since the year end Rt Hon Justine Greening MP has been appointed as Secretary of State for Education and Minister for Women and Equalities, on 14 July 2016. At the same time the department gained additional responsibilities for further and higher education, from the Department for Business Innovation and Skills. The Department is actively taking forward this new agenda, and the Secretary of State's new priorities, and will report on them fully in the 2016-17 accounts, to be published next summer.

Responsibilities

1.22 The Department is responsible for:

- teaching and learning for children in the early years and in primary schools;
- teaching and learning for young people under the age of 19 years, in secondary schools and in further education;
- supporting professionals who work with children and young people;
- helping disadvantaged children and young people to achieve more; and
- making sure that local authority children services protect and support children.

Our priorities

1.23 The Departmental Group's system goals for the 2015-16 financial year were as follows:

- **Safety and wellbeing**: all children and young people are protected from harm and vulnerable children are supported to succeed with opportunities as good as those for any other child.
- **Educational excellence everywhere**: every child and young person can access high-quality provision, achieving to the best of his or her ability regardless of location, attainment and background.
- **Prepared for adult life**: all 19-year-olds complete school or college with the skills and character to contribute to the UK's society and economy and are able to access high-quality work or study options.

1.24 Performance against these strategic priorities is assessed in section 2.

[1] The Department's priorities are available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508422/DfE_Strategy_overview.pdf

Key issues and risks facing the Group

1.25 We have included an assessment of the Department's risk management framework within our Governance Statement (paragraph 3.65). This covers risks, and their management, at the following levels:

- **Systemic risks** to the 'building blocks' of our education system: these are permanent risks in the system and require ongoing Management Committee oversight because of the severity of their impact if realised;
- **Delivery risks** to the specific current policy and reform programmes; and
- **Organisational risks** to the effective running of the Department.

Review of programmes and spending in the year

Summary of the Group's financial performance

Primary statement	
Consolidated Statement of Comprehensive Net Expenditure (SoCNE) Reports total administration and programme costs and revenue	£56.7 billion Total net operating expenditure up by 2.6% in the year compared to £55.3 billion in 2014-15 £56.4 billion Net programme expenditure up 2.6% in the year compared to £55.0 billion in 2014-15 £301 million Net admin expenditure down 6.7% in the year compared to £322 million in 2014-15 £1.8 billion Net non-operating gain on transfer of ATs down 32.0% in the year compared to £2.7 billion in 2014-15
Consolidated Statement of Financial Position (SoFP) Provides information on the's closing assets and liabilities	£44.1 billion Total net assets up 33.2% in the year compared to £33.1 billion at 31 March 2015
Consolidated Statement of Parliamentary Supply	The Group breached the Parliamentary control total for Annually Managed Expenditure (AME) by £175.1m, and for capital

Primary statement	
(SoPS) Provides information on how the Group has performed against the total voted Supply authorised by Parliament, broken down by control totals	Departmental Expenditure Limit (CDEL) by £115.9m. The Department will seek Parliamentary approval by way of an Excess Vote in the next *Supply and Appropriation Act.* At Estimate level, outturn was £35 million (0.1%) lower than the £60.6 billion net resource limit. The net cash requirement limit was £58.5 billion, but the Group consumed £57.7 billion in financing its activities, £0.8 billion less than the Parliamentary limit.

Category	Outturn	Estimate	Variance	Rationale
Budget				
Resource DEL				
School Infrastructure and Funding of Education	£99.3m	£161.0m	(£61.7m)	Primarily driven by the elimination of intra-Group grants for outturn only; also by lower than budgeted grants outside the Group.
Education Standards, Curriculum and Qualifications	£136.7m	£160.0m	(£23.3m)	Grants outside the Group higher than budgeted; offset by lower than anticipated purchase of goods and services and staff and office costs .
National College for Teaching Leadership	£331.3m	£411.4m	(£80.1m)	Primarily driven by the elimination of grants to entities within the Group for outturn only.
AME				
Academy Trusts (net)	£1,364.3m	£1,175.5m	£188.8m	Impairment of the carrying value of academy assets as part of the overall revaluation of the land and buildings of academies in 2016.
Capital DEL.				
Activities to Support All Functions	£3.8m	£20.8m	(£17.1m)	Old Admiralty Buildings build costs for the year have been lower than budgeted.
Children's Services and Departmental Strategy (NDPB) (Net)	£164.6m	£0.4m	£164.2m	Primarily due to costs for the Aggregator Vehicle plc for which budgetary cover was not anticipated
Education Funding Agency – excluding Academy Trusts	£2,727.2m	£4,070.4m	(£1,343.2m)	Elimination of grants to entities within the Group for outturn only; less higher than budgeted grants outside the Group and higher-than-budgeted

Category	Outturn	Estimate	Variance	Rationale
				spending on work-in-progress.
Academy Trusts	£2,106.4m	£791.1m	£1,315.3m	Due to a combination of: • elimination of intra-Group income (grants received from within the Group) for outturn only; • higher than anticipated income from outside the Group; • offset by higher than budgeted acquisition of assets from the local authority sector.

1.26 Discussion on control total breaches can be found at paragraph 5.1.

1.27 Whilst some variances occur in individual lines, these cancel each other out at Group level. From 2016-17 onwards, Departmental grant payments to academy trusts will be treated as payments outside the Group; these are not expected to form significant eliminations in outturn or estimates.

The Group's status as a going concern

1.28 The Group is expected to continue as a going concern for the foreseeable future and is not aware of any information or events, either during the 2015-16 financial year or following the year end, that may affect this status. The 2015 Spending Review confirmed this assumption, with funding allocated to the Group for the next four financial years. In July 2016, as part of a wider set of Machinery of Government changes, responsibility for higher education and for vocational education were transferred from the Department for Business Innovation and Skills to the Department for Education, with associated funding adjustments to be made.

2. Performance analysis

Departmental objectives

2.1 The Group published its Single Departmental Plan (SDP) in February 2016, under the previous government and Secretary of State. Following the change of Prime Minister and other ministers in July 2016, coupled with subsequent machinery of government changes and our new responsibilities, the department is reviewing its SDP and will provide updates in early 2017. The existing plan is available on our website[2].

2.2 The plan reflects three departmental system goals for the Department for Education:

- **Safety and wellbeing**: all children and young people are protected from harm and vulnerable children are supported to succeed with opportunities as good as those for any other child.
- **Educational excellence everywhere**: every child and young person can access high-quality provision, achieving to the best of his or her ability regardless of location, attainment and background.
- **Prepared for adult life**: all 19-year-olds complete school or college with the skills and character to contribute to the UK's society and economy, and are able to access high quality work or study options.

2.3 This chapter provides commentary on our performance against these goals, as well as on the work of the Government Equalities Office. For many areas, data is collected at the end of the academic year, so some figures reflect system performance later than March 2016. The relevant dates are noted in the commentary; full details for each dataset are available on gov.uk through the links provided below.

Safety and wellbeing

Performance indicator: 26% of local authority children's services are rated good or outstanding by Ofsted[3]

2.4 In 2013, Ofsted introduced a new inspection framework for local authority children's services. By March 2016, Ofsted had published 87 inspections under this new framework, meaning 57% of all local authorities have now been reviewed against the new standard. Of the authorities so far inspected, 26% were judged good or better, including two authorities who received an 'outstanding' rating. These were

[2] Available at: https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020

[3] This figure only reflects outcomes for the 87 local authorities so far inspected under Ofsted's Single Inspection Framework, which was introduced in November 2013. Data available at: https://www.gov.uk/government/statistics/childrens-social-care-data-in-england-2016

the first authorities to receive ‘outstanding’ under the new framework. Ofsted still needs to inspect a further 65 authorities under the new framework so these figures are only a partial picture of performance.

2.5 Whilst some examples of excellence have emerged in the provision of children’s social care services, it remains the case that there are too many examples of failure or of organisations struggling to deliver strong services. Structural solutions and stronger accountability have an important role to play in driving change; our reforms in this area focus on supporting the emergence of innovative organisational models for children’s social care; ensuring sharper and more focused accountability; and intervening decisively in cases of failure. Statistics from Ofsted’s inspections of children’s services are available here[4].

Performance indicator: 547 days, on average, between a child entering into care and their placement with adoptive parents

2.6 The average amount of time children have to wait between entering care and being placed with adoptive parents has fallen in 2016, from 19 months to 18 months (or 547 days). The overall number of children adopted from care decreased in 2015-16. In total, 4,690 looked-after children were adopted in the year, down 12% on a high of 5,360 in 2014-15. This change in trend was anticipated as placement orders had reduced in the previous year.

2.7 In March 2016, the Department for Education published a new adoption strategy “Adoption – a vision for change” which addresses the recent declines. It is available here[5].

Other indicators for safety and wellbeing

	2014-15	2015-16
Percentage of children's homes rated good or outstanding by Ofsted[6]	70%	79%
Percentage of care leavers aged 19-21 in education, employment or training[7]	55%	55%
Percentage of referrals to children's social care within 12 months of previous referral[8]	24%	22%

2.8 Additional statistical releases are available on our website[9].

4 https://www.gov.uk/government/collections/childrens-social-care-statistics
5 https://www.gov.uk/government/publications/adoption-a-vision-for-change
6 Data available at: https://www.gov.uk/government/statistics/childrens-social-care-data-in-england-2016
7 Excludes young people for whom information is not known. Data available at: https://www.gov.uk/government/statistics/children-looked-after-in-england-including-adoption-2015-to-2016
8 Data available at: https://www.gov.uk/government/collections/statistics-children-in-need
9 https://www.gov.uk/government/collections/statistics-children-in-need

Educational excellence everywhere

Performance indicator: 53% pupils achieved the expected standard in reading, writing and maths at the end of Key Stage 2

2.9 In 2016, Key Stage 2 pupils took new assessments for reading, writing and mathematics, the first to be based on the new more challenging national curriculum programmes of study in English and mathematics introduced in 2014.The standard pupils were expected to reach in 2016 was therefore higher than the expected standard in 2015. As a consequence, the results are not comparable to those of previous years. Further information on the changes is available online[10].

2.10 For reading, writing and mathematics, 53% of pupils achieved the new expected standard at the end of Key Stage 2 and 5% of pupils achieved a high score across all three subjects (set above the expected standard). Attainment was highest for grammar, punctuation and spelling, where 72% of pupils achieved the expected standard, and lowest for reading, where 66% achieved the expected standard. The Department is supporting primary schools, including funding a £41m programme to transform the teaching of mathematics in primary schools over the next four years and a national school science network.

Performance indicator: Over 39% of pupils in state-funded schools entered the English Baccalaureate

2.11 In 2016, we introduced a new accountability system for secondary schools. The headline accountability measures for school are now:

- Attainment 8;
- Progress 8;
- Attainment in English and Maths (A*-C); and
- English Baccalaureate (EBacc) entry and achievement.

2.12 The EBacc is made up of English, maths, science, a language and history or geography. To achieve the EBacc, a pupil must achieve an A*-C grade in each of these subjects. In 2016, 39.6% of pupils in state-funded schools entered the Ebacc and 24.5% achieved the EBacc. These both reflect small increases compared to 2015. Further data on these measures and school performance can be found here[11].

Performance indicator: 89% of schools judged good or outstanding at their most recent inspection

2.13 As at 31 August 2016, 89% of schools were rated 'good' or 'outstanding' overall at their most recent inspection. This is 5 percentage points higher than in August 2015.

[10] https://www.gov.uk/government/statistics/national-curriculum-assessments-key-stage-2-2016-provisional
[11] https://www.gov.uk/government/statistics/gcse-and-equivalent-results-2015-to-2016-provisional

Overall, 90% of primary schools are now 'good' or 'outstanding' and 78% of secondary schools. These have also increased this year, continuing upward trends in school performance in recent years.

2.14 Further details on school inspection outcomes are available here[12].

Other indicators for educational excellence everywhere

	2015	2016
Average Attainment 8 score for children in state-funded schools[13]	48.4	49.8
Percentage of pupils achieving 5 A*-C GCSEs including English and Maths[14]	53.8	52.8

2.15 The figures have remained stable for all schools when compared to equivalent provisional figure of 52.8% in 2015. Between the provisional and revised releases, there is usually a slight increase in the key national statistics as a result of amendments, primarily due to the addition of late results and re-marks. As such, we expect the 2016 figure to be revised in a similar pattern when revised results are published in January 2017.

2.16 Other data on exams, testing and assessment is available online[15].

Prepared for adult life

Performance indicator: 131,420 young people aged 16 to 18 years old started apprenticeships

2.17 The government has an overall target of three million apprenticeship starts between 2015 and 2020. This will mean an additional 800,000 apprentices than between 2010 and 2015. Between August 2015 and July 2016, 131,420 young people aged 16 to 18 began an apprenticeship, representing over a quarter (25.8%) of all apprenticeship starts that year. Further data on apprenticeships, including achievement rates and sectors is available online[16].

Performance indicator: 64% of young people have a good pass in English and Maths GCSE at 19

2.18 The latest data shows attainment for 19-year-olds has continued to rise. The proportion of 19-year-olds with a good pass (A*-C) in English and Maths rose from 62.1% in 2014 to 64.1% in 2015. A further 5.9% of 19-year-olds have equivalent

[12] https://www.gov.uk/government/statistics/maintained-schools-and-academies-inspections-and-outcomes-as-at-31-august-2016
[13] Data available at: https://www.gov.uk/government/statistics/gcse-and-equivalent-results-2015-to-2016-provisional
[14] Data available at: https://www.gov.uk/government/statistics/gcse-and-equivalent-results-2015-to-2016-provisional
[15] https://www.gov.uk/topic/schools-colleges-childrens-services/exams-testing-assessment
[16] https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships

qualifications. In addition, the proportion of young people who fail to reach this level at 16, but have done so by 19, rose from 16.9% in 2014 to 22.3% in 2015.

Other indicators for prepared for adult life

	2014	2015
Number of advanced level under-19 STEM apprenticeship starts[17]	17,040	17,810
Percentage of 18 yr olds in employment, education or training[18]	86.9%	88.6%
Percentage of young people achieving a technical level by age 19[19]	11.1%	12.2%
Number of pupils achieving the Technical Baccalaureate[20]	n/a	243
Level 3 attainment of students aged 16 to 18 in state-funded schools and colleges[21] • Academic students – average points score • Tech level students – average points score • Applied general students – average points score	 n/a n/a n/a	 30.36 30.82 34.67

2.19 Further detail on 16 to 19 attainment can be found online[22].

Government Equalities Office (GEO)

2.20 Overcoming barriers to the fulfilment of potential for women and lesbian, gay, bisexual and transgender people through policy work, equality legislation and our international obligations in three key areas:

- Extending opportunity
- Improving engagement and representation
- Ending isolation, segregation and violence

Performance indicator: 18.1% difference between the median earnings of men and women as a percentage of men's earnings[23]

2.21 The overall gender pay gap, which includes full-time and part-time employees is measured using data from the Office for National Statistics' Annual Survey of Hours and Earnings. It is calculated as the difference between average hourly earnings

[17] Data available at: https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships
[18] Data available at: https://www.gov.uk/government/statistics/participation-in-education-training-and-employment-2015
[19] Data available at: https://www.gov.uk/government/statistics/level-2-and-3-attainment-by-young-people-aged-19-in-2015
[20] Data available at: https://www.gov.uk/government/statistics/a-level-and-other-level-3-results-2015-to-2016-provisional
[21] Data available at: https://www.gov.uk/government/statistics/a-level-and-other-level-3-results-2015-to-2016-provisional
[22] https://www.gov.uk/government/collections/statistics-attainment-at-19-years
[23] Source: ONS Annual Survey of Hours and Earnings, available at: http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults

(excluding overtime) of men and women as a proportion of average hourly earnings (excluding overtime) of men's earnings.

2.22 In 2016, the gender pay gap was 18.1%, compared to 19.3% in 2015. This is the largest year-on-year drop since 2010 and the lowest overall gap since 1997, when the Office for National Statistics first calculated the gap in this way.

Other indicators for the Government Equalities Office

Government Equalities Office	2015	2016
Percentage of FTSE 350 board positions held by women	17.4%[24]	22.4%[25]
Number of same-sex marriages, including civil partnership conversions[26]	15,098	n/a

Financial performance

2.23 A summary of the financial performance in 2015-16 is included in the Overview section of the Performance report, and a breakdown of spend in key policy areas can be found in Annex C.

Sustainability performance

2.24 Detailed commentary and metrics on sustainability performance can be found in Annex B.

Jonathan Slater
Accounting Officer

9 December 2016

[24] In our single departmental plan, we reporting the 2014 figure of 17.4%. For more detail, see: https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

[25] Source: Cranfield University School of Management, The Female FTSE Board Report 2016, available at: https://www.cranfield.ac.uk/press/news-2016/women-on-boards-ftse-100-company-has-full-gender-balance-for-first-time

[26] Source: ONS 2015: http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/vsob1/marriages-in-england-and-wales--provisional-/for-same-sex-couples--2014/index.html - no more recent data available.

Accountability

3. Corporate governance report

Directors' report

Ministers and Officials in 2015-16

3.1 The Group's ministers and officials for 2015-16 were:

Ministers

Rt. Hon. Nicky Morgan MP (to 13 July 2016)	Secretary of State for Education
Rt Hon David Laws MP (to 8 May 2015)	Minister of State for Schools (jointly with the Cabinet Office)
Nick Gibb MP	Minster of State for School Reform (to 12 May 2015) Minister of State for Schools (from 12 May 2015)
Nick Boles MP (to 14 July 2016)	Minster of State for Skills and Enterprise (jointly with the Department for Business, Innovation and Skills)
Edward Timpson MP	Parliamentary Under Secretary of State for Children and Families (to 12 May 2015) Minister of State for Children and Families (from 12 May 2015)
Sam Gyimah MP	Parliamentary Under Secretary of State for Childcare and Education (jointly with the Cabinet Office) (to 12 May 2015)
(to 14 July 2016)	Parliamentary Under Secretary of State for Childcare and Education (from 12 May 2015)
Caroline Dinenage MP (from 1 September 2015)	Parliamentary Under Secretary of State for Women and Equalities (jointly with the Department for Ministry of Justice)
Lord Nash	Parliamentary Under Secretary of State for Schools

Executive board members

Chris Wormald (to 4 May 2016)	Permanent Secretary
Paul Kissack	Director General, Children's Services, Equalities and Communications
Andrew McCully	Director General, Infrastructure and Funding Directorate
Shona Dunn (to 24 June 2016)	Director General, Education Standards Directorate
Richard Calvert	Director General, Strategy and Resource Directorate

(from 7 September 2015) (to 31 October 2016)	
Simon Judge (to 7 September 2015)[27]	Director, Finance & Commercial
Simon Fryer (to 7 September 2015)	Director, HR
Tom Shinner	Director, Strategy
Peter Lauener	Chief Executive, Education Funding Agency

Non-executive board members

Sir Paul Marshall	Lead Non-Executive Board Member
David Meller	Non-Executive Board Member
Lord O'Neill (to 7 May 2015)	Non-Executive Board Member
Marion Plant	Non-Executive Board Member
Ian Ferguson (from 7 January 2016)	Non-Executive Board Member
Baroness Ruby McGregor-Smith (from 15 December 2015)	Non-Executive Board Member

Register of interests

3.2 The Group maintains a register of interests which contains details of company directorships and other significant interests held by executive and non-executive board members. The Department plans to publish the register at the same time as laying these accounts in December 2016

3.3 Details of directorships and other significant interests held by ministers are set out in the Register of Members' Interests for MPs, and the Register of Lords' Interests. Both registers can be found on the UK Parliament website[28].

Remuneration paid to auditors for non-audit work

3.4 For 2015-16, as in previous years, the audit of the Group and its component entities, with the exception of academy trusts, was undertaken by the Comptroller and Auditor General; no remuneration was paid to the Comptroller and Auditor General for non-audit work.

3.5 Each academy trust commissions its own statutory audit. This work was undertaken by a large number of audit practices. Remuneration of £11.9 million (2014-15: £9.9 million (restated)) was paid by trusts to auditors for non-audit work. Further information on audit remuneration can be found in Note 5 to the accounts.

[27] Directors Simon Judge and Simon Fryer stood down from the Departmental Board when Richard Calvert joined the Department on 7 September 2015

[28] The UK parliament website can be found at: http://www.parliament.uk/mps-lords-and-offices/standards-and-interests

Data management

3.6 There were no significant personal data incidents in 2015-16 (2014-15:1). Further detail on data security and compliance, is held within Annex A.

Political donations and expenditure

3.7 The Group has not made any political donations during 2015-16 (2014-15: £nil).

Financial instruments and exposure to risk

3.8 As the cash requirements of the Group are met from the Consolidated Fund, through the Parliamentary Supply process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size.

Development since the year end

3.9 On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union, and all the rights and obligations of EU membership remain in force. During this period the government will continue to negotiate, implement and apply EU legislation. The outcome of negotiations to exit the EU will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

Research spending

3.10 Total spend for the Department was £11.1m; net central research spend, excluding policy unit spend but including contributions from policy units and devolved administrations was £6.6m (2014-15 £5.9m). Key research strands during the year were International Evidence including Trends in International Mathematics and Science Study and Programme of International Student Assessment; Study of Early Education and Development; the Longitudinal Study of Young People in England: Cohort 2 and approximately 100 other research projects. Further details of these research strands are available online[29].

Branches outside the United Kingdom

3.11 The Group does not possess or operate any branches or entities outside the United Kingdom.

[29] https://www.gov.uk/government/organisations/department-for-education/about/research

Compensation and payments to past directors

3.12 No payments have been made to former directors of the Department in 2015-16. The Department undertook a voluntary exit scheme in 2015-16: details of this is disclosed in paragraph 4.62.

Directors' declaration

3.13 So far as I am aware, there is no relevant audit information of which the external auditors are unaware. I and the directors have taken all appropriate steps to become aware of any relevant audit information, and to establish that the external auditors are suitably informed.

Jonathan Slater 9 December 2016

Accounting Officer

Statement of Accounting Officer's responsibilities

3.14 Under the *Government Resources and Accounts Act 2000* (GRAA), HMT has directed the Department for Education to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources during the year by the Group. The bodies to be consolidated are designated by order made under the GRAA (by *Statutory Instrument 2015/632*). The consolidating body will be known as the 'Departmental Consolidated Group', consisting of the Department and sponsored bodies listed at Note 22 to the Accounts.

3.15 The accounts are prepared on an accruals basis and should give a true and fair view of the state of affairs of the Department and the Departmental consolidated group. This should include the net resource outturn, resources applied to objectives, changes in taxpayer's equity and cash flows of the Departmental consolidated group for the financial year.

3.16 In preparing the accounts, the Accounting Officer of the Group is required to comply with the requirements of the *Government's Financial Reporting Manual* (FReM) and in particular to:

- observe the Accounts Direction issued by HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the Group has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental and other arm's length public bodies;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

3.17 HM Treasury has appointed the Permanent Secretary as Accounting Officer for the Group. The Accounting Officer is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that are made to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for. In turn, the Accounting Officer has appointed as Accounting Officers the Chief Executives (or equivalents) of its Executive Agencies, its sponsored NDPBs, and of academy trusts.

3.18 Under their terms of appointment, the Accounting Officers are accountable for the use, including the regularity and propriety, of the grants received and of the other income and expenditure.

3.19 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 assets of the Department and its NDPBs are set out in *Managing Public Money*[30] published by HMT. The Permanent Secretary can confirm that these responsibilities have been discharged properly.

3.20 The specific accountability system for education and children's services[31] was published on 20 January 2015.

3.21 For academy trust Accounting Officers, guidance and responsibilities are captured in the *Academy Financial Handbook*[32].

3.22 I also confirm that this annual report as a whole is fair, balanced and understandable, and I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

[30] *Managing Public Money* is available at: https://www.gov.uk/government/publications/managing-public-money

[31] Education and children's services can be found at: https://www.gov.uk/government/publications/accountability-system-statement-for-education-and-childrens-services

[32] The *Academy Financial Handbook* can be found at: https://www.gov.uk/government/publications/academies-financial-handbook

9 December 2016

Jonathan Slater

Accounting Officer

Governance statement

Scope of responsibility

3.23 As the Permanent Secretary and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*. Prior to my appointment, on 3 May 2016, this responsibility was held by my predecessor, Chris Wormald, and I have taken assurance from him that there was a sound system of internal controls during the period covered by these accounts.

3.24 The Chief Executives of those NDPBs sponsored by the Department, and of the Department's Executive Agencies are responsible for the maintenance and operation of the system of internal control in their area, as set out in their appointment letters and letters of delegated accountability. In all cases where statutory accounts are produced by sponsored bodies, the Chief Executive has signed a governance statement outlining their internal control systems.

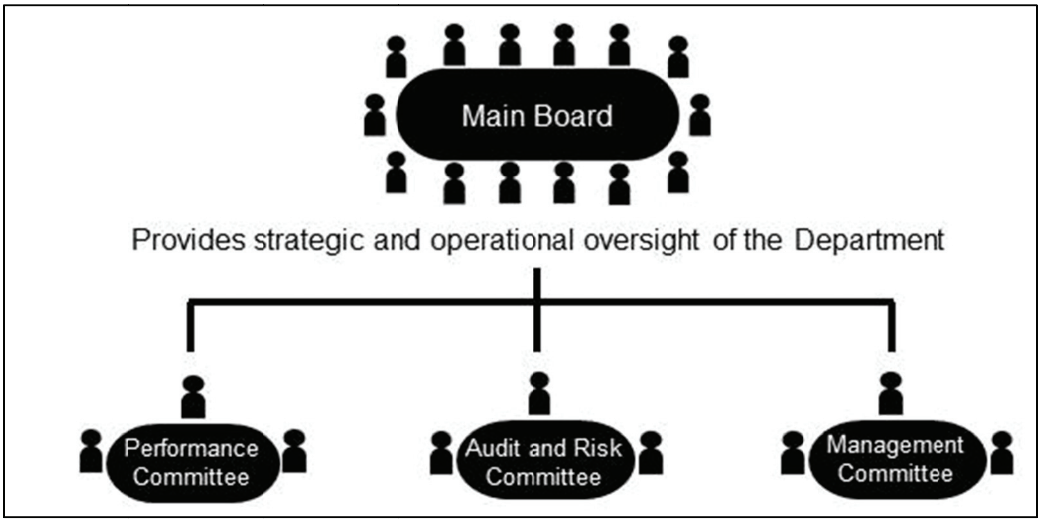
The board structure

3.25 The **Departmental board** provides strategic and operational oversight for the Department by bringing together ministers, senior officials and non-executive board members. It is chaired by the Secretary of State and its membership in 2015-16 comprised ministers, the Permanent Secretary, the directors general, the Chief Executive of the Education Funding Agency (EFA) the Director of Strategy, and five non-executive board members.

3.26 The Departmental board is supported by three Committees:

- the **Performance Committee** supports the board by advising on the operational implications of policy objectives. It monitors the Department's performance against its plans.
- the **Audit and Risk Committee** supports the board by providing independent scrutiny and challenge of the Department's arrangements for governance, risk management and internal control; and
- the **Management Committee** focuses on the Department's organisational capacity and capability to achieve its strategic aims and objectives.

Structure of the board and Committees



Meets monthly and scrutinises performance against plans to deliver the Department's objectives.	Meets at least four times per year and provides assurance to the board and Accounting Officer on audit, risk and control issues.	Meets monthly and focuses on the Department's capacity and capability to achieve its strategic aims and objectives
Membership in 2015-16: • Lead Non-Executive Board Member (chair); • Non-Executive Board Members; • Permanent Secretary; • Director General, CSEC; • Director General, ESD; • Director General, IFD; • Director General, SRD (from September 2015); • Director, FCG (to October 2015); • Director, Strategy; • Chief Analyst; • Director, EFA; and • Independent financial specialist.	Membership in 2015-16: • Non-Executive Board Member (chair); • Two Independent Financial Experts; • Chair, EFA Audit Committee. Regular attendees include: • Permanent Secretary; • Director General, SRD (from September 2015); • Chief Executive, EFA; • Director, FCG; • Head of Internal Audit; and • National Audit Office	Membership in 2015-16: • Permanent Secretary (chair); • Lead Non-Executive Board Member • Chair, ARC; • Director General, CSEC; • Director General, ESD; • Director General, IFD; • Director General, SRD (from September 2015); • Chief Executive, EFA; • Director, FCG; • Director, HR; and • Director, Strategy.

3.27 Attendance data for members of the board and its Committees can be found at Annex A.

Compliance with the corporate governance in central government departments: code of good practice

3.28 With the exception of the departures explained below, the Department has complied with the code of good practice for corporate governance in central government departments. The board and its Committees consider the alternative arrangements have ensured good governance, albeit in a different way from the suggested approach:

- The code recommends that departments have a nominations and governance committee to advise on systems for leadership and talent management, and to scrutinise incentive structures and governance arrangements. These responsibilities were carried out by the Management Committee, which I and my predecessor chaired. The Management Committee addressed HR issues on a monthly basis and, at Talent board on a quarterly basis, identified the department's top talent including nominations for central talent schemes and development opportunities; reviewed and agreed proposals for running departmental talent schemes; and discussed and agreed succession plans for the most senior and critical roles. A non-executive board member attended the end-year meeting at which rewards and incentive packages for senior officials were agreed, in order to provide additional scrutiny and challenge.
- The Audit and Risk Committee was chaired by a non-executive board member. It has not been possible, as recommended by the code, to have a second non-executive attending on a regular basis. The committee is therefore significantly strengthened by the attendance of two independent financial experts and the independent chair of the EFA Audit Committee, who bring external challenge and expertise to the committee.
- While the board considered departmental risk overall, as required by the code, risk management processes were primarily addressed by the Audit and Risk Committee, with risks relevant to their remit considered by all three committees. The Department is reviewing its risk management framework to strengthen aggregation and oversight of risk. This work will clarify the role of the committees in monitoring inherent, delivery and organisational risks, while ensuring the board retains oversight, and provides strategic guidance on risk management.

3.29 In order to manage any conflicts of interest, the Department maintains a register of the interests of board members that is updated regularly. Board members are required to declare potential conflicts of interest that arise. Where a potential conflict of interest is identified, board members are not involved in discussions or decisions on the matter in question. The Department is currently reviewing its procedures for managing conflicts of interests and expects to make further process improvements in 2017.

3.30 An assessment of the board's effectiveness is set out in the Non-executive board member's report in paragraph 1.16.

3.31 As Accounting Officer for the whole Group, I have responsibility for reviewing the effectiveness of the system of internal control. My review was informed by my senior management team (including Accounting Officers for Executive Agencies and ALBs, who have responsibility for the development and maintenance of the internal control framework), Internal Audit, and comments made by the NAO in their management letter and other reports. I required each director general, and the heads of certain other units who report directly to me, to sign an annual assurance statement covering risk management, the operation of related controls in their areas of responsibility, and their use of resources allocated to them.

3.32 This supplemented the regular reporting to the Management Committee on the stewardship of risks and budget managers' assurances that the budgets under their control were spent for the purposes voted by Parliament, within the rules of financial propriety and regularity, and with due regard for value for money.

3.33 Governance statements from directors general encompassed those received from the NDPBs and EAs they oversee. The main findings are summarised within this statement.

3.34 During 2015-16, the Audit and Risk Committee (ARC) discussed consolidation of the Group accounts and recommended sign off of the 2014-15 Group accounts and those of the Group's executive agencies, in addition to reviewing the Department's input into the Statutory Instrument issued to permit the laying of the 2014-15 Group accounts outside the statutory time period. It also advised the Permanent Secretary on the accounts for the Teachers' Pension Scheme (TPS). ARC also continued to review risks and controls relating to the introduction of a new financial reporting framework for academy trusts from 2016-17.

3.35 The committee regularly reviewed management of issues and near misses, and provided guidance on matters of risk and assurance. It scrutinised the Group's internal audit plan, findings from reports and progress with follow-up actions. ARC also regularly reviewed recommendations from Public Accounts Committee (PAC) and NAO value for money reports and arrangements for managing incidents of fraud, error and debt.

3.36 This is the final year in which academies are consolidated into these accounts. Further commentary on the risks, their management and our future approach are detailed within this statement from paragraph 3.73 and within Annex D regarding our consolidation methodology.

3.37 Other sources of assurance were local authority Chief Finance Officers (through the submission of a return under Section 151 of the *Local Government Finance Act 1972*), individual AT Accounting Officers, Ofsted, and the Accounting Officers of our NDPBs and EAs. These Accounting Officers reported either directly to me or to me via the EFA on the probity and appropriateness of the use of Group funding allocated to them.

3.38 The Department's accountability system statement, describing the main systems of accountability for education and children's services, was first published in September 2012 and has been periodically reviewed to maintain its currency. The latest edition was published in January 2015[33]. I also received assurance from a range of external sources, such as the Department for Communities and Local Government's (DCLG) System Accountability Statement[34].

3.39 The board and its committees receive a range of management information to enable them to monitor the performance of the Department. This includes financial and workforce data; indicators of progress against the Department's priorities and information on risk. The senior executive team, with challenge from other board members, continually monitor the quality of the information supplied to ensure that it is of the right quality to enable decisions to be based on evidence.

Further sources of assurance

3.40 The Department receives internal audit and assurance services from the Government Internal Audit Agency (GIAA), based on a service level agreement. The GIAA's departmental Head of Internal Audit has provided me with his annual report, which incorporates his opinion on the Group'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.

3.41 Of the four possible opinion ratings, the rating given by GIAA for 2015-16 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.

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

3.43 In 2015-16, GIAA issued eleven reports (out of a total of forty three) with assurance rated as Limited. A Limited rating states that there are significant weaknesses in the framework of governance, risk management & control such that it could be or become inadequate & ineffective. The reports which received a Limited rating, based on the need to improve consistency in application of processes and guidance, are:

- Resource Management payments - retained processes and hand-overs;
- Free Schools pre-opening oversight;
- Data handling in data and education standards analysis group;
- Programme and Administration Budget Interaction;
- Tax;

[33] The January 2015 statement can be found at: https://www.gov.uk/government/publications/accountability-system-statement-for-education-and-childrens-services
[34] The DCLG statement can be found at: https://www.gov.uk/government/publications/accountability-system-statement-for-local-government

- Fraud and Irregularity reporting;
- HR Case Management;
- Capital – Conditions Funding;
- EFA/SFA Shared Services;
- IT Security, and
- Academies and Free Schools Oversight and intervention.

3.44 Management have broadly accepted the conclusions and the majority of the recommendations of the Limited Assurance reports; actions arising are all either in progress or completed.

3.45 During the year to 31 March 2016, no Ministerial Directions were issued. These would arise if I concluded that a ministerial decision was not compatible with my duties as Accounting Officer.

3.46 The NAO published four Value for Money reports relating to the Departmental Group in 2015-16. In each case the Public Accounts Committee took evidence from the Permanent Secretary and subsequently published their own report. Details of NAO conclusions can be found on their website using the following links:

- *Funding for disadvantaged pupils*[35]*;*
- *Care leavers' transitions into adulthood*[36]*;*
- *Training New Teachers*[37]; and
- *Entitlement to free early education and childcare*[38]*.*

3.47 Since the year end the NAO also published a Value for Money report, relating to the Department, on *Delivering value through the apprenticeships programme* in September 2016, and *Children in need of help or protection* in October 2016. The Permanent Secretary and key staff gave evidence to Parliament's Public Accounts Committee hearing on these subjects on 12 October 2016[39] and 31 October 2016[40] respectively.

Since the year end, the NAO also published an investigation report on the Department's management of a potential conflict of interest[41]. The Permanent

[35] https://www.nao.org.uk/report/funding-for-disadvantaged-pupils/
[36] https://www.nao.org.uk/report/care-leavers-transitions-to-adulthood/
[37] https://www.nao.org.uk/report/training-new-teachers/
[38] https://www.nao.org.uk/report/entitlement-to-free-early-education-and-childcare/
[39] http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/apprenticeships-16-17/
[40] http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/child-protection-16-17/
[41] https://www.nao.org.uk/report/investigation-the-departments-management-of-a-potential-conflict-of-interest/

Secretary and key staff gave evidence to Parliament's Public Accounts Committee on 31 October 2016[42].

The risk management framework

3.48 Successful management of the children's services and education system is vital to the long term future of the country. We developed a rigorous approach to risk management that considers three types of risk:

- **Systemic risks** to the building blocks of our education system, that permanently exist regardless of government policy and require ongoing Management Committee oversight because of the severity of their impact if realised;
- **Delivery risks** to the specific policy programmes of the government of the day; and
- **Organisational risks** to the effective running of the Department.

3.49 We considered eight systemic or 'building block' risks:

- that there are not enough school places for all children;
- that there are not enough good quality early years (education, childcare and children's centre) places for young children;
- that the primary school testing system does not work;
- that the secondary school examinations system fails;
- that the children's social care system fails;
- that the allocation and distribution of funding to schools and post-16 institutions is not accurate or timely;
- that the financial health of the college sector adversely affects the supply of high quality 16-19 learning provision; and
- that there are not enough teachers of sufficient quality.

3.50 For all risks, we have adopted the 'three lines of defence' approach to managing these effectively:

3.51 The first line of defence for each type of risk was an effective system of Senior Responsible Officers and programme boards that monitor and manage risks, locally. The level of scrutiny was proportionate to the risk.

3.52 The second line of defence was a cross-department reporting system, where:

- Delivery plans, which included a risk appetite statement and delivery risks, were considered in detail by the Performance Committee. This followed independent scrutiny and challenge from the Department's Delivery Unit. Monthly delivery reports to Performance Committee also included updates on key risks;

[42] http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/child-protection-16-17/

- More detailed reports on systemic, ‘building block’ risks and delivery risks were scrutinised by the department’s Management or Performance Committees at key points, such as when new data became available or significant decisions needed to be made. From June 2015 all scrutiny was through Performance Committee;
- Delivery risks were also considered in delivery meetings chaired by the Secretary of State;
- Focused reporting on areas or at periods of particular delivery risk operated more frequently, as required;
- The strategic finance operational risk was discussed by Management Committee; and
- Corporate risks were considered, monthly, by the Department’s Management Committee.

3.53 The third line of defence was the Department’s Internal Audit function and Audit and Risk Committee (ARC), which operated and oversaw a comprehensive audit and assurance programme. Non-executive board members sat on and chaired the Department’s Performance Committee and ARC. Independent members attended the Performance Committee and ARC to provide challenge and scrutiny. The ARC remained the forum that provided the assurance I needed on the effectiveness of the arrangements in place. A key part of this role was to review the management of the key financial propriety risks and receive reports on the management of fraud risks.

Key areas affecting programme delivery and the Group’s operational effectiveness, where risk and assurance processes are particularly important

Organisational objectives and outcomes

Primary School testing

3.54 The Standards and Testing Agency published modified versions of the Primary sample test materials online, in December 2015. Regrettably, one of the guidance documents included in that release, for use with the modified large print version of the KS1 spelling test, contained the 2016 live test words rather than sample words.

3.55 When the issue came to light in April 2016, the Minister of State for Schools announced that schools would not be required to administer the KS1 English grammar, punctuation and spelling tests for this year only. All other KS1 and KS2 tests for 2016 continued as planned. All schools were still expected to submit a teacher assessment judgement for English writing based on pupils' work in the classroom. However, there was no requirement this year to administer the key stage 1 English grammar, punctuation and spelling test or to use the result as part of that assessment.

3.56 This was a significant security breach caused by human error within the Agency. This has been thoroughly investigated. Tighter procedures are now in place to ensure separation of live and sample test materials and more robust clearance processes have been developed prior to publication of documents.

3.57 On 9 May 2016 Pearson Education Limited (PEL), the Agency's external marking supplier, mistakenly uploaded the KS2 English grammar, punctuation and spelling (GPS) test onto its secure marker portal site, 16 hours ahead of schedule. It was only accessible for a short period of time before being removed. Only contracted Markers had access to the site, all of whom were under a contractual obligation not to share sensitive information.

3.58 This error was spotted by an unknown who contacted the Guardian newspaper. However, they chose not to publish the GPS test material. The Agency and PEL took immediate attention to identify the root cause of the incident and confirm that the test was not compromised. The Agency conducted intensive internet monitoring and found no evidence that the material was shared more widely prior to the GPS test day. The KS2 English GPS test therefore went ahead as planned on 10 May 2016.

3.59 Following the breach, and with a view to ensuring that there is no recurrence of the events of 2016, Pearson have comprehensively reviewed and updated their quality review and materials upload sign-off and clearance arrangements. The robustness and effectiveness of these revised arrangements continue to be monitored by STA.

Business strategy and planning

Transfer of Government Equalities Office

3.60 Responsibilities for the Government Equalities Office (GEO), including its NDPB, the Equality and Human Rights Commission (EHRC), transferred from the Department of Culture, Media and Sport (DCMS) to DfE on 1 September 2015. The process was overseen by a Transition Board jointly chaired by director generals from the Department and DCMS.

3.61 GEO has been fully integrated into Departmental systems including correspondence management processes, performance management and reporting arrangements.

Shared service provision

3.62 As last year, the Department and Agencies' human resource (HR), payroll, payments and accounting functions were provided under a shared service arrangement by Shared Services Connected Limited.

3.63 There have not been any significant operating problems this year, and the Cabinet Office has written to all clients to provide information on assurance. ARC has also taken an active role in gaining assurance over the robustness of controls and protection of the Department's public interests in relation to shared services.

3.64 The Department is working with the supplier and other customers to improve end-to-end payment controls.

Risk management

3.65 The overarching risk management framework is described above, from paragraph 3.48. Following the Department’s review of practice in this area, processes for delegation of authority have now been changed, with one single letter of delegation of authority for 2015-16 bringing together all previous delegations into one place. We are making further improvements to our approach to risk management in 2016-17

Fraud, error and debt

3.66 The Department is fully engaged with the cross-government programme to reduce fraud within the public sector, sharing information and best practice with the Cabinet Office and other government departments. At any time, a number of potential instances of fraud may be under investigation, either by the Department or by the police.

3.67 All prevented and identified fraud incidents were reported to Cabinet Office; a small number of those incidents were also reported to NAO/PAC. Each of these was fully investigated and led to successful prosecution. Recovery of the Department funding involved is underway.

3.68 A significant case, reported by the press following prosecution during the year, was that of the former staff member, who used his position to fraudulently obtain £1.1 million between 2006 and 2008. The individual concerned was found guilty and jailed for 3 years 4 months. We anticipate that the financial loss to the Department will be recovered in full. The systems involved in 2008 have been totally replaced in the intervening period and procedures have been strengthened. Resilience improvements (i.e. via the Payment Controls project) are ongoing.

Knowledge, information and asset management

3.69 Managers are responsible for controlling and reviewing user access to information systems containing sensitive information to ensure that access remains in line with job responsibilities. This is particularly important in the Due Diligence and Counter Extremism Group (DDCEG), where sensitive information is handled on a daily basis by appropriately trained and security-checked staff.

3.70 Internal audit also undertook a review to advise on Due Diligence and Counter Extremism Group’s (DDCEG) progress in implementing the recommendations of the Permanent Secretary’s review into how the department had handled warnings of extremism. The first stage review reported in August 2015 and reflected that overall good progress has been made against the seven actions. A follow-up review will consider the effectiveness of steps taken by the department and the coherence of and risks to remaining delivery plans, particularly regarding the effectiveness of DDCEG’s operational functions.

3.71 Following a review by the National Archive in 2015, their recommendations are being used to strengthen our Knowledge Information Management (KIM) and will contribute to the revision of our KIM Strategy.

3.72 No significant issues arose in year; details of personal data issues reported to the Information Commissioner in 2015-16 are set out in Annex A.

Management commentary on consolidating AT expenditure into the Group

3.73 This is the fourth year that academy trust (AT) results have been included within the Group accounts, reflecting the classification of academies and free schools as central government public bodies by the Office of National Statistics (ONS).

3.74 The number of academies in England and Wales increased significantly following the introduction of the *Academies Act 2010.* The policy intention was that ATs should be autonomous charitable institutions with fully devolved responsibility for operational decisions. This has led to the vast majority of ATs choosing a financial year end of 31 August, to align with their academic calendar and key operational, educational, budgetary and funding cycles.

3.75 The adoption of a 31 August financial year end has been beneficial for ATs, and the production of annual accounts by ATs is a significant advance compared to local authority-maintained schools, which do not produce their own annual accounts. It has however led to significant problems in consolidating AT accounts in the Group accounts, which have to be constructed through the application of a number of significant and material adjustments in an attempt to align ATs' academic year's financial results and different accounting standards with those of the Group. As the number of academies increases, the level of material error or uncertainty within the accounts has also increased.

3.76 This process is both costly and lengthy. Despite this, and building on previous experience, we continued to improve the quality, accuracy and completeness of the individual returns. This exercise continues to be one of the largest consolidation exercises in the world.

3.77 The Comptroller and Auditor General (C&AG) issued an adverse audit opinion on our accounts in each of the last two years and in the current year, on the grounds of 'material and pervasive' error and misstatement arising from the consolidation methodology. Acting on his recommendations, we have worked with HM Treasury to develop an alternative approach to tackle his concerns. From 2016-17, we will remove ATs' financial results from the group financial statements, which instead will reflect only grants payable to academies.

3.78 We will then prepare a separate aggregate account for academies as at 31 August - the Sector Annual Report and Accounts (SARA). These proposals have been agreed by the Education Select Committee, Liaison Committee, Alignment Review Committee and Scrutiny Unit subject to meeting several conditions.

3.79 The SARA should provide a solution to a number of the consolidation methodology issues we face but it will not immediately address them all. Chief amongst the remaining concerns is our approach to the recognition and valuation of academies' land and buildings. The Department will look again at valuation approaches allowable under FReM.

3.80 In future years following the adoption of SARA, impairment in the value of the assets suffered by the academy sector will not be recognised in the Groups' control totals, thus minimising the scope for control total breaches and excess votes leading to accounts qualifications.

4. Remuneration and staff report

Remuneration

Part A: Unaudited

Ministers' and other board members' remuneration policy

4.1 Ministers' remuneration is set by the *Ministerial and Other Salaries Act 1975* (as amended by the *Ministerial and Other Salaries Order 1996*) and the *Ministerial and Other Pensions and Salaries Act 1991*.

4.2 The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee, a sub-committee of the Senior Salaries Review Body (SSRB).

4.3 Performance management and reward policy for members of the Senior Civil Service (SCS) is managed within a central framework set by the Cabinet Office. It allows for annual performance related base pay and non-consolidated performance awards, agreed centrally each year following SSRB recommendations. The SCS performance management and reward principles for 2015-16, which include explanations of how base pay and performance awards levels are made and assessed are published[43]. SCS performance awards are allocated from a central salary 'pot' expressed as a percentage of the Department's SCS salary bill, which is agreed centrally each year following the SSRB recommendations. In 2015-16 this 'pot' was limited by the Cabinet Office to 3.3% (2014-15: 3.3%) of the total SCS salary bill from which individuals were awarded varying amounts, dependent on performance.

4.4 SCS pay is decided by the SCS Remuneration Committee, chaired by the Permanent Secretary, and comprising members of the Management Committee. The SCS Remuneration 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 (SSRB), who publish additional information[44]. The Permanent Secretary meets separately with a non-executive member to determine the pay of Management Committee members.

Summary and explanation of policy on duration of contracts, notice periods and termination payments

4.5 The Permanent Secretary is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of

[43] The Senior Civil Service Performance Management and Reward principles can be found at: https://www.gov.uk/government/publications/senior-civil-service-performance-management

[44] The SSRB website for additional information is: https://www.gov.uk/government/organisations/review-body-on-senior-salaries

the Ministerial head of the Department. The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee, a sub-committee of the SSRB.

4.6 Members of the Management Committee are appointed by the Permanent Secretary with the agreement of the Prime Minister and the Senior Leadership Committee where appropriate.

4.7 All board members' contractual terms comply with the requirements set centrally for the SCS by Cabinet Office, and the exact terms offered reflect the requirement of the post. The principles governing recruitment to, and departure from the Civil Service, including details of compensation for early termination, are set out in the Civil Service Management Code[45].

Service contracts

4.8 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 on a different basis.

4.9 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. Further information about the work of the Civil Service Commission is available[46].

[45] The Civil Service Management Code is set out at: https://www.gov.uk/government/publications/civil-servants-terms-and-conditions

[46] Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Part B: Audited

Remuneration (including salary) and pension entitlements

4.10 The following sections provide details of the remuneration and pension interests of the ministers and most senior management (i.e. board members) of the Department.

Remuneration (including salary) and pension entitlements

Ministers

	2015-16				2014-15			
	Salary £	Benefits in-kind £	Pension benefits (to nearest £000) £	Total (to r £	Salary £	Benefits in-kind £	Pension benefits (to nearest £000) £	Total (to r £
Secretary of State								
Rt. Hon. Nicky Morgan MP	67,505	-	19,000	87,000	46,641 *(67,505)*	-	10,000	57,000
Ministers of State								
Nick Gibb MP	31,680	-	13,000	45,000	22,568 *(31,680)*	-	8,000	31,000
Edward Timpson MP	30,629	-	11,000	42,000	22,375	-	8,000	30,000
Rt. Hon. David Laws MP (to 8 May 2015)	11,241 *(31,680)*	-	1,000	12,000	31,680	-	11,000	43,000
Parliamentary Under Secretaries of State								
Sam Gyimah MP	22,375	-	7,000	29,000	15,120 *(22,375)*	-	5,000	20,000
Nick Boles MP	-	-	-	-	-	-	-	-
Caroline Dinenage MP	-	-	-	-	-	-	-	-
Lord Nash	-	-	-	-	-	-	-	-

4.11 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

4.12 Rt. Hon. David Laws MPs' salary paid includes £3,321 representing accrued and actual earnings to 8 May 2015 and a severance payment of £7,920 representing a quarter of his claimed annual salary of £31,680.

4.13 Nick Boles MP served in a joint post as Minister of State with the Department for Business, Innovation and Skills (BIS). His ministerial salary was paid by that department and is disclosed by them in their Annual Report & Accounts.

4.14 Caroline Dinenage MP received remuneration from Ministry of Justice (MOJ) for her post as Parliamentary Under Secretary of State for Women, Equalities and Family Justice. Her remuneration is disclosed by MOJ.

4.15 No remuneration was taken by Lord Nash.

Officials

	2015-16					2014-15				
	Salary £000	Bonus Payment £000	Benefits -in-Kind £	Pension Benefits (to nearest £000) £	Total £000	Salary £000	Bonus Payment £000	Benefits -in-Kind £	Pension Benefits (to nearest £000) £	Total £000
Permanent Secretary										
Chris Wormald	160-165	15-20	-	90,000	270-275	160-165	-	-	58,000	220-225
Directors General										
Andrew McCully	125-130	-	-	40,000	165-170	125-130	-	-	43,000	165-170
Richard Calvert (from 7 September 2015)	70-75 *(135-140)*	-	-	83,000	150-155	-	-	-	-	-
Paul Kissack	120-125	5-10	1,200	133,000	265-270	35-40 *(125-130)*	-	1,300	26,000	65-70 *(125-130)*
Shona Dunn	120-125	-	-	55,000	175-180	120-125	-	-	108,000	225-230
Peter Lauener	140-145	-	-	35,000	175-180	140-145	-	-	12,000	150-155
Directors										
Simon Judge (to 7 September 2015)[47]	40-45 *(95-100)*	-	-	14,000	55-60	95-100	-	-	23,000	120-125
Tom Shinner	125-130	10-15	-	50,000	185-190	125-130	10-15	-	47,000	185-190
Simon Fryer (to 7 September 2015)[48]	35-40 *(80-85)*	-	-	85,000	115-120	40-45 *(75-80)*	-	-	82,000	155-160 *(75-80)*

4.16 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. Pensions benefits movements are affected by duration of membership and earnings during this time and contain an actuarial calculation.

4.17 Peter Lauener is the joint Chief Executive of the Skills Funding Agency (SFA) and the EFA and it has been agreed SFA will pay 50% of his costs. He will continue to receive the same remuneration from EFA, however the EFA will recover the SFA's contribution directly from the SFA.

[47] Simon Judge stood down from the Board when Richard Calvert joined the Department on 7 September 2015
[48] Simon Fryer stood down from the Board when Richard Calvert joined the Department on 7 September 2015

Salary

4.18 ‘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 Department and thus recorded in this AR&A. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£67,060 from 1 April 2014, £74,000 from 8 May 2015) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

4.19 Three of the non-executive board members received remuneration from the Department. Marion Plant received £15,000(2014-15: nil), David Meller received £15,000 (2014-15: £15,000), and Baroness Ruby McGregor-Smith received £2,500 remuneration from the Department. Baroness Ruby McGregor-Smith was appointed in December 2015.

Benefits-in-kind

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

4.21 During the year one (2014-15: one) of the board members received benefits in kind.

Bonuses

4.22 Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to the performance in 2013-14.

Pay multiples

4.23 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.

4.24 The banded remuneration of the highest-paid director in the Department in the financial year 2015-16 was £160,000-165,000 (2014-15: £160,000-165,000). This was 4.3 times (2014-15: 4.3) the median remuneration of the workforce, which was £37,565 (2014-15: £37,729).

4.25 In 2015-16, no (2014-15: nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £18,000 to £165,000 (2014-15: £18,000 to £163,000).

4.26 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 benefits.

Ministers

	Accrued pension at age 65 as at 31/3/16 £000	Real increase in pension at age 65 £000	CETV at 31/3/16 £000	CETV at 31/3/15 £000	Real increase in CETV £000
Secretary of State					
Rt. Hon. Nicky Morgan MP	0-5	0-2.5	31	17	6
Ministers of State					
Nick Gibb MP	0-5	0-2.5	56	43	8
Edward Timpson MP	0-5	0-2.5	25	17	4
Rt. Hon. David Laws MP (to 8 May 2015)	0-5	0-2.5	31	30	1
Parliamentary Under Secretaries of State					
Sam Gyimah MP	0-5	0-2.5	11	6	2
Nick Boles MP	-	-	-	-	-
Caroline Dinenage MP	-	-	-	-	-
Lord Nash	-	-	-	-	-

Ministerial pensions

4.27 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at Rules of the Parliamentary Contributory Pension Fund[49].

4.28 Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this annual report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous final salary pension scheme.

4.29 Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

4.30 The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 ministerial pension schemes.

The Cash Equivalent Transfer Value (CETV)

4.31 This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a

[49] The rules are available at: http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a minister. CETVs are calculated in accordance with *The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008* and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

4.32 This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the minister. It is worked out using common market valuation factors for the start and end of the period.

Officials

	Accrued pension at pension age as at 31/3/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/16 £000	CETV at 31/3/15 £000	Real increase in CETV £000
Permanent Secretary					
Chris Wormald	60-65 plus lump sum of nil	5-7.5 plus lump sum of nil	855	727	46
Directors General					
Andrew McCully	50-55 plus lump sum of 75-80	0-2.5 plus lump sum of 0-2.5	959	850	31
Richard Calvert (from 7 September 2015)	50-55 plus lump sum of 160-165	2.5-5 plus lump sum of 10-12.5	1,103	969	73
Paul Kissack	25-30 plus lump sum of 75-80	5-7.5 plus lump sum of 10-12.5	373	269	66
Shona Dunn	30-35 plus lump sum of 85-90	2.5-5 plus lump sum of 0-2.5	519	442	25
Peter Lauener Chief Executive of the Education Funding Agency	70-75 plus lump sum of 210-215	0-2.5 plus lump sum of 5-7.5	1,611	1,607	34
Directors					
Simon Judge (to 7 September 2015)[50]	40-45 plus lump sum of 120-125	0-2.5 plus lump sum of 2.5-5	837	807	12
Tom Shinner	5-10 plus lump sum of nil	2.5-5 plus lump sum of nil	59	36	9
Simon Fryer (to 7 September 2015)[51]	25-30 plus lump sum	2.5-5 plus lump sum	391	328	54

[50] Simon Judge stood down from the Board when Richard Calvert joined the Department on 7 September 2015

		Accrued pension at pension age as at 31/3/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/16 £000	CETV at 31/3/15 £000	Real increase in CETV £000
		of 70-75	of 7.5-10			

4.33 The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016. Pensions benefits movements are affected by duration of membership and earnings during this time and contain an actuarial calculation.

Civil Service pensions

4.34 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 Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four 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.

4.35 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. (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 two 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).

4.36 Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at

[51] Simon Fryer stood down from the Board when Richard Calvert joined the Department on 7 September 2015

the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 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*.

4.37 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

4.38 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 two schemes, but note that part of that pension may be payable from different ages.)

4.39 Further details about the Civil Service pensions arrangements can be found online[52].

Cash Equivalent Transfer Values

4.40 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

[52] The pension arrangements can be found at: www.civilservicepensionscheme.org.uk

4.41 The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are 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

4.42 This reflects the increase in CETV 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.

Staff report

Staff costs: audited

	Permanently employed staff £000	Other £000	Ministers £000	Special Advisers £000	2015-16 Group Total £000	2014-15 Group Total £000
Wages and salaries	10,366,407	740,936	163	180	11,107,686	10,068,487
Social security costs	744,324	17,571	13	18	761,926	720,750
Pension costs	1,788,376	34,944	-	32	1,823,352	1,402,494
	12,899,107	**793,451**	**176**	**230**	**13,692,964**	**12,191,731**
Less recoveries in respect of outward secondments	(3,987)	(28)	-	-	(4,015)	(1,576)
	12,895,120	**793,423**	**176**	**230**	**13,688,949**	**12,190,155**
Of which:						
Department and Agencies	190,126	14,694	176	230	205,226	202,306
NDPBs	12,437	1,358	-	-	13,795	1,817
Academy Trusts	12,696,544	777,399	-	-	13,473,943	11,987,608
	12,899,107	**793,451**	**176**	**230**	**13,692,964**	**12,191,731**

4.43 The prior year staff recharges income has been aligned across the group, resulting in a re-presentation of the split of staff costs between the Department & Agencies, NDPBs and Academy Trusts: the accounting policy relating to this is disclosed at Note 26.5.

4.44 The Group has charged staff costs relating to capital asset new school build and major refurbishment projects to Priority Schools Building Programme (PSBP). This totalled £15.6 million (2014-15: £13.6 million) for the free schools programme and £8.2 million (2014-15: £6.9 million) for the PSBP.

Average number of persons employed: audited

4.45 The average number of full-time equivalent persons employed during the year is shown in the table below.

	Permanently employed staff Number	Other Number	Ministers Number	Special Advisers Number	2015-16 Group Total Number	2014-15 Group Total Number
Department & Agency	3,290	354	5	3	3,652	3,766
NDPBs	214	23	-	-	237	30
Academy Trusts	349,498	17,631	-	-	367,129	339,990
	353,002	**18,008**	**5**	**3**	**371,018**	**343,786**

4.46 There was further reduction in staff numbers in the Department and the Department's EAs as a result of the commitment to reduce administration costs.

4.47 The number of staff employed by the Group continues to increase through the continued expansion of the Group's schools. It is expected that the Group's staff numbers will continue to climb as more schools convert to academy status and are included in future consolidations, although numbers recorded in future Group accounts will drop as Academy staff will be reported via the Sector Annual Report and Accounts, not the Group accounts, from 2015/16 and 2016-17.

4.48 The Group has included European School Teachers in the Department staff numbers. Although the Group undertakes the recruitment and payroll of the teachers, their management is handled directly by the schools they work in. Many of the Civil Service terms and conditions applicable to mainstream Group employees are not applicable to teachers because they are bound by separate terms laid down by the European Schools Convention (EU treaty/law).

Pension schemes: audited

4.49 The Group operates a range of pension schemes for its employees depending upon their role. The schemes are described further below and Note 19.

Civil Service Pensions

4.50 Details of Civil Service Pensions is outlines from paragraph 4.34 onwards.

4.51 The scheme actuary valued the scheme as at 31 March 2012; and further details can be found in the accounts of the Cabinet Office: Civil Superannuation[53].

4.52 For 2015-16, employer's contributions of £30.9 million were payable to the PCSPS (2014-15: £28.7 million) at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

4.53 The career average pension scheme 'alpha' was introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members joined this scheme which is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities.

Local Government Pension Scheme (LGPS)

4.54 The Group makes contributions to the LGPS. The scheme is governed by statutory regulations made under Section 7 of the *Superannuation Act 1972*, and the *Public Service Pensions Act 2013*. Membership of the scheme is voluntary and is open to non-teaching staff at the Group's academy schools who satisfy the membership criteria.

4.55 The scheme is a funded, multi-employer defined benefit pension scheme. The scheme is available to employees of local government bodies, academies and other organisations providing local public services that satisfy the membership criteria. The scheme's administrators are able to allocate the scheme's underlying assets and liabilities across the separate employers in accordance with IAS 19. Consequently, the Group recognises its share of the scheme's net asset surplus or liability deficit on its SoFP.

Teachers' Pension Scheme (TPS)

4.56 The scheme is governed by statutory regulations which are currently: *The Teachers' Pensions Regulations 2014* (SI2014/552). Membership of the scheme is voluntary and is open to members of the teaching profession in England and Wales and who satisfy the membership criteria set out below.

- Teacher or lecturer (between the ages of 16 and 75) in pensionable service employed by;
- a local authority or academy;
- an independent school;

[53] You can find details in the accounts of the Cabinet Office: Civil Superannuation: www.civilservice.gov.uk/pensions

- a further or higher education establishment that has been accepted into the TPS; or
- a function provider (a company awarded a contract to perform functions on behalf of a local authority).

4.57 The scheme is an unfunded, defined benefit pension scheme managed by the Group. As such there are no underlying scheme assets and liabilities for allocation across the employers. In accordance with IAS 19 contributions to the scheme are accounted for as if the scheme was a defined contribution scheme with only contributions payable during the year recognised.

4.58 Contributions to the TPS by employers and employees are set at rates determined by the Secretary of State, taking advice from the scheme's actuary. For 2015-16, the Group was liable to pay employer's contributions of £822 million (2014-15: £779.8 million). Further information about the scheme can be obtained from the TPS's 2015-16 AR&A[54].

Partnership pension accounts

4.59 Group employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £259,000 (2014-15: £202,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay up to 30 September 2015 and 8% to 14.75% from 1 October 2015. The Group matches employee contributions up to 3% of pensionable pay. In addition, employer contributions of £10,000 (2014-15: £13,000), 0.8% of pensionable pay up to 30 September 2015 and 0.5% from 1 October 2015, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

4.60 Contributions payable to the partnership pension providers at the year-end were £26,000 (2014-15: £37,000). Contributions prepaid at that date were nil (2014-15: £nil).

Staff by grade and gender

			2016			2015
Grade	Male	Female	Total	Male	Female	Total
Permanent Secretary	1	-	1	1	-	1
Director General	4	1	5	3	1	4
Director	18	18	36	20	16	36

54 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/538459/TPS_Annual_report_and_Accounts_2015-16_-_web_ready.pdf

	2016			2015		
Grade	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Deputy Director	50	50	100	51	41	92
Grade 6	170	187	357	170	189	359
Grade 7	330	431	761	337	397	734
Senior Executive Officer	327	427	754	325	411	736
Higher Executive Officer	247	416	663	233	405	638
Executive Officer	258	402	660	234	373	607
Executive Assistant	39	77	116	39	97	136
	1,444	**2,009**	**3,453**	**1,413**	**1,930**	**3,343**

Headcount of permanent staff at 31 March.

4.61 Staff by grade and gender data is not available for the full Group

Reporting of civil service and other compensation schemes: audited

4.62 The disclosure of agreed departures during the year comprises two categories:

- employees who agreed to leave during the year and left by 31 March 2016; and
- employees who have committed to leave by 31 March 2016; for whom the exit packages have been accrued.

4.63 Numbers and costs are based on estimated value of exit packages, and expected number of agreed departures are based on the best information available to management at the time of preparing the accounts.

Department & Agencies

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
<£10,000	-	3	6	1	6	4
£10,001 - £25,000	1	6	45	34	46	40
£25,001 - £50,000	1	8	47	46	48	54
£50,001 - £100,000	-	2	50	53	50	55
£100,001 - £150,000	-	1	1	6	1	7
£150,001 - £200,000	-	-	-	-	-	-
Total number of exit packages	**2**	**20**	**149**	**140**	**151**	**160**
Total costs (£000)	**49**	**691**	**6,240**	**6,893**	**6,289**	**7,584**

Group

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
<£10,000	1,289	920	1,514	1,292	2,803	2,212
£10,001 - £25,000	512	375	970	791	1,482	1,166
£25,001 - £50,000	136	147	303	275	439	422
£50,001 - £100,000	17	13	75	64	92	77
£100,001 - £150,000	1	1	1	7	2	8
£150,001 - £200,000	-	-	2	-	2	-
Total number of exit packages	**1,955**	**1,456**	**2,865**	**2,429**	**4,820**	**3,885**
Total costs (£000)	**19,287**	**15,622**	**38,830**	**33,523**	**58,117**	**49,145**

4.64 Redundancy and other departure costs have been paid in accordance with the provisions of the relevant compensation schemes. Exit costs are accounted for in full in the year the departure is agreed. Where the Group has agreed early retirements, with agreed employer funded top-up for early access to pensions, the employer top-up costs are met by the Group alongside compensation for loss of office. Payments comprise either a lump sum payment for loss of office and, in cases where early retirement with agreed employer funded top-up for early access to pensions, the employer top-up costs are met by the Group alongside compensation for loss of office. The total cost to the Group will therefore be higher than the amounts received by individuals. The exit costs of staff in the Executive Agencies are borne and managed centrally by the department. Information on departure costs and numbers for each agency are also reported in the individual agency's AR&A to aid transparency.

4.65 Ill-health retirement costs are met by the pension scheme and are not included in the table. Three people (2014-15: four people) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £10,000 (2014-15: £17,000).

Analysis of staff policies and statistics

Our people

Recruitment practice

4.66 The Department has a duty to ensure it is fully compliant with the Civil Service Commissioners' recruitment principles. The Department'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

4.67 Figures at 31 March 2016 showed that the average number of working days lost through sickness absence across the core Department and Executive Agencies was

4.7 per FTE - a 0.9 day decrease from the figures for the year ended March 2015. This compares well with figures across the Civil Service, which were 7.2 Average Working Days Lost per FTE in the year ending March 2016[55].

Commitment to improving diversity

4.68 The Department published its Equality, Diversity and Inclusion Plan in September 2015, reflecting the Civil Service Talent Action Plan (TAP). The TAP has a strong focus on women, including measures to improve the recruitment and promotion of talented women, and to provide greater support to ensure those on maternity leave or career break are not disadvantaged when they return to work.

4.69 Further research was commissioned to look at the barriers to progression for other under-represented groups. We plan to refresh the department's Equality, Diversity and Inclusion Plan to take account of the findings and analysis of these reports.

4.70 The plan sets out a number of specific actions that will help us take steps towards the development of a highly capable, diverse workforce, in which potential can be developed and equality and diversity can be embedded within the culture of our organisation.

4.71 We are determined to build a department which reflects the society we serve, with a workforce with representation rates of groups with protected characteristics which proportionately mirrors the population. Since the launch of the Equality, Diversity and Inclusion Plan in September 2015 our representation rates have remained relatively stable. The table below shows the percentage change since we began implementing the DfE Review. We will continue to monitor rates going forward.

Addressing under-representation

4.72 We have chosen not to set specific targets for representation within our workforce, in line with the overall Civil Service approach, but we continue to focus on addressing areas where particular groups of staff are under-represented. The numbers in the table below are based on actual headcount at the specified dates. They will not align exactly with headcount data in the accounts, as these are based on full time equivalents (FTEs).

	31-Mar-16		31-Mar-15		31-Mar-14		31-Mar-13		31-Mar-12	
	%	No:	%	No:	%	No:	%	No:	%	No:
Women in Senior Civil Service (SCS)	46	65	45	60	44	59	49	81	54	**70**
Women in Top Management Positions (TMP)	46	20	43	20	41	14	43	12	40	**10**
Black and Minority Ethnic	4	5	4	<5	6	5	4	<5	4	**5**

55 https://www.gov.uk/government/publications/civil-service-sickness-absence

	31-Mar-16		31-Mar-15		31-Mar-14		31-Mar-13		31-Mar-12	
	%	No:	%	No:	%	No:	%	No:	%	No:
(BME) in SCS										
Disabled in SCS	-	<5	3	<5	6	<5	5	5	<4	**<5**
Lesbian, Gay, Bisexual and Transgender in SCS (LGBT)	7	10	9	5	7	5	7	6	4	**5**
Women in feeder grades	54	575	53	600	53	590	53	632	55	**460**
BME in feeder grades	9	100	11	95	12	95	11	96	8	**65**
Disabled staff in feeder grades	6	60	10	65	9	55	10	66	6	**50**
LGBT in feeder grades	**2**	**25**	**4**	**25**	**4**	**25**	**5**	**31**	**4**	**30**

4.73 The Department is making good progress on implementing the actions set out in the Equality, Diversity and Inclusion Plan. We are a leading department in offering diversity and inclusion learning and have run more unconscious bias, mental health awareness and disability awareness training than the majority of other government departments. We are also a leading department on the Positive Action Pathway scheme, and have supported our first participant on the new talent programme 'Accelerate'. Furthermore, the Permanent Secretary, directors general, and many directors have participated in successfully mentoring talented staff from under-represented groups. A number of staff networks have been established; the women's network's introductory events poll receiving nearly 400 responses from DfE colleagues. Senior leaders are actively demonstrating their personal responsibility and accountability; each network is sponsored by an active SCS Champion, every Positive Action Pathway cohort has a senior sponsor and every Management Committee member will be participating in DfE's first Mutual Mentoring cohort.

Engagement with employees

4.74 The Department and Executive Agencies work with our trade unions, both formally and informally, engaging with them to promote an open and constructive relationship. We aim to promote a positive employee relations environment where staff and the trade unions can contribute constructively to our objectives.

4.75 The Department conducts a full people survey annually: the 2015 survey results were published in December 2015. We achieved an 88% response rate, a decrease on the 95% response rate for the 2014 survey. Our engagement index was 60% which represents an increase on last year's index score of 58%. The information from the survey is being used to support development of the Department's strategies and continually improve our levels of employee engagement.

Consultancy and temporary staff

4.76 Consultants are hired to work on projects in a number of specific situations: where the Department does not have the skills set required; where the particular requirement falls outside the core business of civil servants, or where an external, independent perspective is required. When used appropriately, consultancy can be a cost effective and efficient way of getting the temporary and skilled external input that the Department needs. We are committed to the consistent application of the Cabinet Office's 2010 controls on consultancy and other spending.

4.77 For the core Department and its Executive Agencies, spend on consultancy requires completion of a business case which is signed off by a senior civil servant. Consultancy engagements below £10,000 are cleared by the deputy director with budget/delivery responsibility. Engagements between £10,000 and £20,000 are scrutinised and cleared by the Head of Procurement. For engagements over £20,000, the implications for Finance and HR must also be considered and approved, then signed off by the lead Efficiency Controls Minister. If these cases are also expected to last in excess of 9 months, or are for procurement related consultancy they are additionally scrutinised by Cabinet Office.

4.78 Excluding ATs, the Department's consultancy expenditure in 2015-16 was £1.6million. This included NDPB costs of £0.1million (2014-15: £2 million, including £nil NDPB costs). This expertise was mainly used to support the academies and free schools programmes.

4.79 The Department has contracts for the engagement of staff and specialist contractors to cover short term requirements such as covering unexpected absences, short term peaks in workload, short term projects or a permanent vacancy until the vacancy can be filled. Use of contingent labour is also subject to the efficiency controls process and requires ministerial approval for recruitment to SCS equivalent grades, and director general approval for grades below this. Contingent labour expenditure in 2015-16 for the Department was £18.6 million, including NDPB costs of £1.3 million (2014-15: £14.5 million, including £0.1 NDPB costs).

Review of tax arrangements of public sector appointees

4.80 As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Chief Secretary to the Treasury on 23 May 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 2015 and 31 March 2016.

4.81 The tables on the following pages set out this information.

For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

	Depart.	EFA	NCTL	STA	OCC	EHRC	Group (excl. ATs)
Number that have existed for:							

less than one year at time of reporting.	134	55	-	-	-	6	195
between one and two years at time of reporting.	57	49	6	-	-	2	114
between two and three years at time of reporting.	1	48	34	-	-	-	83
between three and four years at time of reporting.	-	29	-	-	-	-	29
four or more years at time of reporting.	1	10	-	-	-	2	13
Engagements as of 31 March 2016	**193**	**191**	**40**	**-**	**-**	**10**	**434**

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

	Depart.	EFA	NCTL	STA	OCC	Group (excl. ATs)
Number that have existed for:						
less than one year at time of reporting.	26	59	40	7	1	133
between one and two years at time of reporting.	22	50	5	2	-	79
between two and three years at time of reporting.	7	32	-	7	-	46
between three and four years at time of reporting.	47	5	-	1	-	53
four or more years at time of reporting.	-	3	-	-	-	3
Engagements as of 31 March 2015	**102**	**149**	**45**	**17**	**1**	**314**

4.82 Many of the 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 six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

	Dept.	EFA	NCTL	STA	OCC	EHRC	Group (excl. ATs)
No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	**107**	**60**	**6**	**-**	**-**	**12**	**185**

Of which: No. of the above which include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	83	60	-	-	-	12	155
No. for whom assurance has been requested	83	60	6	-	-	12	161
Of which: No. for whom assurance has been received	70	59	5	-	-	12	146
No. for whom assurance has not been received	13	1	1	-	-	-	15
No. that have been terminated as a result of assurance not being received.	6	-	-	-	-	-	6

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

	Dept.	EFA	NCTL	STA	OCC	Group (excl. ATs)
No. of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	**15**	**58**	**43**	**7**	**1**	**123**
Of which: No. of the above which include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	15	15	43	7	-	80
No. for whom assurance has been requested	13	15	23	-	-	51
Of which: No. for whom assurance has been received	-	15	-	-	-	15
No. for whom assurance has not been received	13	-	23	-	-	36

No. that have been terminated as a result of assurance not being received.	-	-	-	-	-	-

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

	Dept. & Agencies	EHRC	OCC
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	1	-	-
No. of individuals that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements.	8	6	1

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015

	Dept. & Agencies	OCC
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	1	-
No. of individuals that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements.	9	1

5. Parliamentary accountability and audit report

Consolidated Statement of Parliamentary Supply: audited

for the year ended 31 March 2016

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPS and related notes are subject to audit.

Summary of resource and capital outturn 2015-16

								2015-16	2014-15
				Estimate			Outturn	Voted	Outturn
	Note	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000	Outturn compared with Estimate: saving/ (excess) £000	Total £000
Departmental Expenditure Limit									
- Resource	S1.1	**54,556,790**	-	54,556,790	54,230,570	-	54,230,570	326,220	53,612,464
- Capital	S1.2	**4,885,137**	-	4,885,137	5,000,992	-	5,000,992	(115,855)	4,787,405
Annually Managed Expenditure									
- Resource	S1.1	**1,179,118**		1,179,118	1,354,234	-	1,354,234	(175,116)	751,579
- Capital	S1.2	**-**	-	-	-	-	-	-	-
Total Budget		**60,621,045**	**-**	**60,621,045**	**60,585,796**		**60,585,796**	**35,249**	**59,151,448**
Non-Budget									
- Resource	S1.1	-	-	-	-	-	-	-	3,072,871
Total Non-Budget		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,072,871**
Total		**60,621,045**	**-**	**60,621,045**	**60,585,796**	**-**	**60,585,796**	**35,249**	**62,224,319**

Total Resource		**55,735,908**	**-**	**55,735,908**	**55,584,804**	**-**	**55,584,804**	**151,104,**	**57,436,914**
Total Capital		**4,885,137**	**-**	**4,885,137**	**5,000,992**	**-**	**5,000,992**	**(115,855)**	**4,787,405**
Total		**60,621,045**	**-**	**60,621,045**	**60,585,796**	**-**	**60,585,796**	**35,249**	**62,224,319**

Net cash requirement

	2015-16		2015-16	2014-15
Note	Estimate £000	Outturn £000	Outturn compared with Estimate: saving/ (excess) £000	Outturn £000
S3	**58,488,629**	**57,679,050**	**809,579**	**57,166,630**

Administration costs

	2015-16		2014-15
Note	Estimate £000	Outturn £000	Outturn £000
S1.1	**313,060**	**300,757**	**322,496**

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

5.1 The Department has incurred an Excess Vote of £116m on CDEL. This arose from the inclusion of the Aggregator Vehicle plc (which provides Private Finance Batches for the Priority Schools Building Programme) into the Departmental Group for the year, for which we had expected a 'budget neutral' treatment. Following discussions on appropriate future treatment, the Department has agreed with HMT that we will seek Parliamentary approval for additional voted budget to cover the Aggregator's activities through the supplementary estimates process.

5.2 The Department has incurred an Excess Vote of £175 million on RAME. This arose from the impairment of the carrying value of academy assets as part of the overall revaluation of the land and buildings of academies previously valued at 31 August 2012. In the financial statements, the impairment charge of £1,009 million was offset by a revaluation gain of £7,668 million (both figures include other revaluation movements). The revaluation is described further in note 26.3 to the Accounts. The Department is reviewing the valuation methodology for academy land and buildings to consider whether figures reported are appropriately current. The Department will seek Parliamentary approval of both breaches by way of an Excess Vote in the next Supply and Appropriation Act.

Category	Resource /Capital	DEL/AME	Excess vote £000
Treatment of Aggregator Vehicle plc assets and liabilities	Capital	DEL	£115,855
Impairment of Academy land and buildings	Resource	AME	£175,116

5.3 Explanation of variances between Estimate and Outturn are given in the Commentary on significant variances between Estimate and Outturn following paragraph 1.25.

5.4 The notes on pages 63 to 68 form part of this Statement of Parliamentary Supply.

Notes to the Accounts (Statement of Parliamentary Supply): audited

S1. Net outturn

S1.1 Analysis of net resource outturn by section

	2015-16										2014-15
	Outturn							Estimate			Outturn
	Administration			Programme							
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net Total £000	Net total compared to Estimate £000	Net total compared to Estimate, adjusted for virements £000	Total restated £000
Spending in Departmental Expenditure Limits (DEL)											
Voted expenditure											
Activities to Support all Functions	233,755	(27,427)	206,328	42,856	(847)	42,009	248,337	246,740	(1,597)	(1,597)	249,276
School Infrastructure and Funding of Education (Department)	-	-	-	101,306	(1,983)	99,323	99,323	161,038	61,715	61,715	102,749
Education Standards, Curriculum and Qualifications (Department)	-	-	-	200,242	(63,521)	136,721	136,721	160,026	23,305	23,305	136,086
Children's Services and Departmental Strategy (Department)	-	-	-	316,209	(1,775)	314,434	314,434	331,919	17,485	17,485	351,145
Children's Services and Departmental Strategy (ALB) (Net)	16,076	-	16,076	11,389	-	11,389	27,465	25,013	(2,452)	(2,452)	2,756
Standards and Testing Agency	3,193	-	3,193	46,436	-	46,436	49,629	51,253	1,624	1,624	43,250
National College for Teaching and Leadership	12,815	(186)	12,629	322,895	(4,200)	318,695	331,324	411,449	80,125	80,125	313,128
Education Funding Agency – excluding Academy Trusts	62,656	(125)	62,531	36,726,742	(9,514)	36,717,228	36,779,759	36,790,860	11,101	11,101	37,664,442
Academy Trusts (Net)	-	-	-	16,243,578	-	16,243,578	16,243,578	16,378,492	134,914	134,914	14,749,632
Total spending in DEL	**328,495**	**(27,738)**	**300,757**	**54,011,653**	**(81,840)**	**53,929,813**	**54,230,570**	**54,556,790**	**326,220**	**326,220**	**53,612,464**
Spending in Annually Managed Expenditure (AME)											
Voted expenditure											
Activities to Support all Functions (Department)	-	-	-	(3,533)	-	(3,533)	(3,533)	3,888	7,421	7,421	(5,289)
Executive Agencies	-	-	-	(6,541)	-	(6,541)	(6,541)	(270)	6,271	6,271	8,080
Academies (Net)	-	-	-	1,364,308	-	1,364,308	1,364,308	1,175,500	(188,808)	(188,808)	748,788
Total spending in AME	**-**	**-**	**-**	**1,354,234**	**-**	**1,354,234**	**1,354,234**	**1,179,118**	**(175,116)**	**(175,116)**	**751,579**

Total Budget	**328,495**	**(27,738)**	**300,757**	**55,365,887**	**(81,840)**	**55,284,047**	**55,584,804**	**55,735,908**	**151,104**	**151,104**	**54,364,043**

										2015-16	2014-15
							Outturn		Estimate		Outturn
	Administration			Programme							
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000	Total £000	Net Total £000	Net total compared to Estimate £000	Net total compared to Estimate, adjusted for virements £000	Total £000
Total Budget	**328,495**	**(27,738)**	**300,757**	**55,365,887**	**(81,840)**	**55,284,047**	**55,584,804**	**55,735,908**	**151,104**	**151,104**	**54,364,043**
Non-Budget Voted expenditure											
Prior year adjustments	-	-	-	-	-	-	-	-	-	-	3,072,871
Total Non-Budget	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,072,871**
Total	**328,495**	**(27,738)**	**300,757**	**55,365,887**	**(81,840)**	**55,284,047**	**55,584,804**	**55,735,908**	**151,104**	**151,104**	**57,436,914**

S1.2 Analysis of net capital outturn by section

						2015-16	2014-15
			Outturn		Estimate		Outturn
	Gross £000	Income £000	Net £000	Net £000	Net total compared to Estimate £000	Net total compared to Estimate, adjusted for virements £000	Net £000
Spending in Departmental Expenditure Limits (DEL)							
Voted expenditure							
Activities to Support all Functions	77,569	(73,813)	3,756	20,847	17,091	17,091	8,579
School Infrastructure and Funding of Education (Department)	(895)	-	(895)	2,500	3,395	3,395	1,773
Education Standards, Curriculum and Qualifications (Department)	-	-	-	-	-	-	-
Children's Services and Departmental Strategy (Department)	-	-	-	-	-	-	-
Children's Services and Departmental Strategy (NDPB) (Net)	164,592	-	164,592	387	(164,205)	(164,205)	43
Standards and Testing Agency	-	-	-	-	-	-	-
National College for Teaching and Leadership	-	-	-	-	-	-	(73)
Education Funding Agency – excluding Academy Trusts	2,727,328	(170)	2,727,158	4,070,351	1,343,193	1,343,193	2,992,610
Academy Trusts	2,106,381	-	2,106,381	791,052	(1,315,329)	(1,315,329)	1,784,473
Total spending in DEL	**5,074,975**	**(73,983)**	**5,000,992**	**4,885,137**	**(115,855)**	**(115,855)**	**4,787,405**
Spending in Annually Managed Expenditure (AME)							
Voted Expenditure							
Activities to Support all Functions (Department)	-	-	-	-	-	-	-
Academies (Net)	-	-	-	-	-	-	-
Executive Agencies	-	-	-	-	-	-	-
Total Spending in AME	-	-	-	-	-	-	-
Total Budget	**5,074,975**	**(73,983)**	**5,000,992**	**4,885,137**	**(115,855)**	**(115,855)**	**4,787,405**

Explanation of variances between Estimate and Outturn are given following paragraph 1.25.

S2. Reconciliation of outturn to net operating expenditure

S2.1 Reconciliation of net resource outturn to net operating expenditure

		Note	2015-16 Outturn £000	2014-15 Outturn £000
Total resource outturn in Statement of Parliamentary Supply				
Budget		S1.1	55,584,804	54,364,043
Non-Budget		S1.1	-	3,072,871
			55,584,804	**57,436,914**
Add:	Capital grant		2,203,186	2,264,514
	Grants disbursed by Department not yet recognised by ATs		(356,880)	(407,007)
Less:	Income payable to the Consolidated Fund		(144)	(42)
	Other capital gains non-LA converters:			
	in-year converters		(669,094)	(911,171)
	Settlement		(37,643)	744
Prior year adjustments			-	(3,072,871)
Net operating cost in Consolidated SoCNE			**56,724,229**	**55,311,081**

S3. Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource Outturn	S1.1	55,735,908	55,584,804	151,104
Resource Outturn Non-Budget		-	-	-
Capital Outturn	S1.2	4,885,137	5,000,992	(115,855)
		60,621,045	**60,585,796**	**35,249**
Accruals to cash adjustments				
Adjustments to remove non-cash items:				
Prior year adjustments		-	-	-
Depreciation, amortisation and impairment	5	(28,592)	(22,730)	(5,862)
New provision and adjustment to previous provision	5	(33,126)	(27,490)	(5,636)
Other non-cash adjustments	5	(841)	(1,779)	938
Adjustment for NDPBs:				
Remove voted resource and capital		(18,372,944)	(19,906,324)	1,533,380
Add cash grant in aid[56]		16,142,579	17,271,436	(1,128,857)
Adjustments to reflect movements in working balances:				
Movement in receivables		-	55,359	(55,359)
Movement in payables		131,000	(309,178)	440,178
Use of provision	17	29,508	33,960	(4,452)
Net cash requirement		**58,488,629**	**57,679,050**	**809,579**

[56] "Add cash grant-in-aid" line contains some capital expenses for the Academies that are paid directly to third parties by EFA.

S4. Income payable to the Consolidated Fund

	Outturn 2015-16 Income £000	Outturn 2015-16 Receipts £000	Outturn 2014-15 Income £000	Outturn 2014-15 Receipts £000
Operating income outside the ambit of the Estimate	144	144	42	42
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total income payable to the Consolidated Fund	**144**	**144**	**42**	**42**

5.5 In addition to income retained by the Group, the above income relates to the Group and is payable to the Consolidated Fund (cash receipts being shown in italics).

Parliamentary accountability disclosures

Losses and special payments: audited

Losses statement

5.6 The total of all losses that have been recognised this year is as follows:

	2015-16		2014-15	
	Department & Agencies	Group	Department & Agencies	Group
Total number of cases	148	179	78	113
	£000	£000	£000	£000
Cash losses	4,867	4,936	741	898
Fruitless payments and constructive losses	2,703	2,736	8,119	8,147
Claims waived or abandoned	44	48	3	62
Administration losses	25	116	3	499
Stores losses	-	13	-	59
	7,639	**7,849**	**8,866**	**9,665**

A1.1.1 Cash losses over £300,000

Pupil number adjustment recoveries

5.7 The Group funds newly formed academies on the basis of forecast pupil numbers and raises Pupil Number Adjustment (PNA) recoveries to clawback funds from academy trusts who fail to recruit their forecast pupil numbers. In the year ending 31 March 2016 the Group has taken the decision to abandon its claim for nine such recoveries totalling £4.7 million. Each case has been considered individually and the decision to abandon a claim has been taken in order to either:

- Facilitate the orderly transfer of an academy in financial difficulties and allow the school to be re-brokered into a different sponsor academy trust; or
- Enable an academy in financial difficulties to implement a financial recovery plan and continue providing education.

5.8 Details of PNA claims abandoned in excess of £300,000 are included below:

Royal Greenwich University Technical College (UTC)

5.9 Royal Greenwich UTC failed to meet its forecast student numbers in 2014/15 and 2015/16 resulting in the Group raising a PNA clawback of £1,884,303 in this financial year. Falling pupil numbers rendered Royal Greenwich UTC financially unsustainable and in February 2016 ministerial approval was granted for the transfer of Royal Greenwich UTC into the University Multi Academy Trust (UMAT). It was judged that the transfer of Royal Greenwich UTC's PNA debt to the new trust would also place severe financial pressures on UMAT and place its financial future at risk. For this reason, the decision was taken to abandon the EFA's PNA claim in respect of Royal Greenwich UTC.

Hackney University Technical College (UTC)

5.10 Hackney UTC failed to meet its forecast pupil numbers for 2013/14 resulting in the Group raising a PNA clawback of £817,000. In July 2014 ministers agreed the closure of Hackney UTC and the termination of the funding agreement in August 2015, due to its failure to recruit sufficient pupils to ensure the academy's long term future. The academy trust, Hackney UTC, went into liquidation on 28 August 2015 with financial assets estimated at £85,000 resulting in the Group being unable to recover £732,000 of the PNA recovery.

Central Bedfordshire University Technical College (UTC)

5.11 Central Bedfordshire UTC failed to meet its forecast pupil numbers in 2013/14, 2014/15 and 2015/16 resulting in a PNA clawback totalling £768,209. The Secretary of State for Education approved the trust's request for closure of Central Bedfordshire UTC because of concerns about its financial viability due to low pupil numbers. The funding agreement will terminate on 31 August 2016. As at 31 August 2015 the academy trust reported a deficit of £184,000 and the Group has agreed that this debt and the academy's pupils and staff will transfer to Bedford College in September 2016. In order to close Central Bedfordshire UTC in a solvent position the decision has been taken to abandon the PNA claim in respect of Central Bedfordshire UTC.

Al-Madinah School

5.12 Al-Madinah school failed to meet its forecast secondary pupil numbers in 2013/14 resulting in the Group raising a PNA clawback of £608,617. The academy's failure to recruit sufficient secondary pupils led to the closure of its secondary provision in August 2014. There is sufficient basic need at primary level to enable the Al-Madinah primary school to continue to operate, however pursuing the smaller primary school for the secondary PNA recovery would place the academy at significant risk of financial failure. In order to facilitate a viable financial future for Al-Madinah primary school, the decision was taken to abandon the PNA claim in respect of the secondary element of the school.

A1.1.2 Fruitless payments and constructive losses over £300,000

European Schools

5.13 £306,399 has been calculated by HMRC as the unavoidable interest owing on income tax and employee and employer national insurance contributions totalling £3,010,607 and paid to HMRC in respect of salary increases (amounting to £5,869,902) awarded to teachers employed by the Department in the European Schools between 2000 and 2014. This follows Department's retrospective implementation of a non-negotiable European Court of Justice judgement from 2012. HMRC's calculations were extrapolated to the full 299 teachers who could potentially claim.

Harperbury School

5.14 Harperbury School incurred capital costs totalling £1,477,628 trying to deliver its trust's preferred permanent site for the school, the former Harperbury hospital. In January 2016 during the pre-application discussions the local authority asked that a number of major changes were made before planning permission was sought. The cost and the risk that the planning application would still have been rejected was high given its location in Hertfordshire's Green Belt. The decision to cancel the project was taken by ministers in February 2016 due to the significant risk that planning permission would not be granted at the permanent site. EFA own the intellectual property rights for the design work completed but due to the unique nature of the project it is unlikely the designs can be reused.

5.15 In addition, DfE also paid £441,044 of pre-opening funding for the Harperbury Free School project. The Trust has returned £49,000 of this funding to the Department and they expect to make a further small refund once they have finalised payments to their creditors. Therefore, the maximum revenue expenditure loss is £392,000 incurred in development of this project.

A1.1.3 Claims waived or abandoned over £300,000

5.16 During 2015-16, there were no claims waived or abandoned over £300,000

A1.1.4 Administration losses over £300,000

5.17 During 2015-16, there were no individual administration losses over £300,000.

A1.1.5 Store losses over £300,000

5.18 During 2015-16, there were no individual store losses over £300,000.

Special payments

		2015-16		2014-15
	Department & Agencies	Group	Department & Agencies	Group
Total number of cases	6	178	56	164
	£000	£000	£000	£000
Total value	**5,204**	**10,487**	**837**	**3,844**

5.19 Academy trusts have the delegated authority to make special severance payments under £50,000. Payments over this value require prior approval from HMT via the Group. The Group discloses one special severance payment above the limit above. The academy trust has applied for retrospective approval and is under review by HMT. If HMT does not approve the payment the Group will work on a solution with the academy trust, including possible recovery of funds.

Totton Sixth Form College

5.20 In December 2015 the Group made a one-off exceptional payment to the Hampshire County Council Pension Fund in respect of the LGPS deficit for Totton College, following the dissolution of the college. This payment was approved by the EFA's Chief Executive and HMT and ministerial approvals were received on 8 June 2015 and 8 July 2015 respectively.

Remote contingent liabilities: audited

Quantifiable

5.21 The Group has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities, or by giving letters of comfort. In accordance with Parliamentary reporting requirements we are obliged to disclose these although none of these are contingent liabilities under the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is judged to be too remote.

	1 April 2015 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2016 £000	Amount reported to Parliament by Depart'al minute £000
In respect of PFI contracts to the Group's schools	7,300,000	610,000	-	-	7,910,000	7,910,000
In respect of lease arrangement with Tottenham Hotspur Property Company	12,500	-	-	-	12,500	-
Kent County Council for Duke of York Royal Military School	5,000	-	-	(5,000)	-	-
In respect of indemnity provided to Church of England's Commissioners	5,000	-	-	-	5,000	5,000
Tenant default agreements	2,501	-	-	-	2,501	-
Rent deposit deed Turin House School	-	470	-	-	470	-
COGA conditions on children centre and playground	377	-	-	(18)	359	-
Supplier dispute	580	-	-	(580)	-	-
Other contingent liabilities	340	133	(62)	(295)	116	-
	7,326,298	**610,603**	**(62)**	**(5,893)**	**7,930,946**	**7,910,000**

PFI contracts

5.22 The contingent liability relating to school buildings arose in connection to the Private Finance Initiative (PFI). These contingent liabilities are the result of the Group, acting as an agent to the Secretary of State, agreeing to provide an indemnity to the local authority for potential costs on buildings they own, with existing PFI arrangements, which will be used by the Group's schools.

5.23 This type of indemnity is considered low risk and is only a feature of the academy programme in very specific circumstances. The contingent liabilities only arise where the Group is using a local authority building with an existing PFI contract. The liability has been increased to £7.9 billion in 2015-16 (2014-15: £7.3 billion) to reflect expansion of the academies programme.

In respect of lease arrangement with Tottenham Hotspur Property Company

5.24 This contingent liability is in relation to an indemnity in respect of a 35 year lease arrangement with Tottenham Hotspur Property Company

Indemnity provided to Kent County Council

5.25 The contingent liability is for any unforeseen liability to the contractor in respect of contamination, defect or asbestos presence at the Duke of York Royal Military school site. This has now fully expired in 2015-16.

Indemnities provided to Church of England Commissioners

5.26 Indemnities provided to Church of England Commissioners in relation to a lease arrangement for an academy site.

Tenant default agreement

5.27 The EFA has entered into a number of tenant default agreements which 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.

Turing House School

5.28 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 released in May 2020.

Conditions of grant aid (COGA) conditions on children centre and playground

5.29 The Deanery Church of England Primary School will be required to repay two grants received from Birmingham City Council if the academy breaches the conditions of grant aid agreement attached to the grants.

Supplier dispute

5.30 One of the Group's academies, St Joseph's Catholic College, is currently pursuing a claim against a number of suppliers following sub-standard work on its estate. If the claims are not successful, the academy estimates it will be liable for remedial repairs and legal costs.

Other contingent liabilities

5.31 These balances cover three separate liabilities (free school principal designates, Free School Norwich lease and employee appeal against dismissal) all individually below the £300,000 disclosure limit to Parliament. The employee appeal against dismissal liability of £62,000 has been paid in full.

All of the above relate to the Group's school operations. They were provided by the Secretary of State to assist the conversion from the maintained sector to the academy sector.

Unquantifiable

Junior ISA Account (JISA)

5.32 In November 2012, the Chancellor agreed with the then Education Secretary Michael Gove to the setting up of a junior ISA account for all children in care in the UK, with an initial payment of £200 each (from Department budgets). The JISA accounts are managed by a party independent from the Department and the funds are not accessible by the Department.

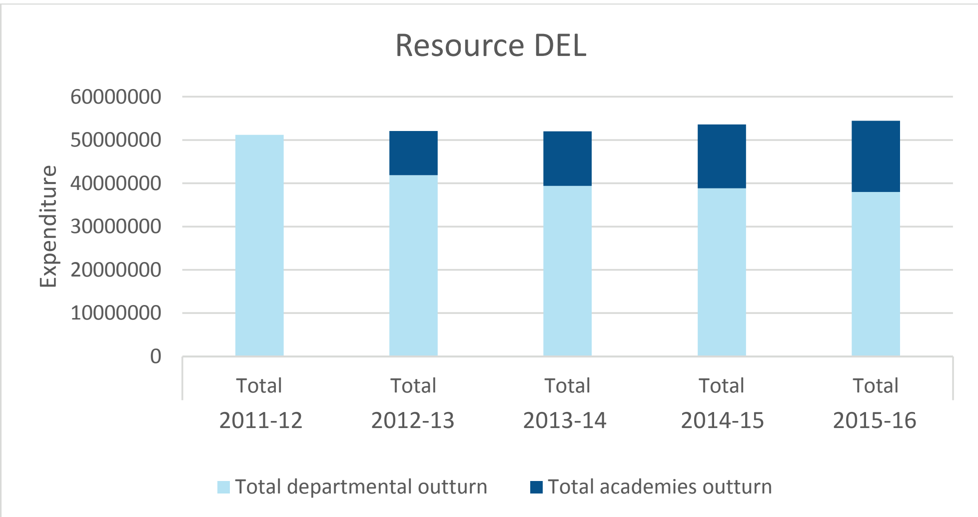
5.33 To be eligible for the JISA, a child must be looked after for at least one year. Since the launch of the scheme, over 74,000 accounts have been set up. The contingent liability will only arise if an individual makes a future claim when they turn 18 and no JISA has been set up. In such circumstances the Department will be required to settle the value of a JISA calculated on the individual's timings.

Cost allocation and charges

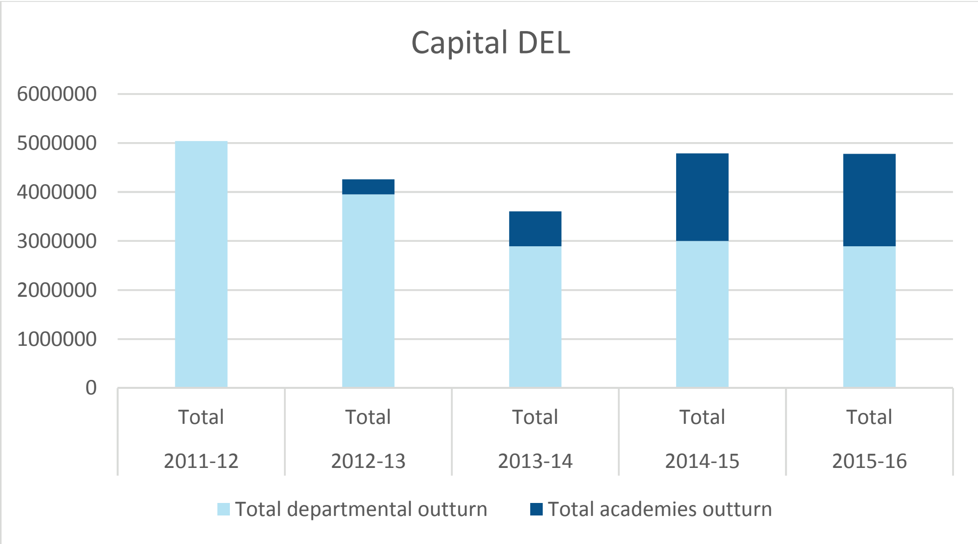
5.34 As a public sector information holder, the Group was compliant with HMT's issued guidance on cost allocation and charging for information services in 2015-16.

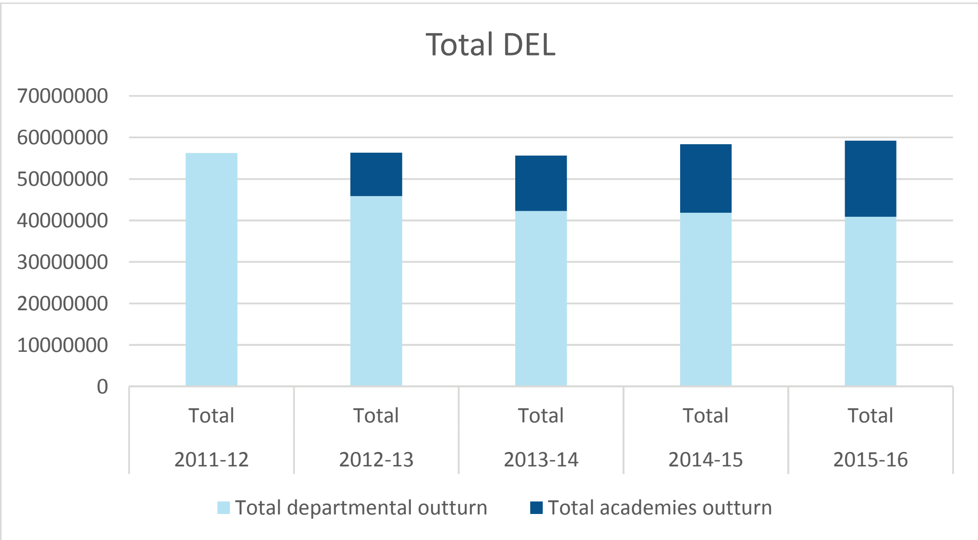
Long term expenditure trends

5.35 The Department agreed a settlement with HMT for the next four financial years in November 2015, as part of the 2015 Spending Review[57]. The Department's Single Departmental Plan[58] was published in February 2016, following which more detailed spending proposals for individual directorates and key programmes were agreed.



[57] The 2015 Spending Review can be found at: https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents
[58] The Single Departmental Plan may be found at: https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020





5.36 The recent trend of expenditure shows the overall settlement for the Department increasing slightly whilst the proportion of expenditure relating to academies has increased significantly, following the inclusion of academies' expenditure from 2012-13. From 2016-17, this expenditure will not be shown in the Departmental accounts, as all academy sector finances will be disclosed in a separate *Sector Annual Report and Accounts (SARA)* from 2016/17 onwards.

Gifts

5.37 The Department made no gifts which exceeded £300,000.

Jonathan Slater
Accounting Officer

9 December 2016

The Certificate of the Comptroller & Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Education and of its Departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's and Group's 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 Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that is described in that report and those disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Department and the Group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Parliament authorised a Capital Departmental Expenditure Limit for the Department of £4,885,137,000. Against this limit, the Department incurred actual expenditure of £5,000,992,000 breaching the authorised limit by £115,855,000 as shown in the Statement of Parliamentary Supply.

Parliament authorised a Resource Annually Managed Expenditure Limit for the Department of £1,179,118,000. Against this limit, the Department incurred actual expenditure of £1,354,234,000, breaching the authorised limit by £175,116,000, as shown in the Statement of Parliamentary Supply.

Qualified opinion on regularity

In my opinion, except for the excesses described in the *Basis for qualified opinion on regularity* paragraphs, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for adverse opinion on the Departmental Group financial statements

There is a presumption under IFRS 10 *Consolidated Financial Statements* that, in order to present a true and fair view, the date of the financial statements for subsidiaries consolidated into group accounts should be no more than three months different from the date of the group accounts. As described in the accounting policies, the Department consolidated 2,910 academy trusts (operating 5,552 academies as at 31 March 2016) using a number of data sources with different periods. The majority of academy trusts were consolidated using their 31 August 2015 financial statements audited by academy trust auditors, a seven-month difference in reporting date from the Group. As the Department has not consolidated academy trusts in accordance with IFRS 10, in my view, this has led to misstatement and uncertainty that I consider to be material and pervasive to the group financial statements. The Department has not quantified the effect of this non-compliance.

In addition, the Group has recognised academy trust land and buildings of £43 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the Group was unable to demonstrate that these all met the recognition criteria for a non-current asset under International Accounting Standard 16 *Property, Plant and Equipment* (IAS 16) and had been valued in accordance with the requirements of IAS 16 and HM Treasury guidance.

Finally, I qualified my audit opinion in 2014-15 because I identified a material level of misstatement and uncertainty in the group financial statements. In addition, I have identified a material level of misstatements in the 2015-16 group financial statements that also relate to 2014-15. Therefore, I have qualified my opinion on the comparative figures in the group financial statements.

Adverse opinion on the financial statements

In my opinion, because of the significance of the matters described in the *Basis for adverse opinion on the Departmental Group financial statements* paragraph, the financial statements:

- do not give a true and fair view of the state of the Departmental Group's affairs as at 31 March 2016 and of its net operating cost for the year then ended; and
- give a true and fair view of the Department's affairs as at 31 March 2016 and of its net operating cost for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

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 HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and the 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

In respect solely of the matters referred to in the basis for adverse opinion paragraphs:

- Adequate accounting records have not been kept; and
- I have not received all of the information and explanations I require for my audit.

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

- 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
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report on these financial statements is on pages 80 to 87.

Sir Amyas C E Morse
Comptroller and Auditor General

December 2016

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

The Report of the Comptroller & Auditor General to the House of Commons

Introduction

1 The Department for Education (the Department) produces Resource Accounts in accordance with the Government Resources and Accounts Act 2000 and includes within these Resource Accounts the following:

- **The Department for Education financial statements** comprising the results of the Department, its three executive agencies for this reporting period (the Education Funding Agency (EFA), the National College for Teaching and Leadership, and the Standards and Testing Agency); and
- **The Departmental group financial statements** comprising the results of the bodies above, as well as the Office of the Children's Commissioner, the Equalities and Human Rights Commission, the Aggregator Vehicle plc and the 2,910 academy trusts that operated 5,552 academies as at 31 March 2016.

2 In accordance with the requirements of the Government Resources and Accounts Act, I am required to examine and certify the above financial statements. I may also choose to issue a substantive report when I consider there are matters which may have a direct or indirect effect on public expenditure and warrant being drawn to the attention of Parliament.

Scope and purpose of this report

3 The purpose of this report is:

- To explain the qualification of my audit opinion on the group financial statements and comment on developments from the prior year (paragraphs 6-31); and
- To draw attention to the work by the Department and HM Treasury to implement an alternative approach to accounting for academy trusts to improve the transparency to Parliament of academy trusts' spending (paragraphs 32-39).

4 With the exception of the EFA, the issues raised in this report do not relate to the audit opinions I have issued on the individual financial statements of the other bodies included in the group (the National College for Teaching and Leadership, the Standards and Testing Agency, the Office of the Children's Commissioner and the Equalities and Human Rights Commission). These bodies prepare their own individual financial statements and I have issued 'unqualified' true and fair and regularity opinions on each of these. Academy trusts and the Aggregator Vehicle plc also prepare individual financial statements and these are audited by separate auditors. I have not identified material inaccuracies in the financial statements of academy trusts or the Aggregator Vehicle plc which would have a material impact on the Department's group financial statements.

5 I have given an adverse opinion on the EFA group financial statements. This is due to the issues that are discussed in this Report with regard to the Department's financial statements. These relate to the methodology by which academy trusts are consolidated into the EFA group financial statements, which is the same as that used by the Department in preparing its group financial statements. Further details of the impact of these issues on the EFA financial statements are set out in my Report on those accounts.

Adverse opinion on the Departmental group's financial statements

6 In 2013-14 and 2014-15, I issued adverse opinions on the truth and fairness of the Department's group financial statements as I had identified a level of misstatement and uncertainty, which I considered was material and pervasive to the group financial statements. I noted that I did not believe that the Department would be able to address the challenge of consolidating so many academy trusts with different year-ends from the group without a significant change in the current consolidation methodology.

7 For the 2015-16 group financial statements, I have continued to issue an adverse opinion due to a level of misstatement and uncertainty which I consider to be material and pervasive. The key areas of misstatement and uncertainty are:

- the financial statements are materially non-compliant with International Financial Reporting Standard 10 *Consolidated Financial Statements*. I have identified material and pervasive levels of error and uncertainty arising from the consolidation of academy trust results with a reporting date seven months prior to the Department's reporting date;
- a continuing limitation of scope over the academy trust land and buildings included in the group financial statements; and
- material and pervasive misstatements in the prior year comparatives.

8 I discuss these matters further in paragraphs 9-21. In paragraphs 26-31, I explain that I have qualified my regularity opinion because the Department has breached two Parliamentary control totals. In paragraphs 32-39, I set out the progress that the Department has made towards introducing an alternative approach for accounting for academy trusts (the Academy Sector Annual Report and Accounts) that will, if implemented effectively, provide a solution to some, though not all, of the consolidation methodology issues it faces.

Findings from my audit

(a) Non-compliance with IFRS 10

9 In my previous Reports on the Department's financial statements for 2012-13, 2013-14 and 2014-15, I set out the significant challenges faced by the Department in preparing its consolidated financial statements and the approach it has taken to try to address these. Annex D: Consolidation approach and methodology of the Department's Annual Report sets out the Department's approach.

10 The main challenges facing the Department arise from the consolidation of a large (and increasing) number of academy trusts and the different financial reporting periods for the Department and academy trusts. Whereas the Department is required to produce its financial statements to a 31 March year end, academy trusts have a year end of 31 August which aligns with the academic year. IFRS 10 *Consolidated Financial Statements* recognises that group financial statements may comprise bodies with different accounting periods but limits the allowable difference to three months. This gives rise to a significant challenge for the Department to prepare financial statements which provide a true and fair view of the financial activity for the period in question and the financial position at the end of that period.

11 The Department's approach to consolidating academies is based on three key sources of financial information:

- Audited academy trust financial statements to 31 August 2015 (my findings on this element are set out in paragraphs 12-13);

- unaudited returns to March 2016 for those academies that had recently opened and had not produced financial statements (paragraphs 14-15); and
- centrally collated information on land and buildings, pension liabilities and assets under construction (paragraphs 16-25)

12 The Department has used audited academy trust financial statements to 31 August 2015 for 2,877 academy trusts. This approach is not in compliance with IFRS 10. In previous years, the Department commissioned a “comparison study” which sought to prove that there was no material difference between the financial information included in the group accounts for these academy trusts and the information which would have been included had financial statements to the Departmental year-end been used instead. However, the comparison study did not provide sufficient, appropriate evidence to support this assertion. Therefore, for 2015-16 the Department, following consultation with me, decided not to commission a comparison study as it was very unlikely to prove that there was no material difference between the financial information included in the group accounts and the March 2016 position.

13 I cannot quantify precisely the extent of the difference between the group accounts and the March 2016 position. However, I consider the impact on the financial statements of this non-compliance with IFRS 10 to be material and pervasive, and as such, the financial statements as a whole do not present a true and fair view.

14 Academy trusts that open during the 2015-16 financial year and new academies that join existing academy trusts between 1 September 2015 and 31 March 2016 and have yet to be included with audited academy trust financial statements, are required to submit an unaudited accounts return to the Department. The financial statements record £463 million expenditure, £581 million income, £179 million assets and £75 million liabilities for this population of 549 academies (excluding land and buildings and pension valuations, which, as noted in paragraph 11 were subject to a central adjustment).

15 The Department and the EFA undertook validation testing and assurance visits to a sample of academies to agree balances in the unaudited accounts returns to books and records. I reviewed the effectiveness of these controls and found that they had been strengthened in comparison to the previous year when I concluded that they did not provide sufficient, appropriate evidence of the accuracy and completeness of the unaudited returns. Given the reduced size of the unaudited population in 2015-16, the improved controls were sufficient to provide reasonable assurance that the use of unaudited data did not give rise to a risk of material misstatement in the group financial statements. I welcome the actions that the Department has taken to strengthen its controls in this area. However, given the small size of the unaudited population relative to the academy sector as a whole, these improvements are not sufficient to change my audit opinion that the Department’s non-compliance with the requirements of IFRS 10 has led to material and pervasive error and uncertainty in the accounts. In addition, further enhancements to controls could be required in future years to provide sufficient assurance over the unaudited data in the Academy Sector Annual Report and Accounts, depending on the size of the unaudited population. The Department has taken steps to address this risk by requiring all newly incorporated academies to submit audited accounts returns and accounts for the year to August 2016, which should remove unaudited data from future years’ accounts.

(b) Land and buildings

16 In 2012-13, 2013-14 and 2014-15, I limited the scope of my audit opinion in respect of the value of land and buildings held by academy trusts that was recognised in the group accounts and I continue to do so for 2015-16. Academy trust land and buildings with a valuation of £43.3 billion have been recognised as at 31 March 2016.

17 As noted in paragraph 11, the Department has made a central adjustment for land and buildings rather than consolidating the balances included in the financial statements of academy trusts. This is because academy trusts prepare their accounts in accordance with *Accounting and Reporting by Charities: Statement on Recommended Practice* (the Charities SORP). The criteria for recognising and valuing assets in the Charities SORP are not fully aligned with those in International Accounting Standards and HM Treasury guidance (the basis under which the group accounts are prepared).

18 The Department has made an assumption that all land and buildings used by academy trusts should be capitalised within the group statement of financial position. This may not comply with the requirements of International Accounting Standards and HM Treasury guidance, for example where buildings are occupied on a short term lease or are owned by another entity.

19 The Department does not have robust data to demonstrate that its assumption is appropriate. As a result, I cannot determine the extent of land and buildings assets that may be erroneously capitalised in the consolidated statement of financial position.

20 The Department has also been unable to provide me with sufficient, appropriate evidence that the carrying value of academy land and buildings in its accounts is a materially accurate reflection of the fair value of the underlying estate. The Department commissions external professional valuations of its land and buildings every five years. In the years between professional valuations, carrying values are updated using indices. In principle, this approach is in line with the requirements of International Accounting Standards and HM Treasury guidance. However, I identified weaknesses in the way that the policy had been implemented that meant I was unable to obtain assurance that the Department's approach was sufficiently robust to arrive at a materially accurate valuation of its land and building assets. In particular, I was unable to obtain evidence that the professional revaluations carried out in 2015-16 were sufficiently robust and applied consistent assumptions across the estate. I also found that the Department had not maintained its accounting records for estate assets at a sufficiently granular level to enable it to reflect the impact of revaluations accurately in its accounts.

21 The challenges that the Department faces in accounting for its land and building assets will not be resolved by the move to an alternative approach for accounting for academy trusts. The Department recognises this and is undertaking a pilot exercise across 50 schools to establish whether there are practicable ways in which it can address the recognition issue going forward. It is also considering how it can improve its approach to valuation. Given the scale of the academy estate, these issues are likely to take time to address and it is unlikely that they will be resolved in time for the first Academy Sector Annual Report and Accounts.

(c) Capital projects

22 The Priority Schools Building Programme (PSBP) is a programme to address the needs of the schools most in need of urgent repair. The aim of the £4.4 billion programme is for 537 schools (including 46 using private finance) to be rebuilt or have their condition needs met by the EFA. The majority of the 260 schools in the first phase are expected to be open by the end of 2017. In addition, the Government has pledged to open 500 free schools by 2020. As a result, there has been a significant expansion of the EFA's capital programme over the last two years with over 600 active capital projects at schools across England during 2015-16, an increase from less than 200 during 2013-14.

23 In 2014-15, I reported that the expansion of the EFA's capital programme within a short timeframe had challenged the EFA's capacity and capability for central record keeping and financial management. My audit identified significant, but not material, uncertainties due to weaknesses in record management and sharing of information between the EFA capital group and the finance teams of the EFA and the Department. I also noted that delays in provision of capital project information for audit and the volume of issues noted in this area had led to a significant delay to the Department's accounts preparation timetable.

24 In 2015-16, I found that there had been significant improvements in the Department's accounting for capital projects. Capital project information was provided to my team several months earlier and was of a higher quality than in the previous year. This reflects improvements that the Department has made to the financial management of capital transactions including record keeping, enhanced training and guidance for staff; revision of internal processes; and strengthening of project monitoring. The Department has also worked with HM Treasury to agree a revised framework of delegations for its capital programmes, which has clarified which types of transaction require HM Treasury authorisation. I welcome these improvements to the Department's accounting for capital projects.

25 Although the level of error that I identified in capital projects in 2015-16 was much reduced, there remain opportunities for further improvement. For example, I found examples of assets not being transferred into land and buildings and revalued when they had been brought into use. Although these were not material in the 2015-16 accounts, the Department will need to continue to work to address these issues to ensure that they do not result in material error in the Academy Sector Annual Report and Accounts.

Qualification of my regularity audit opinion

26 A primary objective of preparing consolidated departmental financial statements is to provide accountability to Parliament for the financial activity it has approved for the year for the whole Departmental group, which includes the financial activity of academy trusts. The Statement of Parliamentary Supply is the parliamentary accountability statement and shows how the monies authorised by Acts of Parliament have been applied, including outturns against a series of annual limits on the net expenditure which each department may not exceed and on the total cash each department can use.

27 Any expenditure outside of these limits will result in an 'Excess Vote'. Such expenditure potentially undermines parliamentary control over public spending. Where these limits are breached, I qualify my regularity opinion on the financial statements.

28 In my 2013-14 and 2014-15 reports, I highlighted the weaknesses in the Department's ability to forecast spend accurately for the group, mainly due to the Department's lack of timely and accurate in-year information on the forecast spend of academy trusts. Academy trusts have some discretion in how they use the funds provided to them by the Department; they have freedom to determine their spending profiles and carry forward unspent grant. This represents a financial management and accountability challenge to the Department and HM Treasury's ability to manage in-year resources and make appropriate financial decisions including accurate forecasting and resource requests.

29 I qualified my regularity opinion on the Department's group financial statements for 2014-15 on the basis that the Department had breached its control totals for Capital Departmental Expenditure (breach of £31.2 million), Resource Annually Managed Expenditure (£101.4 million) and Non-Budget (£3,072.9 million). These breaches were due to the Department incorrectly reflecting the impact of donated assets when setting its budget, higher than anticipated impairment charges and the Department not seeking Non-Budget provision for prior period adjustments.

30 I have again qualified my regularity opinion on the Department's group financial statements for 2015-16 as the Department has incurred two breaches of its Parliamentary control totals:

- Net expenditure of £5,001 million has been incurred against the Capital Departmental Expenditure Limit of £4,885.1 million. The breach of this limit by £115.9 million relates to the budgetary impact of the Aggregator Vehicle plc and its financing of school capital projects, which the Department did not provide for in its budget. The Department did not identify this issue in time for its 2015-16 budget to be adjusted. HM Treasury has agreed to provide the Department with additional budget cover in future years.
- Net expenditure of £1,354.2 million has been incurred against the Resource Annually Managed Expenditure Limit of £1,179.1 million. The breach of this limit by £175.1 million is due to higher than anticipated impairment charges on academy land and buildings. The Department is considering how it can improve its approach to valuation, although this particular issue will no longer give rise to a risk of breaching control totals in future years, as (under the Academy Sector Annual Report and Accounts) impairments of academy land and buildings will no longer score against parliamentary control totals.

31 The impact of the level of error and uncertainty within the income and expenditure which has led to my issue of an adverse opinion on the financial statements is not captured within the Statement of Parliamentary Supply. This limits the ability of Parliament to identify the actual spend by the academies sector for the year in question.

Alternative approach to accounting for academy trusts' financial results – the Academy Sector Annual Report and Accounts

32 In 2013-14, I recommended that the Department and HM Treasury work together to identify a solution to the causes of my qualification and that any alternative approach for accounting for academy trusts should provide more robust information for use in the HM Treasury's fiscal modelling and the Whole of Government accounts.

33 I reported in 2014-15 that the Department's preferred option was to remove the academy trusts' financial results from the Department's group financial statements and to reflect only grants paid to academies. The Department would then prepare a separate aggregated account for academies as at 31 August (the Academy Sector Annual Report and Accounts or SARA). I reported that the Department had received an 'in principle' agreement from HM Treasury to develop the proposals for a Sector Report alongside a range of challenging conditions that would have to be met. These proposals had been reviewed and approved by the Alignment Review Committee, Scrutiny Unit, Education Select Committee and Liaison Committee.

34 Since my 2014-15 report, the Department has continued to work with HM Treasury to develop the proposals for the move to the SARA. It produced a dry-run of the SARA for the Education Select Committee in October 2016 and I reviewed this document, reporting my findings to the Committee in November 2016. The first SARA will cover the year ending 31 August 2016 and is currently due to be published in June 2017. The 2016-17 Departmental accounts will not consolidate academy trusts and will instead reflect only grants paid to academies. The

Department has not yet fully developed its proposals to allow robust information on the results of academy trusts to be incorporated into the Whole of Government Accounts (WGA) on a more timely basis.

35 The Department has a challenging programme of accounts to deliver in the next few months. As well as the first SARA, it is planning to deliver its 2016-17 Departmental accounts before the summer 2017 Parliamentary recess. Although the Departmental accounts will no longer consolidate academy trusts, they will cover the responsibilities for Higher Education and Further Education that were transferred to the Department as part of the Machinery of Government changes in summer 2016. The Department is currently reviewing its project plans and has indicated that it will take a decision in February 2017 on whether the planned timetable for the SARA remains achievable or whether it should seek to extend the timetable for the first year. I welcome this review and encourage the Department to ensure that it sets a realistic timetable that is supported by a robust project plan.

36 The problems with accounting for academies extend beyond the current consolidation methodology and the issues of non-coterminous year ends, into wider issues of Parliamentary accountability, financial accounting and financial management. The SARA, if implemented effectively, will provide a solution to a number of the consolidation methodology issues faced by the Department. It will not, however, address all of the causes of error and uncertainty and limitations which I have detailed in this Report, such as the recognition and valuation of land and buildings.

37 The Department recognises that it needs to address these issues if it is to move towards its goal of an unqualified audit opinion on the SARA. For instance, as noted in paragraph 21, it is carrying out a pilot exercise to establish whether there are practicable ways in which it can address the recognition of land and buildings and is also considering how it can improve its approach to valuation. I support the Department's efforts in these areas, but I note that many of the areas of error and uncertainty are complex and will be challenging to resolve. In addition, some areas of error and uncertainty that are not currently material to the group financial statements may be material to the SARA, given its smaller size. The Department will need to ensure that it has robust project plans in place to address these issues. As the Department has recognised, it is unlikely that all of the areas of error and uncertainty will be resolved in time for the first SARA.

38 The Department's policy of autonomy for academies brings with it significant risks if the financial capability of the Department and academies are not strengthened; and if the financial statements do not present a true and fair view and meet the accountability requirements of Parliament. This will become even more significant in the context of the continuing expansion of the academy sector.

39 The Department has developed a programme of work to improve financial management in the sector and it is positive to see a coherent view of the work across the Department. I will continue to liaise with the Department to ensure that progress is being made, particularly to ensure that appropriate measures are developed to assess how financial management in the academy sector is changing over time.

Recommendations

40 As discussed in paragraph 34, this is the last year that academies will be included in the group financial statements. However, there are a number of issues that the Department needs to address to ensure that it is able to implement its plans for the SARA effectively and to move over time to an unqualified audit opinion:

- The Department should ensure that it sets a realistic timetable for its challenging programme of accounting deliveries over the next few months. The timetable will need to be supported by a robust project plan.
- The Department should review all the areas of error and uncertainty that I have identified in the 2015-16 group accounts and consider their potential impact on the SARA. The Department should ensure that it has robust project plans in place to address those issues which could have a material impact on the SARA.
- In order to prevent any erosion of Parliamentary accountability, significant improvements should be made to the Department's forecasts and management information to ensure in-year monitoring of spend is improved. As I have noted in my Report, there are weaknesses in the Department's ability to forecast spend accurately for the group.
- The Department's proposals to allow the results of academy trusts to be incorporated into the Whole of Government Accounts on a more timely basis should be developed fully. I will continue to monitor these proposals to ensure that the Department produces an acceptable methodology

Sir Amyas C E Morse **December 2016**

Comptroller and Auditor General

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

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

	Note	Department & Agencies £000	2015-16 Group £000	Department & Agencies £000	2014-15 Group £000
Operating income	2	(205,503)	(2,491,186)	(108,120)	(2,315,348)
Total operating income		**(205,503)**	**(2,491,186)**	**(108,120)**	**(2,315,348)**
Staff costs	3	205,226	13,692,964	202,306	12,191,731
Revenue grants	4	53,026,317	37,176,342	52,388,353	37,917,953
Capital grants	4	4,344,486	2,428,566	4,246,772	2,850,154
Operating expenditure	5	466,087	6,625,340	443,315	5,577,018
Net (gain)/loss on conversion of non-LA academies:					
In year conversions	23	-	(669,094)	-	(911,171)
Settlements	23	-	(37,643)	-	744
Corporation Tax		-	(1,060)	-	--
Net operating cost		**57,836,613**	**56,724,229**	**57,172,626**	**55,311,081**
Non-operating expenditure					
Gain on transfer of functions	26.4	-	4,190	(3,284)	-
Net (gain)/loss on conversion of LA academies:					
In year conversions	23	-	(1,929,735)	-	(2,628,757)
Settlements	23	-	88,503	-	(78,087)
Total non-operating expenditure		**-**	**(1,837,042)**	**(3,284)**	**(2,706,844)**
Other comprehensive expenditure					
Items that will not be reclassified to net operating costs					
Net (gain)/loss on:					
revaluation of property, plant and equipment and intangibles	6&7	(2,424)	(7,668,379)	(1,787)	(1,805,626)
fair value (gain)/loss on investments	10	-	955	-	(2,977)
Actuarial loss/(gain) on defined benefit pension scheme	19	-	(538,791)	-	954,209
Other recognised gains and losses		-	-	-	(4,195)
Total other comprehensive expenditure		**(2,424)**	**(8,206,215)**	**(1,787)**	**(858,589)**
Comprehensive net expenditure for the year		**57,834,189**	**46,680,972**	**57,167,555**	**51,745,648**

All income and expenditure reported in the Statements of Comprehensive Net Expenditure are derived from continuing operations. The prior year Department and Agencies staff recharges income has been re-presented to align to the Group presentation: other re-presentations are detailed further at Note 26.5.

The notes on pages 94 to 152 form part of these Accounts.

Consolidated Statement of Financial Position

as at 31 March 2016

	Note	2016 Department & Agencies £000	2016 Group £000	2015 Department & Agencies £000	2015 Group £000
Non-current assets					
Property, plant and equipment	6	277,229	46,444,042	197,752	35,501,997
Intangible assets	7	16,421	19,560	25,534	30,423
Financial Assets	10	-	313,826	-	134,967
Investments in other public bodies	11	3,544	-	6,720	-
Receivables	13	13,388	7,369	22,446	16,440
		310,582	**46,784,797**	**252,452**	**35,683,827**
Current assets					
Assets classified as held for sale	12	28,697	28,697	5,195	5,195
Inventories		-	9,781	-	10,183
Receivables	13	197,379	975,212	132,962	1,048,738
Financial assets	10	-	188	-	-
Investments in other public bodies	11	2,266	-	39	-
Cash and cash equivalents	14	182,638	3,439,552	233,738	3,038,199
		410,980	**4,453,430**	**371,934**	**4,102,315**
Total assets		**721,562**	**51,238,227**	**624,386**	**39,786,142**
Current liabilities					
Payables	15	(959,659)	(2,534,181)	(904,946)	(2,536,837)
Provisions	17	(26,204)	(28,610)	(29,444)	(33,744)
		(985,863)	**(2,562,791)**	**(934,390)**	**(2,570,581)**
Total assets less current liabilities		**(264,301)**	**48,675,436**	**(310,004)**	**37,215,561**
Non-current liabilities					
Payables	16	(203,366)	(438,106)	-	(45,237)
Provisions	17	(145,801)	(143,311)	(149,031)	(148,310)
Pension deficits	19	-	(4,038,599)	-	(3,965,380)
		(349,167)	**(4,620,016)**	**(149,031)**	**(4,158,927)**
Assets less liabilities		**(613,468)**	**44,055,420**	**(459,035)**	**33,056,634**
Taxpayers' equity					
General Fund		(633,402)	(478,206)	(477,524)	(294,788)
Revaluation Reserve		19,934	10,033,306	18,489	2,365,906
Charitable Fund		-	34,500,320	-	30,985,516
Total Taxpayers' equity		**(613,468)**	**44,055,420**	**(459,035)**	**33,056,634**

Jonathan Slater
Accounting Officer

9 December 2016

The notes on pages 94 to 152 form part of these Accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2016

	Note	2015-16 Department & Agencies £000	2015-16 Group £000	2014-15 Department & Agencies £000	2014-15 Group £000
Cash outflow from operating activities					
Net operating cost		(57,836,613)	(56,724,229)	(57,172,626)	(55,311,081)
Adjustments for non-cash transactions		51,999	1,939,182	47,384	776,624
Gain on conversion of Non-LA academies		-	(669,094)	-	(911,171)
Settlement loss on conversion of Non-LA academies		-	(37,643)	-	744
Transfers of assets under construction from EFA to Academies		108,902	0	-	-
(Increase)/decrease in inventories		-	402	-	(694)
(Increase)/decrease in receivables		(55,359)	82,597	(45,648)	(167,594)
Increase/(decrease) in payables		258,079	390,213	264,833	474,870
less movements in payables relating to items not passing through net operating costs		51,099	(148,625)	(129,870)	(129,870)
Use of provisions		(33,960)	(27,679)	(18,745)	(19,424)
Non-cash pension movements		-	807,099	43	649,955
Cash pension movements		-	(509,699)	-	(423,041)
Net cash outflow from operating activities		**(57,455,853)**	**(54,897,476)**	**(57,054,629)**	**(55,060,682)**
Cash flows from investing activities					
Purchase of:					
property, plant and equipment		(225,998)	(2,603,070)	(99,912)	(1,885,724)
intangible assets		2,940	3,359	(13,115)	(11,683)
Investments		-	(73,251)	-	(65,818)
Proceeds on disposal of:					
property, plant and equipment		(1,407)	155,078	-	30,169
intangible assets		463	(52)	-	17
Investments		-	57,511	-	34,958
Loans to other public bodies (net)		949	-	1,068	-
PF2 loans onward		-	(164,082)	-	-
Cash outflow from investing activities		**(223,053)**	**(2,624,507)**	**(111,959)**	**(1,898,081)**
Cash flows from financing activities					
Consolidated Fund supply		57,627,806	57,627,806	57,277,667	57,277,667
Draw down from the Contingency Fund		1,000	1,000	-	-
Repaid to the Contingency Fund		(1,000)	(1,000)	-	-
Cash acquired on –in year conversion of academy trusts		-	79,371	-	116,005
Cash settlements on conversion of academy trusts		-	16,405	-	17,391
Borrowings (repaid) / advanced		-	8,542	-	(10,866)
PF2 loans drawn down		-	193,726	-	-
Capital element of finance lease		-	(2,656)	-	2,626
Net cash inflow from financing activities		**57,627,806**	**57,923,194**	**57,277,667**	**57,402,823**
Net increase/(decrease) in cash and cash equivalents before adjustment for receipts and payments to the Consolidated Fund		(51,100)	401,211	111,079	444,060
Payments of amounts due to the consolidated fund		-	-	(1,587)	(1,587)
Net increase/(decrease) in cash and cash equivalents after adjustment for receipts and payments to the Consolidated Fund		**(51,100)**	**401,211**	**109,492**	**442,473**
Cash and cash equivalents at the beginning of the year net of overdrafts	**14**	**233,738**	**3,035,943**	**124,246**	**2,593,470**
Cash and cash equivalents at the end of the year net of overdrafts	**14**	**182,638**	**3,437,154**	**233,738**	**3,035,943**

The notes on pages 94 to 152 form part of these Accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

	Note	General Fund £000	Revaluation Reserve £000	Charitable Fund £000	Taxpayers' Equity £000
Balance at 31 March 2014		**(307,186)**	**561,636**	**27,400,713**	**27,655,163**
Net Parliamentary Funding:					
– drawn down		57,277,667	-	-	57,277,667
– deemed		102,279	-	-	102,279
Supply payable adjustment		(233,694)	-	-	(233,694)
CFERs payable to the Consolidated Fund	S4	(42)	-	-	(42)
Comprehensive expenditure for the year		(57,136,071)	1,805,626	3,584,797	(51,745,648)
Non-cash adjustments					
Auditor's remuneration	5	860	-	-	860
Movements in reserves					
Transfers between reserves		1,356	(1,356)	-	-
Other reserves movements		43	-	6	49
Balance at 31 March 2015		**(294,788)**	**2,365,906**	**30,985,516**	**33,056,634**
Net Parliamentary Funding:					
– drawn down		57,627,806	-	-	57,627,806
– deemed		233,694	-	-	233,694
Supply payable adjustment		(182,451)	-	-	(182,451)
CFERs payable to the Consolidated Fund	S4	(144)	-	-	(144)
Comprehensive expenditure for the year		(57,864,155)	7,668,379	3,514,804	(46,680,972)
Non-cash adjustments					
Auditor's remuneration	5	851	-	-	851
Movements in reserves					
Transfers between reserves		979	(979)	-	-
Other reserves movements		2	-	-	2
Balance at 31 March 2016		**(478,206)**	**10,033,306**	**34,500,320**	**44,055,420**

The General Fund represents total assets less liabilities, to the extent that the total is not represented by other reserves and financing items for the Department and its EAs and NDPB.

The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment, and intangible assets (see Notes 6 and 7).

The Charitable Fund represents total assets less liabilities related to the Group's schools less unrealised revaluation adjustments to property, plant and equipment, and intangible assets (see Notes 6 and 7).

The notes on pages 94 to 152 form part of these Accounts.

Department & Agencies Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

	Note	General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
Balance at 31 March 2014		**(456,651)**	**18,057**	**(438,594)**
Net Parliamentary Funding:				
- drawn down		57,277,667	-	57,277,667
- deemed		102,279	-	102,279
Supply payable adjustment		(233,694)	-	(233,694)
CFERs payable to the Consolidated Fund	S4	(42)	-	(42)
Comprehensive expenditure for the year		(57,169,342)	1,787	(57,167,555)
Non-cash adjustments				
Auditor's remuneration	5	860	-	860
Movements in reserves				
Transfers between reserves		1,355	(1,355)	-
Other General Fund movement		44	-	44
Balance at 31 March 2015		**(477,524)**	**18,489**	**(459,035)**
Net Parliamentary Funding:				
– drawn down		57,627,806	-	57,627,806
– deemed		233,694	-	233,694
Supply payable adjustment		(182,451)	-	(182,451)
CFERs payable to the Consolidated Fund	S4	(144)	-	(144)
Comprehensive expenditure for the year		(57,836,613)	2,424	(57,834,189)
Non-cash adjustments				
Auditor's remuneration	5	851	-	851
Movements in reserves		979	(979)	-
Transfers between reserves		-	-	-
Other General Fund movement		-	-	-
Balance at 31 March 2016		**(633,402)**	**19,934**	**(613,468)**

The General Fund represents total assets less liabilities, to the extent that the total is not represented by reserves and financing items.

The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment, and intangible assets (see Notes 6 and 7).

The notes on pages 94 to 152 form part of these Accounts.

Notes to the Accounts

1 Statement of operating costs by operating segment

The Group is structured to clearly align activity and expenditure against the government's Structural Reform Priorities (SRPs) for education. Information on operating activities, financial results, forecasts and plans is presented to and reviewed by the Management Committee on this basis; the Group's Supply Estimates are also structured in this way.

The vast majority of the lines of operation fall within the same geographical location and regulatory environment. Segmental analysis of the Group's assets and liabilities are not reviewed by management and consequently are not provided here.

1.1 Segmental analysis

The segmental report shown below links expenditure within the Group structure to Note S1 and covers the Group's total resource and capital outturn for the year.

	Gross expenditure £000	Income £000	2015-16 Net expenditure £000	Gross expenditure £000	Income £000	2014-15 Net expenditure £000
Children's Services, Equalities and Communications	370,923	(1,007)	369,916	381,012	(1,418)	379,594
Education Standards	627,992	(87,691)	540,301	588,544	(75,843)	512,701
Infrastructure & Funding	39,651,552	(9,837)	39,641,715	40,811,413	(22,386)	40,789,027
Strategy & Resources	242,708	(85,026)	157,682	163,031	(7,453)	155,578
	40,893,175	**(183,561)**	**40,709,614**	**41,944,000**	**(107,100)**	**41,836,900**
Academy schools	19,707,579	-	19,707,579	20,387,419	-	20,387,419
Aggregator Vehicle Plc	168,603	-	168,603	-	-	-
	60,769,357	**(183,561)**	**60,585,796**	**62,331,419**	**(107,100)**	**62,224,319**

The main responsibilities of the reporting entities used for management reporting purposes are given overleaf, with further detail available in the Annual Report.

Children's Services, Equalities and Communications Directorate: The focus of the directorate's work is to help children and young people have a more equal opportunity to benefit from an excellent education; and provide corporate strategic, analytical and communication services for the Department. Key areas of work include ensuring more children receive a high quality early education; increasing the affordability, availability and quality of childcare; delivering a robust reform programme for SEN; ensuring that children identified for adoption are placed as swiftly as possible; increasing the professionalism, qualifications and effectiveness of children's social workers; reforming the care system, including residential care and promoting innovation; implementing reforms to the family justice system and tackling child poverty. The service based functions within the directorate are focused on ensuring that data and economic thinking inform policy development and delivery; representing the Department's interests in international forums and ensuring best use of international learning to inform policy; providing a communications function to ministers and ensuring that time and quality standards are met in responding to public queries; delivering a strategic, forward looking function to support the board and ensure connections are made across related Departmental activities; and providing ministers with a high quality private office service and delivering efficiently and effectively on Department of State responsibilities.

Education Standards Directorate: the directorate's work is focused on achieving ministers' objectives to: create a self-improving, school-led system; to raise standards; and to develop a great workforce, with strong leadership. The aim is for our education system to match the best anywhere in the world in preparing children and young people for the future. To do this we aim to move England up the league tables of performance in maths, science and language in every age group whilst also closing gaps; we aim to reform the National Curriculum and the qualifications system to set standards comparable to the highest achieving jurisdictions in the world, and meet the needs of universities and employers; we aim to improve the recruitment, selection and training of teachers and leaders, supporting their professionalism and authority and raising the status of the profession, so that teachers and teaching are as highly regarded and effective as in any country in the world, and we aim to create a system of accountability and incentives which supports every school and sixth form college to improve and share effective practice, and where the most effective practitioners and leaders take responsibility for improving practice elsewhere.

Infrastructure and Funding Directorate: The directorate focusses on reforming the education system and the way in which it is funded. It is responsible for leading the shift from a predominantly local authority maintained system of schooling to a more autonomous system through the delivery of the academies and free schools programmes; the maintenance and reform of the funding system for both pre and post 16 education to a system which is transparent, where funding follows the pupil and where pupils with additional needs attract additional funding; responsibility for the policy on pre and post 16 capital funding including ensuring there are sufficient school places; funding for the maintenance of the school estate including centrally delivered capital programmes such as the PSBP; and applying ministers' deregulatory principles to the organisation and governance of the wider school system.

Strategy and Resources Directorate: the directorate provides essential support services to the Department including corporate financial monitoring, reporting and advice; commercial and procurement support, legal advice, Internal Audit support, IT systems and Estate Management functions. There is a wide range of cross-departmental advice and support, which extends to stakeholders, including schools.

1.2 Reconciliation between operating segments and SoCNE

		Reconciling items		
	Net expenditure per segmental analysis	Income & Gains	Expenditure	Net costs per SoCNE
	£000	£000	£000	£000
Children's Services, Equalities and Communications	369,916	4,190	(508)	373,598
Educations Standards	540,301	-	-	540,301
Infrastructure & Funding	39,641,715	(16)-	(164,185)	39,477,514
Strategy & Resources	157,682	-	(65,703)	91,979
	40,709,614	**4,174**	**(230,396)**	**40,483,392**
Academy schools	19,707,579	(2,547,969)	(2,760,336)	14,399,274
Aggregator Vehicle Plc	168,603	-	(164,082)	4,521
Total	**60,585,796**	**(2,543,795)**	**(3,154,814)**	**54,887,187**

2 Operating income

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Voluntary income	-	382,873	-	611,129
Income from activities for generating funds	-	688,103	-	617,473
Government revenue grant income	-	369,740	-	240,226
Government capital grant income	-	127,675	-	115,139
Special Education Needs income	-	393,596	-	335,929
Investment income	-	14,134	-	11,897
Fees and charges	19,123	19,123	93	93
Rental income	6,455	6,347	6,070	5,917
Shared service income	661	660	434	406
Joint programme income	152,051	152,488	90,726	90,729
RPA income	21,058	-	5,189	-
Loan interest income	-	2,449	-	-
Other income	6,155	333,998	5,608	286,410
	205,503	**2,491,186**	**108,120**	**2,315,348**

The prior year staff recharges income has been aligned across the group, resulting in a re-presentation of the split of staff costs between the Department & Agencies, NDPBs and Academy Trusts.

The joint programme income relates to income from Department of Health, BEIS/Skills Funding Agency and the Ministry of Justice for jointly managed projects where the Group had recharged some of the expenditure for those programmes. This figure also includes £74 million (2014-15: £nil) received in respect of the Old Admiralty Building project.

3 Staff costs

	Permanently employed staff £000	Other £000	Ministers £000	Special Advisers £000	2015-16 Group Total £000	2014-15 Group Total £000
Wages and salaries	10,366,407	740,936	163	180	11,107,686	10,068,487
Social security costs	744,324	17,571	13	18	761,926	720,750
Pension costs	1,788,376	34,944	-	32	1,823,352	1,402,494
	12,899,107	**793,451**	**176**	**230**	**13,692,964**	**12,191,731**
Less recoveries in respect of outward secondments	(3,987)	(28)	-	-	(4,015)	(1,576)
	12,895,120	**793,423**	**176**	**230**	**13,688,949**	**12,190,155**
Of which:						
Department and Agencies	190,126	14,694	176	230	205,226	202,306
NDPBs	12,437	1,358	-	-	13,795	1,817
Academy Trusts	12,696,544	777,399	-	-	13,473,943	11,987,608
	12,899,107	**793,451**	**176**	**230**	**13,692,964**	**12,191,731**

The prior year staff recharges income has been aligned across the group, resulting in a re-presentation of the split of staff costs between the Department & Agencies, NDPBs and Academy Trusts.

Further disclosures relating to staff numbers and costs are detailed within the Remuneration and Staff Report following paragraph 4.42.

4 Grant expenditure

	2015-16 Department & Agencies £000	2015-16 Group £000	2014-15 Department & Agencies £000	2014-15 Group £000
Resource grants				
Dedicated Schools Grant	27,501,238	27,501,238	28,254,321	28,254,321
Academies - Grants to academies for young people under 16	13,916,551	-	12,501,882	-
Academies - Grants to academies with sixth forms	1,484,592	-	1,444,183	-
Academies - Uneliminated resource grants	-	(204,502)	-	(407,007)
16-19 Further Education	3,729,667	3,729,667	3,802,221	3,802,221
16-19 Bursary funding	182,290	182,186	180,208	180,208
16-18 Apprenticeships	792,296	792,296	801,148	801,148
Pupil Premium for LA schools	1,718,113	1,718,113	1,768,230	1,768,230

Local authority and other maintained school sixth forms	765,360	765,360	781,317	781,317
PFI special grant	748,842	748,842	743,796	743,796
Education Services Grant	563,089	563,089	719,673	719,673
Universal Free School Meals	669,949	564,237	308,986	308,986
Initial Teacher Training	224,318	224,318	209,754	171,892
Grant-in-Aid (funding to NDPBs)	24,312	-	2,924	-
Other current grants	705,700	591,498	869,710	793,168
	53,026,317	**37,176,342**	**52,388,353**	**37,917,953**
Capital grants				
Basic Need schools capital grant	1,097,691	1,097,691	1,344,778	1,344,778
Maintenance capital grants to local authorities and VA schools	838,331	838,331	988,066	988,066
Academy capital grants and Free School programme	1,486,952	71,844	1,265,168	238,728
Priority Schools Building Programme	906,211	558,349	366,310	206,930
Academies – un-eliminated capital grants	-	(152,378)	-	(55,000)
Other capital grants	15,301	14,729	282,450	126,652
	4,344,486	**2,428,566**	**4,246,772**	**2,850,154**
	57,370,803	**39,604,908**	**56,635,125**	**40,768,107**

The DFE has reviewed grant expenditure presentation at the appropriate level of disaggregation of other operating expenditure to disclose material items. This has resulted in re-presentation of the prior year figures: other re-presentations are detailed further at Note 26.5.

Payments under academy school programmes (such as free schools above) not made to academy trusts are not eliminated on consolidation and remain disclosed above.

5 Operating expenditure

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Educational supplies	-	643,173	-	598,643
Exam fees	-	205,755	-	190,494
Staff related costs	11,024	169,921	509	152,576
Consultancy and other professional fees	49,772	224,628	57,864	217,661
Building maintenance and repair cost	7,388	429,899	1,244	417,638
Premises costs including rates and service charges	6,678	484,323	24,579	537,898
Utilities	1,745	256,251	1,990	265,800
Catering	224	332,404	3	247,101
IT and telecommunications costs	34,608	267,055	29,080	235,639
PFI charge	-	84,175	-	84,620
Rentals under operating leases:				
land and buildings	16,007	48,743	543	22,772
other operating leases	172	51,458	17,562	50,942
Travel and subsistence	7,927	34,195	9,249	33,075
PF2 service costs	6	6	-	-

PF2 finance costs	8,991	8,991	-	-
Bank charges & interest	12	5,529	-	5,183
Loan interest	-	2,460	-	-
Research & development costs	11,708	13,566	10,107	10,107
National Audit Office cash audit fee	-	78	-	38
Other auditors' remuneration				
Audit fees	-	26,213	-	23,755
Non-audit fees	-	11,859	-	9,850
Other expenditure	257,826	1,075,446	246,802	1,255,942
Total cash	**414,088**	**4,376,128**	**399,532**	**4,359,734**
Non-cash Items				
Depreciation	4,955	1,141,324	6,152	977,469
Amortisation	8,233	9,753	10,782	12,275
Impairment	9,542	1,008,666	4,961	170,393
Loss on disposal	928	71,194	427	35,035
National Audit Office non-cash audit fee	851	851	860	860
Provisions:				
Provided in year	29,841	19,960	15,180	19,602
Not required written back	(1,786)	(1,971)	(2,896)	(6,667)
Change of discount rate	(2,731)	(2,731)	5,539	5,539
Borrowing costs (unwinding of discounts)	2,166	2,166	2,778	2,778
Total non-cash	**51,999**	**2,249,212**	**43,783**	**1,217,284**
	466,087	**6,625,340**	**443,315**	**5,577,018**

The Group's auditors received no remuneration for non-audit work concerning the Department and its EAs and NDPBs. Auditors' fees incurred by the Group's academy trusts are reported in operating costs and relate to both audit and non-audit work. The non-cash fees in the preceding table relate to work carried out for the Department and EAs, whereas the cash fees stated are for audit work carried out on the accounts of the Group's NDPBs and academy trusts.

6 Property, plant and equipment

6.1 Group 2016

	Land & Buildings £000	Leasehold Improve'ts £000	IT Equipment £000	Plant & Machinery £000	Furniture & Fittings £000	Motor Vehicles £000	Assets Under Construct'n £000	Total £000
Cost or valuation								
At 1 April 2015	33,578,573	194,663	732,809	68,342	815,399	23,856	1,038,341	36,451,983
Additions	712,306	124,073	139,861	13,663	128,161	4,427	1,480,579	2,603,070
Transferred in on Machinery of Government change without restatement	-	-	2,225	-	3,945	-	-	6,170
Transferred in on in-year conversion:								
LA	2,076,635	116	11,817	2,669	30,884	303	205	2,122,629
non-LA	591,467	735	5,145	439	3,949	130	79,959	681,824
Transferred in on conversion settlements:								
LA	2,363	(43)	2,351	1,559	(7,825)	185	1,777	367
non-LA	-	920	(582)	215	1,268	74	19,761	21,656
Donations	240,201	(8,927)	4,465	599	4,291	270	4,082	244,981
Impairment	(992,382)	(14,452)	84	(665)	(308)	-	(943)	(1,008,666)
Disposals	(185,313)	(55,308)	(37,202)	(1,715)	(10,850)	(955)	(3,772)	(295,115)
Reclassification	639,598	14,621	16,891	11,412	(5,173)	127	(706,244)	(28,768)
Revaluations	6,758,450	43	752	4	385	99	(321)	6,759,412
At 31 March 2016	43,421,898	256,441	878,616	96,522	964,126	28,516	1,913,424	47,559,543
Depreciation								
At 1 April 2015	(196,836)	(21,491)	(407,249)	(30,374)	(283,849)	(10,187)	-	(949,986)
Transferred in on Machinery of Government change without restatement			(1,901)		(2,872)			(4,773)
Charged in year	(797,189)	(16,231)	(179,713)	(16,275)	(127,059)	(4,857)	-	(1,141,324)
Disposals	17,386	3,473	37,123	976	9,730	664	-	69,352
Reclassification	3,469	(115)	(5,037)	1,104	3,126	(103)	-	2,444
Revaluations	909,954	(28)	(672)	(4)	(464)	-	-	908,786
At 31 March 2016	(63,216)	(34,392)	(557,449)	(44,573)	(401,388)	(14,483)	-	(1,115,501)
Carrying value as at:								
31 March 2016	43,358,682	222,049	321,167	51,949	562,738	14,033	1,913,424	46,444,042

31 March 2015	33,381,737	173,172	325,560	37,968	531,550	13,669	1,038,341	35,501,997

	Land & Buildings £000	Leasehold Improve'ts £000	IT Equipment £000	Plant & Machinery £000	Furniture & Fittings £000	Motor Vehicles £000	Assets Under Construct'n £000	Total £000
Of the total:								
Department & Agencies	54,110	11	2,206	6	5,108	-	215,788	277,229
NDPBs	-	-	616	3	700	-	-	1,319
Academy Trusts	43,304,572	222,038	318,345	51,940	556,930	14,033	1,697,636	46,165,494
	43,358,682	**222,049**	**321,167**	**51,949**	**562,738**	**14,033**	**1,913,424**	**46,444,042**

£12.0 million (2014-15: £11.2 million) of staff costs incurred for the free schools programme and £1.1 million (2014-15: £0.1 million) for the PSBP have been included in the value of AuC as they are directly attributable to these capital projects (excluding any academy staff time).

£24.5 million (2014-15: £4.2 million) has been reclassified as assets held for sale (see Note 12).

6.2 Group 2015

	Land & Buildings £000	Leasehold Improve'ts £000	IT Equipment £000	Plant & Machinery £000	Furniture & Fittings £000	Motor Vehicles £000	Assets Under Construct'n £000	Total £000
Cost or valuation								
At 1 April 2014	27,618,389	134,004	556,758	40,990	632,555	18,644	711,836	29,713,176
Additions	529,956	69,521	159,052	16,807	132,694	4,224	973,470	1,885,724
Transferred in on in-year conversion:								
LA	2,677,213	137	16,486	4,638	51,977	929	-	2,751,380
non-LA	920,982	83	6,711	491	5,513	62	92,885	1,026,727
Transferred in on conversion settlements:								
LA	90,317	(704)	4,815	2,786	(5,106)	264	(32,892)	59,480
non-LA	24,027	(2,697)	(4,633)	(315)	(8,143)	(30)	11,133	19,342

Donations	406,679	2,028	4,103	3,306	8,574	206	5,540	430,436
Impairment	(159,161)	-	(365)	-	(130)	(22)	(10,714)	(170,392)
Disposals	(49,400)	(388)	(14,404)	(253)	(7,510)	(464)	(13,091)	(85,510)
Reclassification	697,346	(6,923)	3,012	(114)	4,365	(10)	(699,826)	(2,150)
Revaluations	822,225	(398)	1,274	6	610	53	-	823,770
At 31 March 2015	**33,578,573**	**194,663**	**732,809**	**68,342**	**815,399**	**23,856**	**1,038,341**	**36,451,983**
Depreciation								
At 1 April 2014	(503,309)	(11,937)	(264,300)	(13,394)	(175,911)	(6,110)	-	(974,961)
Charged in year	(678,024)	(11,137)	(159,179)	(14,790)	(110,033)	(4,306)	-	(977,469)
Disposals	595	388	12,749	116	6,189	289	-	20,326
Reclassification	(1,151)	1,250	5,321	(2,300)	(2,663)	(4)	-	453
Revaluations	985,053	(55)	(1,840)	(6)	(1,431)	(56)	-	981,665
At 31 March 2015	**(196,836)**	**(21,491)**	**(407,249)**	**(30,374)**	**(283,849)**	**(10,187)**	**-**	**(949,986)**
Carrying value as at:								
31 March 2015	**33,381,737**	**173,172**	**325,560**	**37,968**	**531,550**	**13,669**	**1,038,341**	**35,501,997**
31 March 2014	**27,115,080**	**122,067**	**292,458**	**27,596**	**456,644**	**12,534**	**711,836**	**28,738,215**

	Land & Buildings £000	Leasehold Improve'ts £000	IT Equipment £000	Plant & Machinery £000	Furniture & Fittings £000	Motor Vehicles £000	Assets Under Construct'n £000	Total £000
Of the total:								
Department & Agencies	65,222	13	3,158	14	6,834	-	122,511	197,752
NDPBs	-	-	-	8	-	-	-	8
Academy Trusts	33,316,515	173,159	322,402	37,946	524,716	13,669	915,830	35,304,237
	33,381,737	**173,172**	**325,560**	**37,968**	**531,550**	**13,669**	**1,038,341**	**35,501,997**

Land and building assets have been presented as a single asset class to reflect the common valuation techniques (depreciated replacement cost) applied to the estate as a whole. The Group operates its land and building assets through a number of routes from freehold, through leasehold to rentals. Where the Group leases its land and building assets from their local authority the majority of such leases are very long (often 100 or 125 years) and there is usually only a notional peppercorn, or in some instances no, rental cost. To reflect the commercial/economic nature of such long low value leases the Group has classified such leases as equivalent to freehold and aggregated all land and building assets into a single asset class.

Land and building assets acquired by the Group on conversion of its academy schools are valued on a basis consistent with the Group's other land and building assets; depreciated replacement cost. Following the initial recognition all its school land and building assets will be revalued in line with Group accounting policy every five years, necessitating an expansion of the Group's rolling revaluation programme. Land and building assets for all Group sites opened after 31 March 2012 are revalued on the five-year anniversary of their opening.

Under the terms of the lease agreement, no contingent rents are payable and there are no rights to purchase for the Sanctuary Building in London. The commitment is calculated based on the Department exercising a lease break in 2017. There are also no contingent rents payable and no rights to purchase for Piccadilly Gate, Manchester and Earlsdon Park, Coventry. The commitments are calculated based on the full unexpired lives of the leases. These leases are therefore held as operating leases and only leasehold improvements are capitalised.

The Group's surveyors revalue land and buildings in accordance with the Royal Institute of Chartered Surveyors' (RICS) *Appraisal and Valuation Manual* and *Building Bulletins 102 and 103*.

The Group's non-school sites were last revalued by DTZ as follows:

- Mowden Hall, Darlington April 2015;
- St Paul's Place, Sheffield March 2016; and
- LCC building, Nottingham March 2015.

During 2015-16 part of the Darlington site was transferred to an academy trust and the remainder sold. The LCC building was held for sale from early 2016. The Group is not aware of any material change to any of the other valuation of the properties since the last professional valuations.

Assets under construction relate to IT and school building construction projects.

Included within the closing value of land and buildings is £14.1 billion (2014-15: £8.5 billion) of land held by academy trusts.

7 Intangible assets

7.1 Group 2016

	Software and Information Technology £000	Developm't expenditure £000	Other £000	Total £000
Cost or valuation				
At 1 April	108,747	11,469	402	120,618
Additions	743	(4,368)	266	(3,359)
Transferred in on Machinery of Government change without restatement	818	-	-	818
Transferred in on in-year school conversion:				
LA	15	-	-	15
Non-LA	32	-	-	32
Transfer on conversion settlement balances:				
LA	(34)	-	(11)	(45)
Non-LA	75	-	-	75
Donations	2	-	-	2
Disposals	(7,099)	-	41	(7,058)
Impairments	-	-	-	-
Reclassification	8,493	(7,065)	-	1,428
Revaluations	1,384	-	-	1,384
At 31 March	**113,176**	**36**	**698**	**113,910**
Amortisation				
At 1 April	(90,050)	-	(145)	(90,195)
Transferred in on Machinery of Government change without restatement	(702)	-	-	(702)
Charged in year	(9,677)	-	(76)	(9,753)
Disposals	7,210	-	(101)	7,109
Reclassification	394	-	-	394
Revaluations	(1,203)	-	-	(1,203)
At 31 March	**(94,028)**	**-**	**(322)**	**(94,350)**
Carrying value at 31 March	**19,148**	**36**	**376**	**19,560**
Asset financing:				
Owned	19,148	36	376	19,560
Finance leased	-	-	-	-
	19,148	**36**	**376**	**19,560**
Of the total:				
Department & Agencies	16,421	-	-	16,421
NDPBs	134	36	-	170
Academy Trusts	2,593	-	376	2,969
Carrying value at 31 March	**19,148**	**36**	**376**	**19,560**

7.2 Group 2015

	Software~ and Information Technology £000	Developm’t expenditure £000	Other £000	Total £000
Cost or valuation				
At 1 April	99,009	5,467	419	104,895
Additions	1,389	12,943	(149)	14,183
Transferred in on in-year school conversion:				
LA	-	-	11	11
Non-LA	-	-	-	-
Transfer on conversion settlement balances:		-		
LA	(22)		21	(1)
Non-LA	203	-	(22)	181
Donations	52	-	-	52
Disposals	(93)	-	-	(93)
Impairments	-	-	(28)	(28)
Reclassification	7,457	(6,941)	-	516
Revaluations	752	-	150	902
At 31 March	**108,747**	**11,469**	**402**	**120,618**
Amortisation				
At 1 April	(77,193)	-	(83)	(77,276)
Charged in year	(12,230)	-	(44)	(12,274)
Disposals	66	-	-	66
Reclassification	-	-	-	-
Revaluations	(693)	-	(18)	(711)
		-		
At 31 March	**(90,050)**	**-**	**(145)**	**(90,195)**
Carrying value at 31 March	**18,697**	**11,469**	**257**	**30,423**
Asset financing:				
Owned	18,697	11,469	257	30,423
Finance leased	-	-	-	-
	18,697	**11,469**	**257**	**30,423**
Of the total:				
Department & Agencies	14,065	11,469	-	25,534
NDPBs	75	-	-	75
Academy Trusts	4,557	-	257	4,814
Carrying value at 31 March	**18,697**	**11,469**	**257**	**30,423**

Intangible assets were revalued on the basis of indices provided in the Public Expenditure System by HMT. Academy trust assets have not been revalued as immaterial.

The majority of assets under construction relate to programme developed software projects. Intangible assets introduced to the Group through the conversion of its schools in year have been accounted for on a consistent basis to existing Group assets.

8 Financial instruments

8.1 Financial assets by category

	2016 Department & Agencies £000	2016 Group £000	2015 Department & Agencies £000	2015 Group £000
Cash	182,638	3,439,552	233,738	3,038,199
Financial assets	-	314,014	-	134,967
Investments in other public bodies	5,810	-	6,759	-
Receivables	210,767	982,581	155,408	1,065,178
	399,215	**4,736,147**	**395,905**	**4,238,344**

8.2 Financial liabilities by category

	2016 Department & Agencies £000	2016 Group £000	2015 Department & Agencies £000	2015 Group £000
Payables – excluding loans	943,141	2,513,892	904,946	2,545,831
PFI liability	219,884	219,884	-	-
PF2 debt	-	193,726	-	-
Loans – other	-	44,785	-	36,243
	1,163,025	**2,972,287**	**904,946**	**2,582,074**

9 Financial risk

9.1 Financial risk management

As the cash requirements of the Group are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Group's expected purchase and usage requirements and the Group is therefore exposed to little credit, liquidity or market risk.

Due to the largely non-trading nature of its activities and the way in which government departments are financed, the Group is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of companies. The Group has very limited powers to borrow or invest surplus funds and, except for relatively insignificant purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Group in undertaking its activities.

However, the Group entered into several financial instruments during 2015-16 that have had a material impact on the Group's reported activities. To support the PF2 transaction the Group both took out and issued loans to allow funds to flow down to the four construction firms building the PF2 schools.

Liquidity risk
The Group's net revenue resource requirements (as well as its capital expenditure) are financed by resources voted annually by Parliament. The funding requirements of the Group's PF2 transaction are aligned to the planned drawdowns from the external investors to reduce liquidity risk.

The Group is therefore not exposed to any significant liquidity risks.

Interest-rate risk
The Group's financial instruments carry either nil or fixed rates of interest and it is not therefore exposed to significant interest-rate risk.

Credit risk
Credit risk is the risk that a service user or counterparty to a financial instrument will fail to pay amounts due causing financial loss to the Group and arises principally from cash and outstanding debt. The Group's exposure to credit risk can be split into two broad sources: arising from external loans originated by the Group and the funding of education providers.

The Group addresses the credit risks arising from the external loans through careful planning at the origination stages (planned drawdown and repayment schedules) and continuing review of monthly reporting within the wider PF2 transactions. In addition, the loans have been structured so that repayment starts once the school buildings are operational; and the borrowers are receiving rental income streams.

The Group has a credit (receivables) policy for education providers that ensures consistent processes are in place throughout the Group to measure and control credit risk. Commercial and charitable education providers for the Group are subjected to quality and financial status reviews to mitigate the risk of non-payment of debts as a result of insolvency.

For loan assets, there is no active market and there is no intention to sell. Therefore, the Group do not disclose fair value comparatives.

Market risk
The Group is exposed to market risk through its market valued investment portfolio. The majority of the Group's investment portfolio comprises investment funds and/or unit trusts managed by professional money managers.

9.2 Financial risk management

The Group has entered into agreements for 5 regional batches of schools with construction consortia, 4 of which had commenced during the year. These schemes are PFI arrangements, with the financing for each of the batches raised by Aggregator Vehicle Plc, which has accordingly been designated by the Office for National Statistics as part of the public sector and is consolidated in the Group in accordance with the Department's designation order. Aggregator Vehicle Plc has been consolidated as at 31 December 2015, as permitted by IFRS 10.

In summary, the transactions involved are:

- Bank debt is raised (liability of the Group);
- A loan is made onward to the relevant regional batch consortium (asset of the Group);
- The consortium undertakes construction projects with assets controlled by the local authority or academy trust as relevant (only an asset of the Group if constructed for an academy trust);
- The EFA recognises a PFI liability in respect of unitary charges payable to the consortia for the use of the schools (and a matching capital grant-in-kind) (liability of the Group).

The table below sets out the principal balances included in the consolidation in respect of these arrangements, and where the relevant details are included in the financial statements:

Balance	Note	Counterparty
SoFP		
PF2 Senior debt	15 and 16	Bank financing
PF2 Subordinated debt	15 and 16	Bank financing
PF2 Loans onward	10	Receivable from regional batch consortia
PFI liability	15 and 16	Payable to regional batch consortia
SoCNE		
Loan interest	5	Banks
Loan interest income	2	Receivable from regional batch consortia
PF2 service costs	5	Payable to regional batch consortia
PF2 finance costs	5	Payable to regional batch consortia

10 Financial assets

10.1 Financial assets

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
PF2 loans onward – current	-	188	-	-
Current	**-**	**188**	**-**	**-**
PF2 loans onward – non current	-	163,894	-	-
Academy investments	-	149,932	-	134,967
Non-current	-	**313,826**	-	**134,967**
	-	**314,014**	**-**	**134,967**

Risks associated with financial assets are disclosed in Note 9, including details of the PF2 arrangement.

PF2 loans onward

Loans made within the structure of the Group's PF2 transaction between the Group and the transaction's five regional batch consortia. Each consortium has a single loan repayable in six monthly instalments from 31 March 2017 ending on 28 December 2041; which matches the service concession period. The loans bear interest at fixed rates; with the weighted average fixed interest rate of 3.65% (2014-15: nil).

10.2 Analysis of academy investments

			2015-16			2014-15
	Investments at cost £000	Investments at fair value £000	Total £000	Investments at cost £000	Investments at fair value £000	Total £000
Balance as at 1 April	25,139	109,828	134,967	6,588	92,350	98,938
Additions	7,881	65,370	73,251	3,615	62,203	65,818
Transferred in on in-year conversions:						
LA	-	-	-	-	-	-
non-LA	-	80	80	-	-	-
Transferred in on conversion settlements:					-	-
LA	-	100	100	-	-	-
non-LA	-	-	-	-	-	-
Disposals	(2,611)	(54,900)	(57,511)	(3,614)	(31,440)	(35,054)
Impairments	-	(955)	(955)	-	2,977	2,977
Reclassifications	(2,835)	2,835	-	18,550	(16,262)	2,288
Closing balance at 31 March	**27,574**	**122,358**	**149,932**	**25,139**	**109,828**	**134,967**

11 Investments in other public bodies

11.1 Analysis

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Loans to Academy Trusts - current	2,266	-	39	-
Current	**2,266**	**-**	**39**	**-**
Loans to Academy Trusts – non current	3,544	-	6,720	-
Non-current	**3,544**	**-**	**6,720**	**-**
	5,810	**-**	**6,759**	**-**

Investments in subsidiaries in academy trusts have not been consolidated as immaterial to the group, and have instead been presented as investments at cost in financial assets.

Loans to Academy Trusts

Loans issued to academy trusts comprise two types:

- Loans to assist with the academy trusts' deficit funding following conversion of their schools. The loans are collected by the Group as a deduction against the academy trusts' grant payments over the loan term.
- Loans issued to voluntary aided (VA) schools for capital projects under Schedule 3 of the *Schools Standards & Framework Act 1998*. Interest is charged in accordance with the HMT lending rates. The rate set at the time of the loan issue was 4.45%.

  At 31 March 2016 there was only one outstanding loan (2014-15: one), and all balances are scheduled for repayment by 2025. The remaining VA school converted to academy status in 2013-14 resulting in the elimination of the loan on consolidation.

11.2 Maturity analysis

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Repayable:				
Within one year	2,266	-	39	-
After more than one year but less than five years	2,117	-	162	-
More than five years	1,427	-	6,558	-
	5,810	**-**	**6,759**	**-**

12 Assets held for sale

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Valuation				
As at 1 April	5,195	5,195	3,500	3,500
Reclassifications	24,502	24,502	4,195	4,195
Impairment Charge	-	-	(2,500)	(2,500)
Disposals	(1,000)	(1,000)	-	-
Disposal value	**28,697**	**28,697**	**5,195**	**5,195**

The in-year reclassification value above represents the carrying value of the non-current asset, prior to any impairment review, at the point the asset was reclassified as an asset held for sale.

- Castle View House, Runcorn was disposed of in November 2015;
- LCC was reclassified as held for sale in January 2016; and
- Assets under construction sites were held for sale at March 2016.

Where an EFA development project ultimately does not proceed, or where there are surplus elements of properties acquired, these are classified as 'held for sale'.

13 Receivables

	2015-16 Department & Agencies £000	2015-16 Group £000	2014-15 Department & Agencies £000	2014-15 Group £000
Amounts falling due within one year:				
Trade receivables	163,417	129,350	80,631	121,848
VAT receivable	571	212,208	6,876	272,437
Other receivables	3,925	305,019	15,483	322,503
Prepayments and accrued income	29,466	327,574	29,972	331,950
Deferred tax asset	-	1,061	-	-
	197,379	**975,212**	**132,962**	**1,048,738**
Amounts falling due after more than one year:				
Trade receivables	7,812	231	16,847	10,591
Prepayments and accrued income	5,576	7,138	5,599	5,849
	13,388	**7,369**	**22,446**	**16,440**

Other receivables due within one year includes £247.8 million in respect of the pro rate debtor described in Note 26.3 (2014-15: £202.5 million).

14 Cash and cash equivalents

	2015-16 Department & Agencies £000	2015-16 Group £000	2014-15 Department & Agencies £000	2014-15 Group £000
Balance at 1 April	233,738	3,035,943	124,246	2,593,470
Net change in cash and cash equivalent balances	(51,100)	401,211	109,492	442,473
Balance at 31 March	**182,638**	**3,437,154**	**233,738**	**3,035,943**
The following balances are held at:				
Cash at bank and in hand:				
Government Banking Service	148,531	149,265	148,354	148,644
Commercial banks	3,868	3,260,048	81	2,804,252
Cash held by solicitors on behalf of Group	30,239	30,239	85,303	85,303
	182,638	**3,439,552**	**233,738**	**3,038,199**
Overdrafts:				
Government Banking Service	-	-	-	-
Commercial banks	-	(2,398)	-	(2,256)

	-	(2,398)	-	(2,256)
Balance at 31 March, net of overdrafts	**182,638**	**3,437,154**	**233,738**	**3,035,943**

In the current year, overdraft balances have been split out from cash and shown as a liability in the payables note. For the purposes of the Statement of Cash Flows, cash is stated net of overdrafts as reconciled above.

The majority of cash held by the Department & Agencies outside the Government Banking Service are monies held by solicitors pending completion of land and building asset purchases to support the free school programme. The remainder of the balance is the RPA client account.

15 Payables

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Loans	-	7,206	-	9,809
Overdrafts	-	2,398	-	2,256
Tax and social security payables	3,873	208,521	3,853	180,098
VAT payable	-	-	51	25,820
Trade payables	81,872	493,517	24,474	403,883
Other payables	22,760	295,491	10,842	282,746
Finance Leases	-	663	-	2,656
Corporation tax	-	2,289	-	9
Accruals and deferred income	651,999	1,301,830	631,990	1,395,824
Amounts issued from the Consolidated Fund for Supply but not spent at year end	182,451	182,451	233,694	233,694
PFI liability	16,518	16,518	-	-
PF2 senior debt	-	180	-	-
PF2 subordinated debt	-	22,931	-	-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund: received	186	186	42	42
	959,659	**2,534,181**	**904,946**	**2,536,837**

16 Non-current payables

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Loans payable	-	37,579	-	26,434
Finance leases	-	4,668	-	5,361
PFI liability	203,366	203,366	-	-
PF2 senior debt	-	157,285	-	-

PF2 subordinated debt	-	13,330	-	-
Other payables	-	21,873	-	13,442
Deferred tax	-	5	-	-
	203,366	**438,106**	**-**	**45,237**

The PF2 liability recognised is in relation to the building of 4 batches of schools through the PF2 PFI arrangement. The liability shown is that applicable under IFRIC 12 and represents the outstanding element of the construction value of the schools, interest, facilities management costs payable at year end and deferral of contributions. The assets have not been recognised by the Group (other than through consolidation of academy trusts) since no economic benefit is judged to flow back to the Group over the duration of the concession arrangements.

The Group has not collected separate data from academy trusts on PFI liabilities arising from their academies.

PF2 senior debt relates to four bank notes and four bond subscriptions. The borrowing facilities are for a total value of £450 million and as at 31 December 2015 £163 million has been drawn. Loan issue costs related to the bank borrowings have been deducted from the gross proceeds and an effective interest is used to calculate finance costs. There was £151,000 (2014-15: £nil) of accrued interest and an unamortised effective interest adjustment of £5,757,000 (2014-15: £nil) as at the year end.

The loans are repayable in six-monthly instalments commencing on 31 March 2017, and ending on 31 March 2041. Interest is charged on amounts drawn under the facilities based on a fixed rate; the weighted average fixed rate is 3.08% (2014-15: nil).

The PF2 subordinated debt has been provided by a party related to the Aggeregator Vehicle Plc. As at the year end £29,000 (2014-15: £nil) interest has been accrued and the effective interest rate adjustment is £424,000 (2014-15: £nil).

The last PF2 batch launched in April 2016. Following the launch additional PF2 senior debt of £113.0 million and additional subordinated debt of £5.1 million was accepted by the Group; with the first drawdowns occurring for May 2016.

16.1 Loan Maturity Analysis

The analysis below shows the maturity of PF2 debt and academy loans:

		2015-16		2014-15
	Department & Agencies	Group	Department & Agencies	Group
	£000	£000	£000	£000
Repayable:				
Within one year	-	30,317	-	9,809
After more than one year but less than five years	-	46,493	-	16,653

More than five years	-	167,702	-	9,781
		244,512	**-**	**36,243**
Amortisation adjustment	-	(6,001)	-	-
	-	**238,511**	**-**	**36,243**

17 Provisions for liabilities and charges

17.1 Analysis

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Balance at 1 April	178,475	182,054	176,619	180,226
Transferred in on Machinery of Government change without restatement	-	122	-	-
Additional charge in year	29,841	19,960	15,180	19,602
Provision unused and reversed during the year	(1,786)	(1,971)	(2,896)	(6,667)
Provisions utilised in year	(33,960)	(27,679)	(18,745)	(19,424)
Discount rate change	(2,731)	(2,731)	5,539	5,539
Unwinding of discount	2,166	2,166	2,778	2,778
Balance at 31 March	**172,005**	**171,921**	**178,475**	**182,054**
Presented as:				
Current provisions	26,204	28,610	29,444	33,744
Non-current provisions	145,801	143,311	149,031	148,310
	172,005	**171,921**	**178,475**	**182,054**

17.2 Analysis of expected timing of discounted flows

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Not later than one year	26,204	28,610	29,444	33,744
Later than one year and not later than five years	58,160	56,467	51,391	50,996
Later than five years	87,641	86,844	97,640	97,314
	172,005	**171,921**	**178,475**	**182,054**

17.3 Analysis by provision type – Group

	Early Departure Costs	Retirement Compens'n	RPA	Other	Total

	£000	£000	£000	£000	£000
Balance at 1 April 2015	9,718	153,383	516	18,437	182,054
Transferred in on Machinery of Government change without restatement	-	-	-	122	122
Provided for in year	718	2,319	5,907	11,016	19,960
Provisions not required and written back	(326)	(324)	(17)	(1,304)	(1,971)
Provisions utilised in year	(3,752)	(12,645)	(1,848)	(9,434)	(27,679)
Borrowing costs (unwinding of discount)	82	1,845	238	1	2,166
Change in HMT's discount rate	(92)	(2,639)	-	-	(2,731)
Balance at 31 March 2016	**6,348**	**141,939**	**4,796**	**18,838**	**171,921**

Individual provisions of less than £10 million have been aggregated on the basis of materiality. The Risk protection arrangement liability has been separately disclosed as considered relevant for the user of the financial statements.

Early departure costs

The Group meets the additional costs of benefits beyond normal PCSPS benefits in respect of employees who retire early, and compensation payments payable to employees who take early severance. The Group provides for this in full when the early retirement programme becomes binding on the Group by establishing a provision for the estimated payments.

Retirement compensation

This long term provision relates to premature retirement compensation of teaching staff of ex-Grant Maintained Schools and Colleges and pension payments relating to the staff of former Departmental bodies (Schools Council, Training Commission and NDPBs). The provision was calculated using data supplied by both Capita Business Services Limited for teachers' pensions and Equiniti Paymaster for former departmental bodies and NDPBs. The calculation was based on the average life expectancy for men and women as detailed by ONS.

Risk Protection Arrangement

The Risk Protection Arrangement (RPA) for academy trusts is a scheme that provides an alternative to insurance where losses that arise are covered by government funds. The Provision is based on an actuarial model of expected claims. See Note 18 for further details.

Other provisions

The Group has separately disclosed provisions where these will be presented separately in the departmental group financial statements, or are over £10 million. Provisions of less than £10 million are presented as Other provisions.

Other provisions include:

- the redundancy, pensions, due diligence and other associated costs involved in the dissolution of sixth-form colleges and ensuring that existing learners provision and examination is not disrupted;

- the costs of redundancy, write-off of potential funding clawbacks, transfer of leases or capital assets and other costs involved in an academy closure as a result of the Secretary of State terminating the funding agreements of the Discovery New School and Hackney UTC;
- the cost of meeting the obligation to reimburse church academy trusts who had renewed their commercial insurance arrangements prior to the decision of both the Catholic Education Service and the National Society of the Church of England to join the Risk Protection Arrangement (RPA);
- property provisions established by academy trusts or the Group;
- provision for equal pay claims;
- other sundry provisions including equal pay claims; and
- a provision as a result of the finding of a Judicial Review into European School Teachers relating to promotion and retirement rights, disputed utilities costs and equal pay claims. The Judicial Review created an obligation for the Group to make these payments to European School Teachers.

  Under the remit of the *Further and Higher Education Act 1992*, as subsequently amended, this provision covers the redundancy, pensions, due diligence and other associated costs involved in the college dissolution and ensuring that existing learners provision and examination is not disrupted.

Details of other provisions held by the EAs and NDPBs can be found in their individual AR&As.

18 Risk protection arrangement

In September 2014 the Department launched the Risk Protection Arrangement as a replacement for commercial insurance for the Group's academy trusts. The launch of the RPA allows the Group to comply better with HMT's *Managing Public Money's* expectation that central government bodies do not purchase commercial insurance; risks should be borne internally across government.

A flat fee per pupil provides cover in four broad risk types and for two types of claimant:

- Academy trust losses:
  - Property damage and business interruption; and
  - UK travel;
- Non-academy trust claimants:
  - Employers' liability; and
  - Third party liability.

Whilst the risk accepted by the Department arises from the activities of academy trusts, a small portion sits outside the Group due to the potential third party claims. All RPA claims that arise between the Department and academy trusts are removed during the consolidation to leave just those elements that cross the Group boundary. Claim costs are borne by the Department from existing resources; no reserves fund or portfolio of investment assets is built up to cover future claims. RPA membership is restricted to the Group's academy trusts and covers losses incurred at the Group's academies or on academy business. Consequently, the risks associated with the RPA are limited to the academy schools sector within the UK.

No risk is ceded to re-insurance parties.

18.1 Reported balances

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Statement of Comprehensive Net Expenditure				
Membership income (presented in Note 2)	21,058	-	5,189	-
Expected losses for the year (presented in Note 17, as provisions, provided in year)	17,497	5,907	3,359	911
Operational costs (presented in Note 5, as professional fees)	546	546	250	250
Statement of Financial Position				
Client bank account (presented in Note 14)	3,868	3,868	81	81
Unsettled claims (presented in Note 15, as other payables)	7,516	7,516	816	382
Closing RPA provision (presented in Note 17)	10,261	4,796	2,383	516

The table above discloses all RPA balances recognised in these accounts at all reporting levels. Membership income is collected monthly by the Department, at source from grants payments payable to academy trusts.

RPA operational costs are classified as administration costs.

18.2 In-year movements

		2015-16		2014-5
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Balance at 1 April	2,383	516	-	-
Expected losses in the year	17,497	5,907	3,359	911
Unused provisions not required and written back	(18)	(17)	-	-
Valid claims received in the year	(9,601)	(1,610)	(976)	(395)

Balance at 31 March	**10,261**	**4,796**	**2,383**	**516**

The above table describes the movement in RPA provisions during the year. The closing balance is included within the provisions balances in Note 17.

18.3 Claims development – Department & Agencies

	2015-16 £000	2014-15 £000
Estimate of cumulative claims:	-	-
At the end of the cover year	17,497	3,359
One year later	-	-
Cumulative payments	(9,601)	(976)
	7,896	**2,383**

18.4 Assumptions

As 2015-16 is the second year of RPA operation, the Group has insufficient internal data upon which to model the Department's expected losses. To resolve this, the Group commissioned an established commercial insurance specialist to undertake a survey of school insurance activities, including volume and value of recent claims, split by the RPA's four cover groups allied to size and phase of the responding schools.

The survey was conducted across both existing academies and local authority maintained schools yet to convert, to broaden the survey population. This prevented the results from being skewed by the smaller academy sector.

The output of the survey was a data set that could be applied to build loss expectations and membership fee levels for differing annual loss scenarios. These scenarios modelled the impact of differences in the frequency that annual losses would exceed membership fees recovered (such as 1 year in 10, or 1 year in 100 years). Management then reviewed the annual loss scenarios to set a fee basis and loss expectations suitable for a self-insurance scheme.

The two most significant assumptions underpinning the quantification of insurance risk are volume of claims and average claim value. By combining claim volumes and average values we were able to calculate an expected value of claims for a given volume of academies, school numbers being used as the basic membership unit. The expected claims value and volume was then applied to the monthly number of RPA member academies to calculate the expected loss provision.

The Department has retained the Government Actuary's Department (GAD) to provide expert support whilst our data set develops. GAD will perform two separate pieces of work for the Group:

- a backward looking review as at the year end to check that the loss assumptions, including timing of claims, applied in a given year are reasonable when compared to actual performance; and

- a forward looking review as at the start of a cover year to calculate the updated assumptions for that cover year's provisions.

Management are aware that the absence of extensive actual performance data in the first years of the RPA will place reliance on the original survey results. The increasing academy trust RPA membership, allied to the reviews GAD will perform, should be sufficient to provide assurance over the reported RPA balances.

18.5 Risks

Insurance risk
Insurance risk is defined in IFRS 4 as the non-financial risk transferred to an entity in relation to insurance contracts; the risk arising from the unknown outcomes from future loss events. Whilst the Department has taken on insurance risk from those academy trusts who are members of the RPA, the Group position is different. The majority of insurance risk held by the Department, arising from the Group's academy trusts, is eliminated on consolidation leaving only the risk from the two external cover types. Management does not consider that the remaining Group risk is significant.

The Group mitigates insurance risk by improving risk management practice in its academies through Group-wide risk management audits and reviews. The Group has retained the services of a third party insurance specialist to perform the risk management audits and drive best practice adoption.

Market risk
Neither the Department nor the Group is exposed to market risk in relation to the RPA.

The RPA is a group-wide scheme; claims are settled from existing funds of the Group and no asset portfolio designed to support future payments is being acquired. The absence of an asset portfolio, including fair valued listed assets, and the specific nature of the cover provided removes any market risk exposure – there are no life products.

Credit risk
Neither the Department nor the Group are exposed to credit risk.

All membership fees are wholly within the Group, and the Department is able to recover membership fees from grant payments made to member academy trusts. In addition, the Group does not cede insurance risk to a re-insurance provider.

Liquidity risk
The Department and the Group are exposed to liquidity risk.

In the absence of an underlying investment portfolio whose maturity is matched to the expected profile of claim settlements generates the Group's liquidity risk, the Department (and the Group for third party claims) will provide for claims expected in cover years. The settlement of claims related to past cover years will be made from resources set aside through the provisioning process.

All insurance contracts recognised are for a single year from September to August. Academy trusts that join the RPA after September have shortened contracts for their first membership year to align with the rest of the membership.

19 Pension scheme disclosures

Amounts recognised in the accounts in respect of the various defined pension benefit schemes are set out in the tables below; these include both EHRC pension liabilities and academies' pension liabilities.

19.1 EHRC Pension Liabilities

As a result of Machinery of Government changes, the Department has taken on responsibility for the Equality and Human Rights Commission pension liabilities.

The broadly by analogy pension scheme is unfunded, with benefits being paid as they fall due and guaranteed by the Commission. There is no fund and therefore no surplus, deficit or assets. The scheme liabilities for service have been calculated by the Government Actuary's Department using the following financial assumptions:

	31 March 2016 %	31 March 2015 %
Rate of inflation: Consumer Prices Index	2.20	2.20
Rate of increase in salaries	4.20	4.20
Rate of increase for pensions in payment and deferred pensions	2.20	2.20
Rate used to discount scheme liabilities	3.60	3.55

The last actuarial valuation of the scheme took place on 19 May 2016. Changes in the demographic and financial assumptions underlying the valuation of the scheme have resulted in a gain to the scheme of £59,000 or 4.0 per cent of the statement of financial position valuation of the scheme liabilities. Experience loss on the scheme that arose because actual movements in liabilities were not in line with previous assumptions amounted to a gain of £77,000 or 5.3 per cent of the statement of financial position valuation of the scheme liabilities. The total remeasurements were a gain of £136,000 or nine per cent of the statement of financial position valuation of the scheme liabilities.

19.2 Academies' pension scheme

The Group is involved with the LGPS as this is available to non-teaching staff at its schools. The LGPS is a single national scheme that is administered at a local level by fund units that in many, but not all cases, approximate local authorities. Whilst the scheme is national, benefits are accrued at the local fund level.

The scheme provides funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of Group and are invested in managed funds. Employer contribution rates are determined by a qualified actuary and on the basis of triennial valuations.

The four LGPS actuaries (AON Hewitt; Barnett Waddingham, Hymans Robertson and Mercer) carried out IAS 19 valuations for the Group as at 31 March 2016.

The employer pension contribution for 2015-16 is £510 million (2014-15: £423.0 million), the difference in the two years is due to the increase in the number of academies, and employees contributed for, within these figures.

19.3 Analysis of non-interest costs charged to SoCNE

	2015-16 £000	2014-15 £000
Current service cost	668,813	537,361
Past service cost	542	411
Loss on curtailments and settlements	863	135
Loss on transfer of assets on scheme settlements	665	-
	670,883	**537,907**

19.4 Analysis of interest costs charged to SoCNE

	2015-16 £000	2014-15 £000
Interest income	(158,353)	(155,034)
Interest on scheme liabilities	294,569	267,493
Net cost	**136,216**	**112,459**

19.5 Analysis of amounts in other comprehensive (income)/ expenditure

	2015-16 £000	2014-15 £000
Total actuarial (gains)/loss	(538,791)	954,209
Net (benefit)/cost	**(538,791)**	**954,209**

19.6 Sums recognised in the SoFP

	2015-16 £000	2014-15 £000
Present value of defined benefit obligations	9,072,675	8,203,600
Fair value of scheme assets	(5,034,076)	(4,238,220)
	4,038,599	**3,965,380**

19.7 Movements in the present value of defined benefit obligations

	2015-16 £000	2014-15 £000
Balance brought forward at 1 April	8,203,600	5,472,662

Liabilities assumed on in-year conversion of academy schools	489,484	604,824
Transfer in of scheme liabilities	1,637	-
Current service cost	668,813	537,361
Interest cost	294,569	267,493
Employee contributions	150,963	125,685
Past service cost	542	411
Actuarial (gain)/loss	(672,998)	1,238,491
Benefits paid	(64,798)	(43,462)
Losses on curtailments	863	135
At 31 March	**9,072,675**	**8,203,600**

19.8 Movements in the fair value of scheme assets

	2015-16 £000	**2014-15 £000**
Balance brought forward at 1 April	4,238,220	3,044,848
Assets acquired on in-year conversion of academy schools	176,511	248,792
Employer contributions	509,699	423,041
Employee contributions	150,963	125,685
Actuarial gain or (loss)	(134,207)	284,282
Benefits paid	(64,798)	(43,462)
Assets transferred on scheme settlement	(665)	-
Interest income	158,353	155,034
At 31 March	**5,034,076**	**4,238,220**

19.9 Reconciliation of deficit

	2015-16 £000	**2014-15 £000**
Balance brought forward at 1 April	3,965,380	2,427,814
Transfer in for in-year conversion of academy schools	312,973	356,032
Transfer in of scheme liabilities	1,637	-
Current service cost	668,813	537,361
Employer contributions	(509,699)	(423,041)
Past service cost	542	411
Net finance (income)/cost	136,216	112,459
Settlements	665	-
Curtailments	863	135
Actuarial loss or (gain)	(538,791)	954,209
At 31 March	**4,038,599**	**3,965,380**

19.10 Sensitivity analysis

The following table covers AT pension liabilities only:

	2015-16 £000	2014-15 £000
Impact on the defined benefit obligation for changes of:		
Discount rate +1.0%	(1,946,268)	(1,690,935)

Discount rate -1.0%	2,424,663	2,145,548
Mortality rate 1 year increase	233,592	236,851
Mortality rate 1 year decrease	(229,193)	(232,681)
Consumer prices index rate +1.0%	1,626,848	1,449,987
Consumer prices index rate -1.0%	(1,335,675)	(1,189,356)

19.11 Scheme assets

The following table covers AT pension assets only:

	2015-16 £000	2014-15 £000
Equities	63.93%	67.10%
Gilts	9.84%	9.97%
Corporate bonds	7.51%	8.21%
Property	10.22%	7.95%
Cash and liquidity	2.90%	2.87%
Other	5.60%	3.89%
	100%	**100%**

19.12 Actual return on assets

	2015-16 £000	2014-15 £000
Expected return on assets	158,353	155,034
Actuarial gain/(loss) on assets	(134,207)	284,282
Actual return on assets	**24,146**	**439,316**

19.13 Experience gains

	2015-16 £000	**2014-15 £000**
Defined benefit obligations	(9,072,675)	(8,203,600)
Scheme assets	5,034,076	4,238,220
Deficit	**(4,038,599)**	**(3,965,380)**
Expected return on assets	158,353	155,034
Actuarial gain/(loss) on assets	(134,207)	284,282
Actual return on assets	**24,146**	**439,316**

19.14 Major financial assumptions

The following table covers AT pension schemes only:

	2015-16	**2014-15**
Rate of inflation	2.35%	2.40%
Rate of increase in salaries	3.65%	3.70%
Discount rate	3.65%	3.40%
Rate of return on pensions	2.35%	2.40%

Based on appropriate professional advice, the Group has set the financial assumptions used in the preparation of the actuarial valuation of liabilities. These assumptions have a range of uncertainty. Pension schemes operate over very long timescales and these assumptions may not be borne out in practice. The Group has standardised assumptions used in valuing academy trusts' benefits across all funds and all four actuaries in order to produce valuations that the Group can aggregate into a single set of disclosures.

The movement in pension liabilities reflects the movement in the actuarial assumptions in the year, with the change in net liability consistent with the sensitivity analysis provided for the prior period.

The Group has set assumptions used in valuing inherited LGPS benefits for academy trusts whose member academies convert in-year at appropriate values for the date of conversion. The Group's closing valuations as at 31 March 2016 use the assumptions disclosed in the table above.

19.15 Analysis of sums recognised in Other Comprehensive Net Expenditure

	2015-16 £000	2014-15 £000
Difference between the expected and actual return on scheme assets (£000)	(137,618)	220,364
Percentage of scheme assets	(2.73%)	5.20%
Experience gains and losses on scheme liabilities (£000)	524,444	4,397
Percentage of present value of the scheme liabilities	(5.78%)	(0.05%)
Total sum recognised in other comprehensive expenditure (£000)	**386,826**	**224,761**
Percentage of present value of scheme liabilities	4.26%	2.74%

The figures quoted in the table above show the experience element of actuarial gains and losses for academies, rather than all of the actuarial movements in Other Comprehensive Expenditure.

20 Capital and other commitments

20.1 Capital commitments

Contracted and approved commitments at 31 March not otherwise included in these Accounts:

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Programmes:				
Free schools	2,336,884	2,336,884	1,897,743	1,897,743
PSPB	470,238	470,238	1,651,731	1,651,731

Property, plant and equipment	89,764	480,883	73,456	479,308
Intangible assets	-	154	-	12
	2,896,886	**3,288,159**	**3,622,930**	**4,028,794**

The majority of capital commitments relate to school projects managed by the Group. These capital commitments do not include the cost of contract workers engaged in the delivery of the programmes.

The £90 million (2014-15: £73 million) within the Department relates to the project to reconfigure the Old Admiralty Building which will provide a new modern workplace for London based staff, following relocation from Sanctuary Building in September 2017. The programme has an expected total cost of £97 million, and is anticipated to complete over 5 years. The project is jointly funded between the Department and HMT (with contributions from Government Art Collection and Legalisation Office), and has recorded related receipts of £74 million capital income in financial statements for 2015-16.

20.2 Commitments under leases

20.2.1.1 Operating leases

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

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Land and buildings				
Not later than one year	15,545	34,213	15,408	32,853
Later than one year and not later than five years	17,961	64,497	29,987	86,250
Later than five years	18,440	272,828	20,713	248,334
	51,946	**371,538**	**66,108**	**367,437**
Expected receipts from sub-leases	(11,724)	(11,724)	(11,137)	(11,137)
	40,222	**359,814**	**54,971**	**356,300**
Other				
Not later than one year	218	55,210	218	52,404
Later than one year and not later than five years	54	65,392	272	72,716
Later than five years	-	7,824	-	23,127
	272	**128,426**	**490**	**148,247**

20.2.1.2 Finance leases

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

		2015-16		2014-15
	Department & Agencies	Group	Department & Agencies	Group

	£000	£000	£000	£000
Land and buildings				
Not later than one year	-	457	-	634
Later than one year and not later than five years	-	1,883	-	2,450
Later than five years	-	2,802	-	4,076
	-	**5,142**	**-**	**7,160**
Other				
Not later than one year	-	1,004	-	750
Later than one year and not later than five years	-	588	-	838
Later than five years	-	214	-	405
	-	**1,806**	**-**	**1,993**

20.2.1.3 Obligations under PFI contracts

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Not later than one year	18,769	72,167	66	35,099
Later than one year and not later than five years	210,315	408,084	109,395	231,094
Later than five years	1,245,624	1,992,196	781,197	1,338,992
	1,474,708	**2,472,447**	**890,658**	**1,605,185**

In 2015 the Department launched a further tranche of school improvements through the PF2 mechanism. Three of the batches (Hertfordshire, Luton and Reading, North West and North East) launched in March 2015; the Midlands batch launched in August 2015 and the Yorkshire batch launched in April 2016.

Under the terms of the wider transaction the Department is committed to pay unitary service charges regarding each batch for the twenty-five year operational period of the schools constructed under the financing transaction.

20.3 Other financial commitments

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Non-cancellable contracts				
Not later than one year	20,849	27,373	35,163	35,163
Later than one year and not later than five years	19,224	22,376	47,714	47,714
Later than five years	-	240	3,743	3,743
	40,073	**49,989**	**86,620**	**86,620**

20.4 Education grant funding commitments

Private finance initiative grants to local authorities and voluntary-aided schools:

		2015-16		2014-15
	Department	Group	Department	Group

	& Agencies £000	£000	& Agencies £000	£000
Not later than one year	751,005	751,005	749,160	749,160
Later than one year and not later than five years	3,007,157	3,007,157	3,007,022	3,007,022
Later than five years	9,758,636	9,758,636	10,515,503	10,515,503
	13,516,798	**13,516,798**	**14,271,685**	**14,271,685**

20.5 Other educational grants

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

21 Related party transactions

The Department is the parent of the EAs and sponsor of the NDPBs and ATs shown in Note 22. These bodies are regarded as related parties with which the Department has had various material transactions during the year. These are mainly financing to the EAs, payments for grants in aid to the NDPBs and payments for grants to the ATs. All such transactions have been eliminated during the preparation of this note.

In addition, the Group has had a number of transactions with other government departments, other central government bodies, local authorities and some charitable organisations. Most of these transactions have been with the Department of Culture, Media and Sport, the Department for Communities and Local Government, the Department for Business, Innovation and Skills, Department of Health and local authorities. The Department also makes pension contributions into public sector pension schemes including the PCSPS, LGPS and TPS.

As well as the disclosures in the Remuneration Report the following relationships are also considered as related parties and have therefore been disclosed in line with IAS 24:

- Nicky Morgan's spouse is a Governor of Mountfields Lodge Academy and Loughborough College.
- Nick Boles is a minister with responsibilities in BIS. Mr Boles' brother-in-law is Chair of Governors for Theale Green Academy.
- Caroline Dinenage is a minister with responsibilities in the Ministry of Justice.
- David Laws was a minister with responsibilities in the Cabinet Office.
- Lord Nash's wife is a Governor of the Pimlico Academy and a member of the Advisory Bodies of Pimlico Primary, Millbank Primary and Churchill Gardens Primary.

- Chris Wormald is a Trustee of the Whitehall and Industry Group.
- Paul Kissack's spouse is a Director of Harpenden Free School.
- Shona Dunn is a co-opted governor for Alderbrook Primary School.
- Richard Calvert is a Governor of the University of Hertfordshire.
- Simon Judge is a board member of the Teacher's Pension Scheme.
- Tom Shinner is a Governor, Member and Director for the Greenwich Free School.
- David Meller has interests in The Hertswood Academy, The Harefield Academy, The Bushey Academy, Elstree UTC, Watford UTC and Global Academy.
- Ian Ferguson's partner is the Head of Edmonton County School.
- Baroness Ruby McGregor-Smith is a Director of Michael Page International PLC.
- Sir Paul Marshall is Chairman of ARK Schools Academy Trust.
- Marion Plant is Director and Chief Executive of the Midlands Academies Trust, Trustee of North Warwickshire and Hinckley College and Church of England National Society.
- Peter Lauener is Chief Executive of the Skills Funding Agency.

The following table shows the value of material related party transactions entered into during the year:

	2015-16		31st March 2016		2014-15		31st March 2016	
	Payments £000	Receipts £000	Receivables £000	Payables £000	Payments £000	Receipts £000	Receivables £000	Payables £000
Department for Business, Innovation & Skills	983,976	(6482)	166	(1305)	811,497	(12,950)	n/a	n/a
Cabinet Office	(1056)	(107)	234	(202)	300	(18)	n/a	n/a
Ministry of Justice	263	(1,442)	7	(307)	n/a	n/a	n/a	n/a
Centreforum	16	(39)	-	-	50	-	n/a	n/a
ARK Education Limited	6,431	-	-	(70)	124	-	n/a	n/a
Mountfields Lodge Academy	2,267	-	-	-	n/a	n/a	n/a	n/a
Loughborough College	9,918	-	-	-	n/a	n/a	n/a	n/a
Midland Academies Trust	17,791	(639)	-	-	n/a	n/a	n/a	n/a
Theale Green Academy	6,595	-	-	-	-	-	n/a	n/a
Whitehall and Industry Group	7	-	-	-	-	-	n/a	n/a
Harpenden Free School	2,954	-	-	-	-	-	n/a	n/a
University of Hertfordshire	1,096	(2)	-	(63)	n/a	n/a	n/a	n/a
Greenwich Free School	2,688	(12)	-	-	-	-	n/a	n/a
Teacher's Pension Scheme	13,363	(19,386)	1,826	(113)	13,644	-	n/a	n/a
Edmonton County School	25	-	-	-	-	-	n/a	n/a
Pimlico Academy	9,533	-	-	(6)	-	-	n/a	n/a
Pimlico Primary	762	-	-	-	-	-	n/a	n/a

Milbank Primary	2,478	-	-	-	-	-	n/a	n/a
Churchill Gardens Primary	1,895	-	-	-	-	-	n/a	n/a
The Hertswood Academy	7,871	-	-	-	n/a	n/a	n/a	n/a
The Harefield Academy	5,930	-	-	-	-	-	n/a	n/a
The Bushey Academy	18	-	-	-	-	-	n/a	n/a
Elstree UTC	4,931	(266)	-	-	-	-	n/a	n/a
Watford UTC	5,782	(1,407)	-	-	-	-	n/a	n/a
Michael Page International PLC	27	-	-	-	-	-	n/a	n/a
North Warwickshire and Hinckley College	1	-	-	-	11,604		n/a	n/a
South Leicestershire College	-	-	-	-	5,508	-	n/a	n/a
Church of England National Society	860	-	-	(47)	559	-	n/a	n/a
Skills Funding Agency	3,786	(253)	-	(699)	10,005	(2,710)	n/a	n/a
Global Academy	6,351	(916)	916	-	n/a	n/a	n/a	n/a
Alderbrook Primary School	6,250	-	-	-	n/a	n/a	n/a	n/a

Information regarding 2014-15 payables and receivables is not available as the department have not previously record this information.

Apart from the above related party disclosures, no minister, board member, key manager or other related parties have undertaken any material transaction with the Group during the year.

The above disclosures are for the Department, Executive Agencies only; they do not include transactions between the Group's academy trusts and the reported entities.

22 Entities within the Group boundary

22.1 Closing position

The entities within the Group during 2015-16 were as follows:

Executive Agency:

- Education Funding Agency (EFA);
- National College for Teaching and Leadership (NCTL);
- Standards and Testing Agency (STA);

Executive NDPB:

- Office of the Children's Commissioner (OCC);
- Equalities and Human Rights Commission;

The AR&A of all of the above can be found on GOV.UK website[59] other than Aggregator Vehicle Plc.

Advisory NDPB:

- School Teachers' Review Body (STRB);
- Social Mobility and Child Poverty Commission (SMCPC);

Other:

- Aggregator Vehicle Plc
- Academy Trusts[60] operational as of 31 March 2016, as established under *Education Act 2010*.

[59] The Stationery Office's website is at https://www.gov.uk/government/publications.
[60] A full list of academy trusts, and their academies, is available at: https://www.gov.uk/government/collections/dfe-annual-reports

22.2 Movements of bodies in the Group

With effect from 1 April 2015, the Department acquired both the Government Equalities Office (within the Department) and the Equalities and Human Rights Commission (as an Executive NDPB), to enable consistency with the Secretary of State's remit as Minister for Equalities.

23 Transfer of Academy Trust schools

			2015-16	2014-15
	Local Authority £000	Non-local Authority £000	Total £000	Total £000
Non-current assets				
Property, plant and equipment	2,122,629	681,824	2,804,453	3,778,107
Intangible assets	15	32	47	11
Investments	-	80	80	-
Receivables	-	-	-	1
Current assets				
Inventories	1	34	35	182
Receivables	9,397	28,294	37,691	111,656
Cash and cash equivalents	56,687	22,684	79,371	116,005
Current liabilities				
Payables	(135,869)	(39,474)	(175,343)	(107,045)
Provisions	(1)	-	(1)	-
Non-current liabilities				
Payables	(3,837)	(625)	(4,462)	(2,084)
Provisions	(1)	-	(1)	(873)
Pension scheme deficit	(119,286)	(23,755)	(143,041)	(356,032)
Net assets transferred on in-year converters	**1,929,735**	**669,094**	**2,598,829**	**3,539,928**
Net adjustment for conversion settlements	(88,503)	37,643	(50,860)	77,343
Net assets	**1,841,232**	**706,737**	**2,547,969**	**3,617,271**

	In-year Converters			
	Local Authority Number	Non-local Authority Number	Total Number	Total Number
Number of operational academy schools	421	253	674	**1,007**

On conversion of a school to academy status from a pre-existing school (such as a local authority maintained school, foundation school, faith school, etc.) the assets and liabilities of the school will be transferred at cost to the academy trust that operates the school. For academy schools without a legacy school (such as free schools and studio schools) assets and liabilities may be inherited by the academy trust from third parties such as sponsors.

In either case the academy trust, and ultimately the Group, will account for all inherited assets and liabilities introduced to the Group on the opening of an academy school under absorption accounting. New Group assets and liabilities are not revalued to fair value on introduction but carried at net book value. Land and building assets and pension scheme valuations are adjusted arising from harmonising accounting policies for new Group assets and liabilities.

Transfer on conversion settlements occur in the year after conversion of an academy school when accounting estimates of transferred assets and liabilities are firmed up by academy trusts during their first audit.

24 Events after the reporting period

Academy trusts have continued to be incorporated and open new academy schools throughout the period from the year end to the date of these accounts. The link in Note 22 includes all new academy trusts as well as those operational as at the year end.

The Group successfully launched the final batch of its private finance programme in April 2016. Following the launch of the batch the Group is committed to servicing the maintenance of the eight schools for the twenty-five rental period.

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made. Details of the effect of the EU referendum on the Department are given at paragraph 3.9.

In July 2016 the Prime Minister completed a reshuffle following the referendum; which has resulted in the Department acquiring new responsibilities and new EAs and NDPBs. The Department is now responsible for higher and further education as well as apprentices. Accordingly, the Department received from the BIS the following bodies:

- Further education directorate;
- Higher education directorate;
- English student loans;
- Skills Funding Agency (EA);
- Student Loans Company (NDPB);
- Three industry training boards: Construction, Engineering and Film:
- Higher Education Funding Council for England (NDPB); and
- UKCES

The above bodies will be included within the Group’s 2016-17 AR&A.

These accounts were authorised for issue by Jonathan Slater (Accounting Officer) on the date they were certified by the Comptroller & Auditor General. With the exception of the above, there have not been any other significant post reporting period events that have required disclosures in the accounts.

25 Contingent liabilities and contingent assets

IAS 37 contingent liabilities

Quantifiable

The department holds the following contingent liability to be disclosed under IAS37. To reflect payments made on behalf of closed academies, this has been reclassified in the current year as no longer deemed remote.

	1 April 2015	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2016	Amount reported to Parliament by Depart'al minute
	£000	£000	£000	£000	£000	£000
Guarantee to LGPS funds	8,500	2,000	(5,470)	-	5,030	10,500

Guarantee to the Local Government Pension Scheme

A guarantee to LGPS funds to meet pension deficits if an academy trust closes. Increased to £10.5 million in the year (2014-15: £8.5 million) in line with annual estimates of academy trust deficits. Figures represent the maximum level of financial exposure to the department per annum if the projected academy trust closures were to occur. In 2015-16 crystallisation of liabilities totalled £5.5m, including £5m relating to closure of Totton College and £0.4m for Black Country UTC.

Unquantifiable

PSBP asbestos removal

The Group is aware of two outstanding claims from PSBP contractors for the removal of asbestos found at Blackpool Aspire Academy and Annie Holgate Infant School. It is standard Group practice to negotiate with PSBP contractors and partially meet part the cost of removing asbestos found during PSBP projects. In the case of Blackpool Aspire Academy and Annie Holgate Infant School the contractors have not yet quantified the value of their claims and consequently the Group is not able to quantify its liability in respect of these two cases.

PF2 contractual warranties

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 EFA. These are considered by the Department to be remote and unquantifiable as they relate to breach of contractual conditions

EHRC

A contingent liability exists regarding pension provision for a Chair and Deputy Chairs of a legacy commission. The Commission does not hold sufficient information to estimate a value. The likelihood of occurrence is deemed possible.

Adjudication

Under paragraph 7 of the Schools Standards Framework Act 1998, the Secretary of State has a statutory duty to indemnify any adjudicator against any reasonable cost and expense reasonably incurred by him in connection with any decision taken in pursuit of his statutory duty. Adjudicator decisions can be challenged through judicial review. It is not possible to quantify this.

Contingent assets

South Brough development

Horncastle Group Plc. is required by an S106 planning obligation from East Riding of Yorkshire council, to build a primary school in relation to its South Brough development. The Group has estimated the cost of construction of the primary school at £2.3 million and Horncastle Group Plc. will be required to fund the primary school's construction once 200 houses have been sold from the development.

PF2 Yorkshire batch

Ahead of reaching financial close on the PF2 Yorkshire Private Finance Batch, the Department entered into contract with the selected contractor covering pre-financial close works (the interim construction contract), to ensure successful and timely delivery of seven secondary schools. Subject to reaching financial close, an amount equivalent to that paid under the interim construction contract would be become due to the Department. The total amount paid under the interim construction contract was £15.4 million, plus accrued costs of £4 million.

The Yorkshire batch reached financial close in April 2016, and the Group received a repayment of the interim construction contract.

Legal and General PLC

Legal and General Group PLC is currently holding funds relating to the winding up of the Commission for Racial Equality Pension and Life Assurance Scheme. The scheme’s trustees are in the process of winding up the scheme. On the closure of the scheme some funds will be remitted to the Groups EA - EHRC. The amount and date of this are uncertain but could be around £4.5 million.

26 Accounting policies

These accounts have been prepared in accordance with the 2015-16 *Government Financial Reporting* Manual (FReM) issued by HM Treasury (HMT), 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 2015*. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context except for the departure from *IFRS10 Consolidated Financial Statements* as noted in section 26.4.1. 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 Group for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Group for 2015-16 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Group to prepare an additional primary statement. The Statement of Parliamentary Supply, and supporting notes, show outturn against Supply Estimate in terms of the Group's net resource requirement and the net cash requirement.

26.1 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.

26.2 Going concern

The Department's AR&A is produced on a going concern basis. The Department is supply financed and thus draws the majority of its funding from the Consolidated Fund. Parliament has demonstrated its commitment to fund the Department for the foreseeable future.

26.3 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 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. Management has specifically made such judgements on the inclusion of academy trusts in the accounts, the recognition and valuation of their land and buildings, accounting for capital expenditure and assets under construction, valuation of the pension deficit, and the pro rate debtor (which is the net working capital impact of applying the pro rate adjustment to an academy trust's reported performance in its first August accounts).

The Group has not offered any sensitivity analysis for these judgements.

26.3.1.1 Inclusion of academy trusts

Management have made judgements regarding how academy trusts are consolidated into these accounts and how to reflect the financial position of the Group for the period covered by these accounts. The most significant judgement concerns the lack of coterminous year-ends; and how to include academy trusts whose own accounts are prepared to 31 August. This issue does not affect the population of academy trusts that have not prepared accounts as at 31 August 2015, as their unaudited results have been included in the consolidated accounts through an accounting return as at 31 March 2016. For further details on the inclusion of academy trusts and key judgements, see Annex D.

26.3.1.2 Recognition and valuation of academy trusts' land and buildings

The second significant adjustment made to academy trusts' reported results was for the Group to recognise in all instances academy trusts' land and buildings irrespective of what the academy trusts recognised in their own accounts. In accordance with the accounting framework adopted by academy trusts, some do not recognise land and buildings utilised in their operations. However, the Group accounting framework (FReM) applies different criteria to the recognition (and valuation) of land and buildings.

Accordingly, management decided to recognise all academy trusts' land and buildings to reflect the reality that all academy trusts operate from buildings, and the omission of such buildings and the land on which they stand from the Group's Statement of Financial Position (SoFP) would significantly understate the assets controlled and managed by the Group. Therefore, the Group commissioned valuations for all academy trusts' land and buildings consistent with the Group's accounting policy for property, plant and equipment. The value of land and buildings for academies included in Note 6 is £43.3 billion at 31 March 2016 (2015: £33.3 billion).

26.3.1.3 Valuation of land and buildings

The Group holds land and buildings at valuation, which requires the application of estimates and judgements. See Note 26.8 for more details about the property, plant and equipment accounting policy.

Initial valuations are performed by surveyors in accordance with the Royal Institute of Chartered Surveyors' (RICS) *Appraisal and Valuation Manual* and the Department's *Building Bulletin 103 and Building Bulletin 102*. In applying this guidance, sites have been valued on a depreciated replacement cost basis for a modern equivalent asset, which involves a judgement that there are not significant instances of non-specialist or surplus assets which might be appropriately valued on other bases. The valuation of assets on initial recognition is shown in Note 6 in the Transfer on Conversion lines, which totalled £2.8 billion for 2015-16 (2014-15: £3.8 billion). No academy trust assets have been assessed as being surplus assets accounted for under IFRS 13.

The Group re-values land and buildings at least every 5 years from the anniversary of their initial recognition in accordance with the Group's accounting policy and the requirements of the FReM. Between quinquennial revaluations, the Group updates asset values using indices. The selection of the indices used represents an accounting judgement. Buildings have been indexed using the Office for National Statistics "Interim construction output prices: New work". The Group has indexed land values, using the HPI residential land index issued by LSL Acadata. The Group considers that a residential price index is the most appropriate index to use across its portfolio of assets as a large majority of current schools, and of potential new sites for schools, are in residential areas. However, this represents a key judgement and uncertainty in valuation of assets.

The initial valuations obtained by the Group, for the first group of schools to convert to academy status, were at 31 August 2012, which were obtained before the publication of *Buildings Bulletins 102* and *103*. For 2014-15, an estimate of the impact of the relevant changes was made. The Group commissioned updated valuations as at 31 March 2016, ahead of the regular quinquennial revaluations, so that all valuations in the Group would be on the basis of a consistent set of standards. Further detail is disclosed in Annex D from paragraph D42.

The overall impact of revaluation gains and impairment losses on the financial statements (including indexation of assets) is shown in the table below:

		2015-16		2014-15
	Department & Agencies £000	Group £000	Department & Agencies £000	Group £000
Revaluation of Land and Buildings	2,097	7,668,404	1,687	1,807,278
Other revaluation gains	327	(25)	100	(1,652)
Total revaluation gains	**2,424**	**7,668,379**	**1,787**	**1,805,626**
Impairment of Land and Buildings	(9,542)	(992,382)	(2,500)	(159,161)
Other impairments	-	(16,284)	(2,461)	(11,232)
Total impairments	(9,542)	(1,008,666)	(4,961)	(170,393)
Net revaluation gain / (impairment loss)	(7,118)	6,659,713	(3,174)	1,635,233
Of which Land and Buildings	(7,445)	6,676,022	(813)	1,648,117

26.3.1.4 Accounting for capital expenditure and assets under construction

The structure of the Group and the scale of its capital programme, including the Education Funding Agency's capital programme and activity funded by individual academy trusts, means that accounting for capital expenditure is inherently complex for the Group and involves judgements both over the capitalisation of accounting and in alignment of accounting for non-coterminous year-ends between academy trusts and the Group.

Capitalisation of expenditure as part of the EFA capital programme 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).

A detailed review is performed of amounts reported by academy trusts with projects that are part of the EFA capital programme, with consolidation adjustments to align the reported values to the 31 March position per EFA records. This includes capitalisation on consolidation of internal EFA costs which meet the criteria of IAS 16.

26.3.1.5 Pension valuation for the Local Government Pension Scheme

Local Government Pension Scheme liabilities are recognised in the SoFP – all other defined benefit schemes are unfunded multi-employer schemes for which we cannot identify the Group's share of the scheme's deficit. Details of the pension deficit are shown in Note 19.

Pension assets are held at fair value. Scheme liabilities are estimated using a projected unit method and discounted at their current rate of return on a high quality corporate bond of equivalent term to the liability. All estimates are performed by actuaries in accordance with IAS 19.

The actuarial gain for 2015-16 recognised in other comprehensive expenditure is £539 million (2014-15: loss of £954 million).

The Group adjusted the valuations of academy trusts' defined benefit scheme deficits to bring the valuation date and methodology into line with the group policy. The Group has applied all consolidation adjustments consistently across all pension schemes.

26.3.1.6 Inclusion of academy trust results on a "proxy" basis, migration of opening balances and the pro rate adjustment

The consolidation approach is described further in 26.4 below and within Annex D. For those academy trusts that made a first accounts return as at 31 March 2015 (i.e. they became academy trusts on or after 1 April 2014, and did not prepare audited financial statements to 31 August 2014 or those academies which joined existing trusts between 1 September 2015 and 31 March 2016), the Group faced the risk of duplicating these academy trusts' results in 2015-16 by consolidating the trusts' subsequent accounts return to 31 August 2015.

Without adjustment, the opening balances reported by the academy trusts for the Group's financial year 2015-16 will not agree to the closing included in the prior financial year which were as at 31 March 2015 rather than the start of the academy trusts' financial year. There were 435 academy trusts (716 academies) with results included to 31 March 2015 in 2014-15 therefore requiring adjustment for consolidation in 2015-16. To correct this, the Group has removed the closing balances at 31 March 2015 from academy trusts' August 2015 submission to align the opening and closing balances.

The Group has then scaled up the remaining 5 month period April to August 2015 to the full 12 months to 31 March 2016 to include a full year's activity for these academy trusts (the pro rate adjustment). A pro rate debtor is recognised for the resultant movement in net assets, which is presented in other receivables due within one year. The impact of this adjustment in the current year has been to include additional estimated academy trust operating costs for the period 1 September 2015 to 31 March 2016 of £1.2 billion (£45.3 million net of additional income), resulting in an increase in net assets of £45.3 million. The Group has excluded material one-off transactions (such as recognition of assets and liabilities at conversion) from the adjustment to prevent material distortions to the Group's reported results.

The Group carries forward the pro rate debtor and adjusts it to reflect the asset impact of movements between August and March each year. In using the pro rate debtor, management have applied judgement and have not sought to test the assertion that it is appropriate to pro rate results and reflect the impact. The pro rate debtor was £247.8 million at 31 March 2016 (31 March 2015:

£202.5 million). Management considers that the use of the proxy and other accounting judgements and policies described here provide the best possible representation of academy trusts' financial results for the year to 31 March 2016, given the constraints and limitations set out in the Governance Statement.

26.4 Basis of consolidation

These accounts present the consolidation of the Department, executive agencies and other bodies which fall within the departmental boundary as defined by FReM and make up the Group. Transactions between entities included in the consolidation are eliminated, to present the financial performance and financial position of the Group as a single economic entity.

The Department receives the authority to consolidate its executive agencies (EAs), NDPBs and academy trusts under the *Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) Order 2015*. A department's Designation Order sets out those bodies that are required to be included within a department's consolidated accounts, since all such bodies are judged to be public bodies.

Academy trusts have been classified by the Office of National Statistics as central government public sector bodies since 2004. Academy trusts fall within the Department's Designation Order and are included within the Departmental consolidation boundary.

The Aggregator Vehicle Plc has been classified in year as a central government public sector body and are consolidated in year with the Department Designation Order. As permitted by IFRS 10, the results and financial position of Aggregator Vehicle Plc have been consolidated as at 31 December 2015, which is within three months of the Group's year-end

As a result of Machinery of Government changes, the Department has taken on responsibility for the Government Equalities Office (GEO) and the Equality and Human Rights Commission (an ALB) from the Department for Culture, Media and Sport. Comparative figures have not been restated as the impact of the Machinery of Government changes is not considered material to the Group. A list of all entities within the Departmental accounting boundary is given at Note 22. Throughout these accounts 'Department' refers to the core Department whilst 'Group' refers to the single economic entity presented in these accounts; this consists of the Department, its EAs, NDPBs and ATs. The impact in year of the transfer was a net loss of £4.2 million reflecting the net liabilities acquired, with the principal movements shown in the Property, Plant and Equipment, provisions, and pensions notes.

26.4.1.1 Academy trust consolidation approach

In a departure from *IFRS 10 Consolidated Financial Statements*, all members of the Group do not have coterminous year ends. Academy trusts have financial years ending on 31 August in line with their operational year. In contrast the Department, its EAs and NDPBs have 31 March as their year end.

IFRS 10 permits the use of data prepared to non-conterminous year-ends only if there is less than three months difference. The Group has adopted a twofold approach to include academy trusts based on whether or not an academy trust prepared audited accounts to 31 August 2015.

The Group has consolidated all operational academy trusts as at 31 March 2016, including:

- 2,877 academy trusts' results (5,109 academies) for the academy trusts' financial year ending 31 August 2015, where academy trusts have prepared accounts to this date or have closed or merged during the period. Given the number of academies this is a material departure from IFRS 10.
- 327 academy trusts' provisional unaudited results (549 academies) from the date of their incorporation to 31 March 2016 where the academy trust has yet to prepare accounts to 31 August, or new academies were opened by existing multi-academy trusts after 31 August.

The Group has made adjustments, where required, to the academy trusts' accounts to align their accounting policies to those of the Group. The two most significant adjustments are to the recognition and valuation of land and building assets and defined benefit pension scheme deficit valuations.

26.4.1.2 Consolidation adjustments

The *Companies Act 2006* allows companies to shorten or extend their first accounting period after incorporation up to 18 months. Statute has designed the flexibility of the initial accounting period to allow companies to move the initial year end applied on incorporation to a more suitable date for the company's activities. In the case of academy trusts, the preferred date is 31 August to match their operational activities.

The population of academy trust accounts therefore included accounts for periods greater than and less than 12 months. For an individual academy trust, the period of accounts provided may not match the 12 months for which the Group uses the accounts as a proxy.

The Group has aligned the results for those academy trusts reporting for other than 12 month periods by adjusting academy trusts' results up or down as appropriate. The Group has reduced to 12 months the results of academy trusts reporting long period accounts (more than 12 months) as at 31 August to match the Group's accounting period. The Group has extrapolated the results of academy trusts reporting short period accounts to 31 August up to 12 months dependent upon the date their academies became operational. Adjustments were made for a total of 73 academy trusts, covering 224 schools.

The Group has not apportioned the results of newly opened academy trusts reporting as at 31 March, since their reporting (from opening as an academy to 31 March) already matches that of the Group. The adjustment required to bring academy trusts' reporting periods into line with the Group is only concerned with the normal operational transactions of an academy trust. The Group has excluded material one-off transactions (such as recognition of assets and liabilities at conversion) from the adjustment to prevent material distortions to the group's reported results.

26.5 Adoption of FReM amendments

There have been several significant FReM changes in 2015-16.

The first change is the removal of the reporting distinction between administration and programme for SoCNE costs and income. In previous years SoCNE income and expenditure was classified as either administration or programme and presented separately. The 2015-16 FReM removes the presentational split; income and expenditure is presented singly on the face of SoCNE and in their respective Notes to the Accounts; with specific income or expenditure being presented once rather than across two notes in previous years.

A second presentational change has been the removal of the Departmental column in the Accounts. The 2015-16 FReM removes the requirement for departments to present their own core balances in the published AR&A. Instead the lowest level of disclosure is for the combined core department and executive agencies (Department & Agencies).

Thirdly, IFRS 13 Fair Value, the main impact is the valuation of surplus assets for which there are no restrictions on sale where the valuation method will change from current value in existing use to a fair value based on highest value and best use.

The comparatives have been represented in line with the 2015-16 FReM requirements.

When implementing the FReM changes for 2015-16, the Department reviewed the presentation of disclosures. During this process, re-presentations of prior year figures were made to the Consolidated Statement of Cash Flows, grant expenditure presentation in Note 4, and the treatment of intercompany staff recharge income. The latter impacts the Department & Agencies figures in the SoCNE, as well as the Staff costs figure in the Remuneration and Staff Report.

26.6 Early adoption

The Group has not early adopted any accounting standards in 2015-16.

26.7 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 Group must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The Group 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 Group 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	Impact
IFRS 9 Financial Instruments	1 January 2018	Subject to consultation	This change simplifies the classification and measurement of financial assets.
IFRS 15 Revenue from Contracts with Customers	1 January 2018	Subject to consultation	The changes set out steps for revenue recognition along with requirements for accounting for contract costs.
IFRS 16 Leases	1 January 2019	Subject to consultation	The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Subject to consultation	The proposed changes amend how to account for deferred tax assets related to debt instruments measured at fair value.

26.8 Property, plant and equipment

The minimum level of capitalisation for expenditure on property, plant and equipment is £2,500. In the case of IT equipment and furniture all items recorded as capital expenditure are capitalised and if they fall below the £2,500 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 five years, and in the intervening years by use of appropriate indices supplied by Valuation Office. The Group has stated other property, plant and equipment at existing use value using appropriate indices published by the ONS. Some assets are of short life and of low value and have used depreciated historical cost as a proxy for fair value.

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

The Group measures the value of 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 Group's internal costs. The Group 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 Group balance sheet.

In the unlikely situation where circumstances existing prior to the year-end indicate that assets cannot be opened as a Group 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.

Upon conversion, the Group recalculates the carrying value of its academy land and buildings to depreciated replacement cost in order to comply with group accounting policies. The Group does not recognise this as a revaluation adjustment as the valuation was before the assets' initial recognition in the group accounts. As described more fully in the discussion in Note 6, the Group currently applies the guidance in *Building Bulletin 102 and 103* in performing revaluations.

Academy trusts operate their land and building assets through a number of routes from freehold, through leasehold to rentals. Where academy trusts' lease their land and building assets from a local authority the majority of such leases are very long (often 100 or 125 years) and there is usually only a notional peppercorn or no rental cost. To reflect the commercial and economic nature of such long low value leases the Group has classified such leases as equivalent to freehold and aggregated all building assets into a single asset class.

The Group will revalue academy trusts' land and buildings every 5 years using external professional valuations. For assets held for more than a year, the Group has applied the public sector tender prices indices issued by the Office for National Statistics (ONS) to academy buildings, and the HPI residential land index issued by LSL Acadata to academy land.

26.9 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
- Leasehold buildings 50 years or the lease term, whichever is shorter
- Leasehold improvements 50 years or the lease term, whichever is shorter
- Motor vehicles 3 – 7 years
- IT equipment 3 – 7 years
- Plant and machinery 3 – 20 years
- Furniture and fittings 5 – 10 years

26.10 Intangible assets

Intangible assets are initially valued at cost and then re-valued to existing use through indices supplied by the Department for Business, Energy & Industrial Strategy (BEIS). Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. Assets are amortised over their estimated useful economic lives. Assets under construction are not amortised but are assessed for impairment annually. Asset lives are in the following ranges:

- Software licences 2 – 5 years or the licence period, whichever is shorter
- Developed software 5 years
- Non-software licences 3 years
- Other 3 – 5 years

26.11 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

26.12 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.

26.13 Inventory

Inventory is carried at the lower of cost or net realisable value.

26.14 Financial instruments

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

26.14.1.1 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 Group 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 Group 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:

Available-for-sale assets
The Group holds investments which are classified as available for sale and are carried at fair value. Fair value is calculated as the closing bid price as at the year end. Movements in the fair value are recognised in the SoCNE.

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 assets
Loans comprise loans within the Group and external to the Group. 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.

26.14.1.2 Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities include trade and other payables and loans. The Group does not currently have financial liabilities measured at fair value through profit or loss; neither does it have derivative financial instruments. The Group 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.

Loan liabilities
The Group holds both interest bearing and non-interest bearing loans. The Group states such loans at their face value on initial recognition. Subsequently, the Group measures interest bearing

loans at amortised cost using the effective interest method; which includes all direct costs associated with the loans.

26.15 Research and development

Research expenditure is reported in the SoCNE in the year in which it is incurred. Development expenditure is also recognised in the SoCNE when incurred unless it meets the specific criteria for capitalisation within *IAS 38 Intangible Assets*. Property, plant and equipment acquired for use in research and development are depreciated over the life of the associated research project or according to the asset category if the asset is to be used for subsequent production work.

26.16 Operating income

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

Operating income consists of two broad types:

- Departmental income as authorised in the Supply Estimate (such as general administration receipts and income from other departments), and income to the Consolidated Fund that HMT has agreed should be treated as operating income; and
- Income generated by the Group in the course of its educational activities; which can encompass grants from public bodies outside the group, fundraising income, hire of facilities and sponsorship income.

Income is stated net of recoverable VAT.

26.17 Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases. Operating leases are charged to the SoCNE as expenditure is incurred.

26.18 Pensions

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

Accordingly, for funded defined benefit schemes the Group recognises a liability in respect of any deficit, being the excess of the present value of the scheme’s liabilities over the value of the assets in the scheme, to the extent that the Group has a legal or constructive obligation to make good the deficit in the scheme. Group’s share of the pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full on the face of the SoFP. Actuarial gains/losses from the scheme are recognised in reserves.

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

Further details of the pension schemes are available in Note 19.

26.19 Early departure costs

The Group is required to meet the additional cost of benefits beyond the normal pension scheme benefits in respect of some employees who retire early, and for compensation payments payable to some employees who take early severance. The Group provides for the costs when the early departure programme has been announced and is binding on the Group.

The exit costs of staff in the EAs are borne and managed centrally by the Department whilst the NDPBs are responsible for managing the costs of their staff exit programmes.

26.20 Grants

Grant financing and Grant-in-Aid

Funding to the Department's EAs and NDPBs through financing and Grant-in-Aid payments is reported on a cash basis in the period in which payments are made. Grant financing and Grant-in-Aid as well as any intra-group grants between the consolidated bodies are eliminated within the Group. However, due to lack of coterminous year ends between the Department, EAs and NDPBs with the academy trusts mentioned elsewhere in these accounts, some transactions could not be fully eliminated due to their timing. The value of academy trust transactions unable to be eliminated is £205 million (2014-15: £407 million) for revenue grants and £152 million (2014-15: £55 million) for capital grants.

Grants payable

The majority of grants made by the Group are recorded as expenditure in the period in which the claim is paid, as the grant funding cannot 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 it is accrued in the SoCNE and shown as a liability on the SoFP.

Grants paid to local authorities and programme providers remaining unspent at the year-end may be retained to fund future activity. The Group does not recognise a prepayment except where there are specific clawback provisions. These include:

- Initial Teacher Training grants where grants are allocated based on provisional trainee numbers and adjusted when actual trainee numbers are known. Wherever possible adjustments are made within the financial year, otherwise over-funding is recognised as a receivable at the end of the financial year and recovered during the following financial year.
- Time bound capital grants where a number of capital grants are subject to time constraints. Devolved formula capital for maintained schools has to be spent within a three year period. Other capital grants to local authorities have to be spent by the end of August following the end of the financial year. Profiled capital grants to academy trusts and capital maintenance grants to voluntary aided schools have a one year spending period.

The Group is able to recover funds if grant recipients have not spent the capital funding within the time limit specified. Where providers have further time following the end of the financial year to spend grant money, the existence of any future economic benefit cannot be deemed probable at the year end date; neither can its extent be measured reliably. The right of clawback does not therefore give rise to an asset eligible for recognition as defined by the IASB's *Framework for the Preparation and Presentation of Financial Statements*. Any related receipts are therefore offset against grant expenditure as they are received.

26.21 Provisions

The Group makes provision in the accounts where the following criteria are met in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* (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 Department applies HMT'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 1.55%;
- -1.00% 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 1.37%.

26.22 Risk protection arrangement

From 1 August 2014, academy trusts that join the Department's risk protection arrangement pay an annual per pupil fee to the Department and are covered for risks in four broad categories:

- Property damage and business interruption;
- Employers' liability;
- Third party liability; and
- UK travel.

The majority of the risks covered arise from activities internal to the Group (such as property damage and UK travel) but a minority arise externally to the Group (employers' and third party liabilities); and therefore remain after the Group's consolidation.

The Group has adopted *IFRS 4: Insurance Contracts* (IFRS 4) to account for the transfer of risk between the academies and the core Department. IFRS 4 provides that any entity that issues an insurance contract is an insurer (whether or not the issuer is regarded as an insurer for legal, supervisory or taxation purposes) and that an insurance contract is a contract under which one party accepts significant insurance risk from another party. Accordingly, provisions for losses have been recognised calculated on an expected loss basis (total losses expected to be incurred during a cover period) rather than on an IAS 37 basis (losses reported during the period).

Based on the number of schools that are members of the scheme, the Group provides for expected losses in respect of a claim year (which runs from 1 September to 31 August). The full expected value of valid claims leads to a transfer from the loss provision to RPA payables, prior to settlement. Loss provisions will be held for the full claim year plus four subsequent years, as claims incurred in that claim year are expected to be made within that time period.

Claims from individual academies are handled by a third party administrator, under contract to the Department.

An annual liability adequacy test is completed in accordance with IFRS 4.

26.23 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.

26.24 Value added tax

Most of the activities of the Group 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.

26.25 Corporation tax

The Department, its EAs and NDPBs are exempt from corporation tax.

The Group's academy trusts are considered to pass the tests set out in paragraph 1 Schedule 6 of the *Finance Act 2010* and therefore meet the definition of charitable companies for UK corporation tax purposes. Accordingly, academy trusts are potentially exempt from taxation in respect of income or capital gains received within categories covered by chapter 3 part 11 of the *Corporation Tax Act 2010* or Section 256 of the *Taxation of Chargeable Gains Act 1992*, to the extent that such income or gains are applied exclusively to charitable purposes.

However, the Group recognises low levels of corporation tax arising from the small number of trading subsidiaries held by the Group's academy trusts that fall outside of paragraph 1 Schedule 6 above. In addition, the Aggregator Vehicle PLC is subject to corporation tax.

26.26 Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

26.27 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 Group 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 Group under the Private Finance 2 (PF2) scheme over a twenty-five year period. These 46 schools include academies within the Group, as well as schools which fall outside the accounting boundary. 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 Group. In accordance with the Group's existing asset recognition approach for PSBP assets, the Group does not recognise school assets being constructed under PSBP (including PF2) where those assets fall outside academy trusts being consolidated. The Group does not judge any economic benefit to flow to the Group from the PSBP assets during and after construction other than where the assets are, or will be, operated by academy trusts involved in the consolidation. The Group instead recognises the value of the assets during construction for schools outside the Group as capital grants-in-kind.

As well as potential asset recognition IFRIC 12 application also results in the Group 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 core EFA.

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

26.28 Administration and programme expenditure

From 2015-16, the SoCNE is no longer analysed between administration and programme income and expenditure.

Transparency over the split between administration and programme expenditure and income is retained through the SoPS (administration control total) and the Data Tables (Annex C) in the Departmental accounts.

Administration costs reflect the costs of running the Group and include staff costs and other administrative costs, including travel, subsistence, information technology, maintenance, and office expenditure.

Programme costs reflect non-administration costs, including payment of grants and other costs of programme delivery. The Group records staff and contractor costs associated with the free school and the Priority School Building Programme (PSBP) as capital programme expenditure as these costs relate directly to the delivery of these capital programmes. The Group records all expenditure by its academy trusts, including staff costs, as programme expenditure.

Annexes

Annex A – Departmental statistics

Board Attendance

A1. The Department attendance at board and committee meetings during the year is listed in the following table.

Attendance at meetings	Departmental board	Management Committee	Performance Committee	Audit and Risk Committee
Total number of meetings	Meetings attended/Out of possible	Meetings attended/Out of possible	Meetings attended/Out of possible	Meetings attended/Out of possible
Ministers				
The Rt. Hon. Nicky Morgan MP	4/4	n/a	n/a	n/a
Nick Boles MP	4/4	n/a	n/a	n/a
Caroline Dinenage MP	1/2	n/a	n/a	n/a
Nick Gibb MP	3/4	n/a	n/a	n/a
Sam Gyimah MP	4/4	n/a	n/a	n/a
Lord Nash	4/4	n/a	n/a	n/a
Edward Timpson MP	3/4	n/a	n/a	n/a
Non-Executive Board Members				
Ian Ferguson	1/1	2/2	3/3	2/2
Sir Paul Marshall	4/4	0/11	9/10	1/3
Baroness Ruby McGregor-Smith	1/2	n/a	1/4	n/a
David Meller	3/4	n/a	7/10	n/a
Lord O'Neill	n/a	n/a	n/a	n/a
Marion Plant	4/4	n/a	4/10	n/a
Senior Officials				
Chris Wormald	4/4	11/11	7/10	n/a
Sue Baldwin	n/a	n/a	9/10	n/a
Richard Calvert	2/2	7/7	5/7	n/a
Shona Dunn	4/4	11/11	8/10	n/a
Simon Fryer	2/2	8/11	n/a	n/a
Simon Judge	2/2	11/11	3/4	n/a
Paul Kissack	2/2	11/11	10/10	n/a
Peter Lauener	4/4	11/11	n/a	n/a
Tim Leunig / Donna Ward	n/a	n/a	8/10	n/a
Andrew McCully	4/4	10/11	10/10	n/a
Tom Shinner	3/4	8/11	9/10	n/a

Attendance at meetings	Departmental board	Management Committee	Performance Committee	Audit and Risk Committee
Total number of meetings	Meetings attended/Out of possible	Meetings attended/Out of possible	Meetings attended/Out of possible	Meetings attended/Out of possible
Independent Members				
Christopher Baker (Independent Financial Expert)	n/a	n/a	n/a	5/5
Janet Eilbeck (Independent Financial Expert)	n/a	n/a	10/10	5/5
Mark Sanders (Chair of EFA Audit Committee)	n/a	n/a	n/a	5/5

Fire, health and safety

A2. The Department is committed to operating a best practice yet proportionate fire, health and safety management system, recognising its importance for enabling an efficient organisation, by minimising unnecessary losses and liabilities.

A3. During 2015-16, the Department has:

- monitored its statutory compliance and Occupational Health and Safety management reporting tools enabling robust management of high risk areas;
- continued to reduce fire, health and safety risks associated with Departmental business activities; and
- contributed where required to consultation on fire, health and safety issues with the Departmental Trade Union Side.

A4. The Department's reportable accident rate was 25 per 100,000 employees, which remains significantly lower than the Public Service average for 2013-14 (latest available figures).

Personal data security

A5. There were a number of protected personal data related incidents in 2015-16. None of these were judged to be significant enough to meet the criteria for formal reporting to the Information Commissioner's Office. However, the Department voluntarily disclosed one incident to the ICO.

A6. Protected personal data related incidents reported in 2015-16 are summarised in the table below. Incidents which do not fall within the criteria for reporting to the Information Commissioner's Office, but are recorded centrally within the Department, are included. Smaller, localised incidents are not included:

Category	Nature of incident	Total*
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	1*
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	2
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	None
IV	Unauthorised disclosure	2
V	Other	None

* Note: one incident, which was reported very near to the end of the previous annual reporting period, has been included in this year's statement. This incident was not included last time because investigations were still ongoing and it was not clear whether a data loss had occurred.

A7. The information contained in the table above only relates to personal data security for the Department and its executive agencies. The Department's executive NDPBs will report personal data related incidents in their own statutory accounts.

Departmental correspondence

A8. All government departments and agencies have published targets for answering correspondence. The Cabinet Office minimum target is for departments to reply to 95% of all correspondence within 20 working days. The Department has set itself the more challenging target of replying to 95% of all correspondence within 15 working days.

A9. In 2015-16, 88% of replies were sent within the 15 working day deadline, an improvement on 2014-15 of three percentage points.

A10. A new electronic correspondence management system was introduced at the end of 2014. A programme of work to improve all Department of State activities, including correspondence, underpinned by the principles of continuous improvement, has resulted in significant changes to organisational structures and the way we work.

A11. For Freedom of Information requests (FOIs), where the deadline is 20 working days: 80% of 2,161 FOIs were answered within deadline, compared with 86% of 1,969 FOIs in 2014-15.

Communications, publicity and advertising

A12. In 2015-16 the DfE Communications Group continued to deliver highly effective communications activity in support of Ministerial priorities and the wider government communications plan.

A13. High-profile campaigns have included:

- 'Together, we can tackle child abuse' which was designed to encourage members of the public to report suspected child abuse;
- 'Disrespect Nobody' a joint campaign with the Home Office to promote healthy relationships amongst teenagers;

- ‘Your Future, Their Future’, our long-running teacher recruitment campaign.

A14. Alongside these campaigns we also continued to deliver proactive communications activity in support of key departmental priorities such as education and qualification reform, social work and childcare, as well as managing a 24/7 newsdesk to respond to journalist queries

A15. Most communications continue to be delivered in-house at no additional cost, or at low cost by supporting and coordinating partners’ activity. Where paid-for campaigns were essential, we have worked with Cabinet Office colleagues to reduce costs and secure approval through the Professional Assurance process.

A16. With 37.1 full-time equivalent staff in post on 31 March 2016, the Communications Group spent around £840,000 on centrally coordinated activity. Whilst this was a slight increase on the previous year’s expenditure (we spent around £635,000 in 2014-15 £500,000 2013-14), overall communications spending was still low and within budget (£500,000 in 2013-14 and £1 million in 2012-13).

Payments policy

A17. The Department is legally required to pay correctly submitted invoices within 30 days of receipt from the day of physical or electronic arrival at the nominated address of the Department. In addition, it is practice for the Department to pay all correctly submitted invoices within 5 calendar days.

A18. The Departmental and Agency prompt payment data can be found online[61].

Complaints policy

A19. The Department’s complaint policy and guidance on how to make a complaint can be found online[62].

A20. Guidance[63] on how to complain about a maintained school, academy or free school and how the Department will consider your complaint is also published.

Complaints to the Parliamentary Ombudsman

A21. The Parliamentary and Health Service Ombudsman can look into complaints about a service provided by the NHS or a government department, agency or other organisation acting on their behalf providing that the body falls within its jurisdiction and that it has been referred to the Ombudsman by a Member of Parliament.

[61] The Department and Agency prompt payment data is published at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540227/Prompt_Payment_Data_2015-16.csv/preview

[62] The Department’s complaint policy is published at: https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure

[63] Guidance for complaining about schools can be found at: https://www.gov.uk/complain-about-school

A22. The table below shows the complaints about the Department and its Agencies and NDPBs in 2014-15. This is the most up to date information at the time of reporting. Cases which relate to local authorities and schools (where most of the services are delivered to the public) are outside the jurisdiction of the Parliamentary and Health Service Ombudsman.

	Core Department	EFA	NCTL	OCC
Enquiries received	13	8	-	2
Complaints assessed	2	4	-	-
Complaints resolved through intervention	-	-	-	-
Complaints accepted for investigation	1	3	-	-
Investigations upheld or partly upheld	1	1	-	-
Investigations not upheld	1	1	-	-
Investigations resolved without a finding	-	-	1	-
Investigations discontinued	-	-	-	-
Number of recommendations	unk	1	-	-
Number of recommendations complied with	unk	1	-	-

A23. Investigations resolved without a finding are complaints where the Parliamentary Ombudsman starts an investigation but are able to resolve the complaint without having to formally complete the investigation.

A24. Investigations discontinued are complaints where the Parliamentary Ombudsman ends the investigation for a variety of reasons, for example, because the complainant asked them to.

Effectiveness of whistleblowing arrangements

A25. Management Committee discussed the effectiveness of the Department's whistleblowing arrangements in September's Management Committee meeting. Since April 2014, the Department has recorded 12 cases of whistleblowing. All cases have been investigated and brought to a conclusion. The outcome of the discussion was that the Department has adopted some good practices in terms of the whistleblowing arrangements and it is evident there is ongoing commitment to whistleblowing:

- The Department has implemented the full suite of Civil Service Employee Policy (CS Employee Policy) Whistleblowing and Raising a Concern Policy and procedures, following the report into whistleblowing by the Public Audit Committee (PAC) on the recommendations made by The National Audit Office (NAO) on whistleblowing and raising and concern within the public sector.

- An Independent, external and confidential whistleblowing helpline service was launched on 1st February 2016.

- Members of the Department’s SCS act as Nominated Officer’s (to support whistleblowers and act as a central point of contact for any investigation). Nominated officers signed up to a cross departmental training workshop which was ran by CS Employee Policy on the 24th October 2016.

- The Department took part in the Civil Service wide whistleblowing awareness campaign w/c 17th October 2016.

- The CS Employee Policy Whistleblowing Gateway was published on the Department’s intranet in October 2016 as an additional tool to support employees and managers to navigate the policy.

A26. An area which the Department is looking into further is the number of anonymous concerns raised. Anonymous concerns are very difficult to investigate. We therefore plan to set up Focus Groups with the Equality Diversity and Inclusion Networks and other employees to discuss what we can do to further improve the whistleblowing culture within the Department and encourage individuals to disclose their names when raising a concern.

Annex B – Environmental, social and community issues

Better regulation

B1. The Small Business, Enterprise and Employment Act 2015 strengthened the government's focus on reducing the overall burden of regulation. The department's deregulatory approach in the private, voluntary and independent sectors is set out below.

'One-in, Two-out'

B2. Arrangements during the last Parliament meant that departments operated under the 'One-in, Two-out' rule, which meant that they had to reduce the cost of compliance with its regulations by twice the amount of the compliance costs it introduced. Between 1 January and 30 June 2015 the Department introduced two 'INs', and one 'zero net' cost. These measures were designed to reform the children's homes regulatory framework so that it is focussed on improving children's outcomes, secure improved standards of leadership and management of independent schools, and remove unnecessary burdens associated with the registration of social work providers. They were set out in the ninth and final Statement of New Regulation[64].

B3. Departments started with a zero balance for this Parliament. In order to provide an ongoing deregulatory discipline, since May 2015 the One-in, Two-out rule has been replaced by One-in, Three-out for non-manifesto legislative proposals.

Business Impact Target (BIT) and deregulatory budgets

B4. The government has committed to reduce the impact of regulatory burdens on business by £10 billion between 2015 and 2020. In 2015 the department initiated a thorough review of relevant regulatory stock in order to propose a realistic, evidence-based contribution to the BIT, with a view to finding deregulatory measures whilst maintaining necessary safeguards for children and ensuring they have a good education, and that there are enforceable standards.

B5. The Business Impact Target (BIT): First Annual Report 2015-2016 reported that the department introduced one regulatory provision between 8 May 2015 and 26 May 2016 which contributed towards the BIT. This was a deregulatory measure which enabled the single registration of multiple childcare premises and for childminders to also work from non-domestic premises.

Impact assessments

B6. The Regulatory Policy Committee (RPC) gave opinions on 10 DfE Impact and Regulatory Triage Assessments between January and December 2015, of which 8 (80%) were rated

[64] https://www.gov.uk/government/collections/dfe-statements-of-new-regulation

as being 'fit for purpose' at first submission. The Impact Assessments which the RPC opinion rated as not fit for purpose were resubmitted and later given fit-for-purpose ratings.

Post implementation reviews

B7. All new regulations that have a significant impact on the business sector must include a clause allowing for their review at five years and/or removal at seven years after coming into force, unless a case is made for their retention. The Department had no regulations in scope in this reporting period.

The Cutting Red Tape programme (CRT)

B8. The Cutting Red Tape programme is a cross-government initiative covering the private, voluntary and civil society sectors. It allows business to tell government how it can cut red tape and reduce bureaucratic barriers to growth and productivity within their sector. A review into early years childcare providers[65], seeking to understand regulatory burdens to business closed for comment in May 2016. We expect the findings to be published later this year.

Alternatives to regulation

B9. Following the 2012 Analytical Review commissioned by the Secretary of State, the Department developed five policy tests as a framework for improving policy making. By questioning the purpose of the policy, the role of government, the evidence base, the creativity and deliverability of the policy, these jargon free and challenging tests help teams to consider alternative approaches, tools and methods. We introduced a second high-calibre fellowship of policy experts from a range of sectors who work with policy-makers to inject fresh skills, external expertise and innovative thinking into the Department's policy making and delivery challenges.

Sustainability

Introduction

B10. The Department is fully committed to sustainable development and promotes and supports sustainability within schools, whilst allowing schools the freedom to apply sustainable development practices how they choose across school sites and throughout curriculum. This is supported by adopting as far as practicable best environmental, social and economic sustainability to benefit current and future generations.

B11. The Department's overarching sustainable operations strategy is to reduce the total size of its estate in line with the Cabinet Office National Property Controls, thereby reducing overall utilities consumption and travel, and focusing on operating its remaining buildings even more efficiently. In working towards improving performance against all of the Greening Government Commitments, during 2015-16, the Department has focused on areas which were proving more difficult to meet such as the office water benchmarks and

[65] https://cutting-red-tape.cabinetoffice.gov.uk/childcare/

harder to influence areas such as domestic air travel. The Department has also issued guidance on embedding sustainability at individual building level within Building User Guides and within facilities management processes and procedures.

Scope

B12. The Department is reporting a full data set which includes information from its executive agencies and Non Departmental Public Bodies. The Department reports sustainability data and delivery plans on a regular basis to Defra and Cabinet Office. This report is aligned to both the Greening Government Commitments and departmental accounting boundaries.

B13. Since 2012-13, data has been amended to include Ofsted.

Governance and data validation

B14. Responsibility for the Department's Sustainable Operations performance is clearly defined and robust governance arrangements are in place. The Department's Property Asset Management Unit (PAMU) manages sustainable operations for the Department and overall responsibility for sustainable operations lies with the Department's Finance Director. Robust monitoring arrangements are in place and data is reported on a quarterly basis.

B15. External data validation audits of GGC data are carried out on Defra's behalf by Carbon Smart.

Summary of 2015-16 GGC performance

B16. The Department exceeded all the Greening Government Commitments targets for 2015-16, demonstrating considerable reductions against greenhouse gas emissions, waste and water as well as reducing associated financial costs. This has been achieved largely through better building management (primarily relating to heating and cooling), estate rationalisation/co-location, and adopting more resource efficient behaviours. The overall performance is set out in the tables below.

Table 1a: Non-financial 2015-16 performance against key Greening Government Commitment targets, measured against 2009-10 baseline

Requirement	(2015-16) compared to 2009-10 baseline	Pan-Govt progress 2014-15* compared to 2009-10 baseline
Reduce greenhouse gas (GHG) emissions by 25%	(51%)	(22%)
Reduce domestic business travel by 20%	(32%)	(18%)
Reduce the amount of waste generated by 25%	(71%)	(22%)
Reduce paper use by 10% in 2011-12	(68%)	(38%)
Reduce total estate water consumption	(52%)	(11%)

* Most recent data available at publication.

B17. The Department has made considerable financial savings following reductions in energy, water, UK business travel and waste disposal, the largest single saving from energy amounting to £2 million. This is set out in Table 1b.

B18. The reported energy and water costs are derived from utility bills, and waste disposal costs from monthly invoicing from the Department's facilities management suppliers. Travel costs combine staff travel expense claims and invoices from the Department's contracted travel service providers.

Table 1b: Direct financial benefits of Department for Education Greening Government programme

	Energy	UK Business Travel	Waste Disposal	Water Use	Total £'000
2015-16 cost vs. 2009-10 £'000	(2,010)	(1,121)	31	(31)	(3,131)

Greenhouse gas emissions

B19. The Department has continued to reduce its total in-scope gross greenhouse gas emissions throughout 2015-16, achieving a total reduction of 51% since the 2009-10 baseline year. The Department has continued to reduce its energy bill and since 2009-10 has achieved savings of c.£2 million; this has largely been achieved through low and no cost energy efficiency measures and estate rationalisation.

B20. The number of domestic flights has reduced by 32% for 2015-16 against 2009-10; and can be attributed to a clear authorisation process being in place across departmental Non Departmental Public Bodies and Executive Agencies for domestic flight travel. Continued focus on achieving value for money in all aspects of business delivery has positively impacted on reducing emissions from all business travel.

B21. In line with DEFRA guidance, the Department's greenhouse gas emissions data is not weather corrected.

Table 2: Greenhouse gas emissions summary

Greenhouse gas emissions		2009-10	2013-14	2014-15	2015-16
					CO_2e
Non-financial indicators (tonnes CO_2e)	Total gross emissions for Scopes 1	3,606	1,729	978	918
	Total gross emissions for Scope 2	13,947	8,235	7,750	5,853
	Total gross emissions attributable to Scope 3	4,759	4,062	4,094	4,116
	Total gross emissions Scopes 1, 2 & 3	22,313	14,027	12,821	10,887
	Number of domestic air travel flights	727	424	581	493
					MWh
Related energy consumption (MWh)	Electricity: non-renewable	29,103	5,027	347	-
	Electricity: renewable	-	13,300	15,171	12,528
	Gas	16,503	8,947	5,285	4,680
	Steam	2,334	363	369	308
					£'000
Financial Indicators (£000)	Expenditure on energy	3,594	2,206	1,896	1,584
	CRC licence expenditure (2010 onwards)	n/a	95	107	151
	Total expenditure on official business travel	10,163	8,949	10,022	9,042

Greenhouse gas emissions		2009-10	2013-14	2014-15	2015-16
					CO_2e
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund).	-	0.1	-	-
	Expenditure on domestic air travel	21	38	68	40

International Business Travel		2009-10	2013-14	2014-15	2015-16
Non-financial Indicators (Tonnes CO_2e)	Flights	184	445	477	350
	Rail	0.4	0.01	0.5	0.3
	Total	184	445	478	350

Waste management

B22. Waste has been reduced by 71% since 2009-10 and paper procurement has been cut by 68%, largely due to spend controls and better print facilities (including 'print on collection' settings). 17% of waste is currently sent to landfill but the Department is aiming to reduce this to less than 10% of its total waste figure by 2020. The Department works closely with its facilities management provider to actively manage all aspects of the Department's office waste including provision of recycling facilities, data analysis and improving staff awareness.

Table 3: Waste disposal summary

Waste			2009-10	2013-14	2014-15	2015-16
			Tonnes			
Non-financial indicators (tonnes)	Total waste		2,080	689	782	601
	Hazardous waste	Total	51	NK	-	8
	Non-hazardous waste	Landfill	321	169	164	101
		Reused/recycled	1,646	452	519	300
		Composted/Bio digestion	-	16	24	17
	Total ICT waste	Reused	n/a	20	8	4
		Recycled	9	1	14	29
	Report if possible Paper procured	Incinerated/ energy from waste	66	32	76	96
		Total Reams	69,014	63,690	51,252	27,393
	Total disposal cost		£000			
Financial indicators (£000)			149	175	98	180
	Non-hazardous waste -disposal cost	Landfill	56	NK	NK	NK
		Reused/ Recycled	84	NK	NK	NK
		Composted	NK	NK	NK	NK
	Paper Procured	Total Spend	107	134	101	64

Water consumption

B23. Since 2009-10, the Department has reduced its estate-wide water use by 52%, and by 55% from its office estate; this equates to a consumption figure of 6.9m^3 per FTE per annum. Offices falling within good and best practice benchmarks continue to improve with best practice performance for 2015-16 is now at 56% compared to 11% in 2009-10.

B24. Water reductions have been achieved through leak detection and repair work, refining operational processes from plant and equipment such as cooling systems, fitting more efficient devices such as tap aerators, and encouraging more sustainable water use practices.

Table 4: Water consumption summary

Consumption - water			2009-10	2013-14	2014-15	2015-16
				m^3		
Non-financial indicators (m^3)	Water consum'n	Office estate	77,928	45,527	43,165	35,176
		Office estate per FTE per annum	7.6	5.8	7.7	6.9
		Whole estate	91,225	52,218	59,915	44,085
				£000		
Financial indicators (£000)	Scope 2 -Water Supply & Sewage Costs		231	124	111	91

Table 5: Percentage of offices meeting water efficiency benchmarks

	2009-10 Performance	2015-16 Performance
≤4m^3 per FTE - best practice	11%	56%
4m^3 to 6m^3 per FTE - good practice	28%	31%
≥6m^3 water consumption per FTE - poor practice	61%	13%

Other Sustainability Commitments

B25. The Department is committed to procuring sustainably and reports against a number of transparency commitments as part of the Greening Government Commitments framework. Progress is summarised in Table 6.

Table 6 Other sustainability and transparency commitments

Sustainable Procurement	Extensive sustainability clauses are embedded within the DfE facilities management and ICT contracts to ensure that the services and goods are aligned to sustainability criteria. New contracts require that suppliers meet the Government Buying Standards.

SMEs	The Department continues to work towards the 33% aspirational target by 2020 to procure goods and services from Small, Medium Enterprises. For 2015-16, the final total that Department for Education spent with Small Medium Enterprise organisations amounts to 28%. The figure includes both direct and indirect spend (i.e. spend with subcontracted third parties).
Climate Change Adaptation	Sites located within flood risk areas are all registered with the Environment Agency for flood warnings in the event of any risk of flooding. Climate resilient designs are incorporated in retrofit projects and new builds: rain water harvesting, green roof, heat recovery heating and ventilation systems. In addition, robust business continuity plans in place to manage occurrences of extreme weather events. Sustainable operations policies include considering Climate Change Adaptation in decision making – reviewed in response to Greening Government Commitments.
Biodiversity and Natural Environment	The Department's Manchester Office, Piccadilly Gate, incorporates a green sedum roof which provides both ecological and insulation benefits.
Procurement of food and catering services	All food supplied is produced to UK or equivalent standards. In particular: All dairy products are Farm Assured and from UK sources. All shell eggs are Lion Branded and are sourced from enriched conventional cages as a minimum. Fresh meat and poultry is British Farm Assured Red Tractor Accredited All fish is Marine Stewardship Council eco-labelled. Over 50% of tea and coffee is either Rainforest Alliance or Fairtrade sourced or part of an ethical trade initiative. Menus are designed to reflect in-season produce and purchased locally where feasible to do so. Produce is locally sourced where possible to reduce food miles and to assist in supporting our local suppliers. Food standards are maintained through Service Level Agreements and Key Performance Indicators.
Sustainable Construction	The Department aims for any new build or major refurbishment valued over £500,000 to meet BREEAM ratings of 'excellent' for new builds and 'very good' for major refurbishments. The major refurbishment of the Department's new headquarters, the grade II listed Old Admiralty Building, is aiming for a BREEAM very good rating. Where minor refurbishment work has been carried out complete Site Waste Management Plans are produced to detail all waste removed and recycled.
People	The Department encourages all staff to complete an annual staff survey to gauge an understanding of staff wellbeing and morale. The survey results are internally published and senior management use the information to implement changes where it is highlighted improvements could be made. The Department has Health and Wellbeing Network and Sustainability Impact Assessments are undertaken to establish the benefits of major office relocations.

Governance

B26. The Department undertakes a stringent monitoring regime in relation to Greening Government Commitments performance management. Monthly data reports are produced which feed in to quarterly dashboards. The dashboards are a mechanism for highlighting achievements, reporting on overall progress, identifying risks and outlining proposed mitigation measures.

B27. To ensure the data submitted and used for internal and external reporting is both accurate and consistent, an internal governance and assurance process requires thorough checks and validation audits of all data and reports are undertaken. This is supplemented by periodic audits conducted by the Government Internal Audit Agency, reported to the Accounting Officer via the Departmental finance function.

B28. In addition to the internal governance process, external audits are also undertaken to assure processes and systems, including methodologies for recording, analysing and verifying data, as well as the calculations for quarterly Greening Government Commitments returns. These external validation audits are carried out on Defra's behalf by Carbon Smart, who has praised the department's good practice in data management.

B29. The vast majority of this report has been compiled using accurately measured data, verified through internal controls. This includes checking samples of automatically generated meter reading data with manual meter reads. Where complete data sets have not been available, (for example through lack of detail, or due to landlord service charges), internal benchmark figures have been applied based on known parameters and data sets.

B30. When developing a policy staff are required to consider sustainable development, environmental impacts, and social impacts such as rural proofing. These issues are built into the impact assessments, ensuring that they are fully evaluated as part of any new policy.

Annex C – Data tables

Table 1: Total Departmental spending

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL									
Activities to Support all Functions	256,319	331,308	273,565	249,276	248,337	262,217	255,985	237,694	229,693
School Infrastructure and Funding of Education (Department)	673,826	227,585	128,050	102,749	99,323	185,520	195,339	177,575	174,391
Education Standards, Curriculum and Qualifications (Department)	218,753	901,267	174,017	136,086	136,721	333,568	498,084	703,046	783,417
Education Standards, Curriculum and Qualifications (NDPB) (Net)	43,498	-	-	-	-	-	-	-	-
Children's Services and Departmental Strategy (Department)	362,910	647,445	282,387	351,145	314,434	387,654	376,898	349,313	352,878
Children's Services and Departmental Strategy (NDPB) (Net)	3,038	3,236	2,046	2,756	27,465	23,738	21,389	19,092	16,950
Standards and Testing Agency	14,699	35,269	42,270	43,250	49,629	61,685	63,358	48,950	48,490
National College for Teaching and Leadership	763,291	524,701	397,062	313,128	331,324	431,276	477,997	532,249	523,822
Education Funding Agency - Excluding Academies	41,683,563	37,931,203	37,951,522	37,664,442	36,779,759	5,897,798	5,472,750	5,259,089	5,161,299
Academies (Net)	6,118,241	10,189,439	12,619,302	14,749,632	16,243,578	-	-	-	-

Grants to LA Schools via EFA[2]	-	-	-	-	-	31,171,124	31,368,685	31,120,790	30,455,813
Grants to Academies via EFA[2]	-	-	-	-	-	17,027,522	18,825,075	20,281,673	21,949,887
Total resource DEL	**50,138,138**	**50,791,453**	**51,870,221**	**53,612,464**	**54,230,570**	**55,782,102**	**57,555,560**	**58,729,471**	**59,696,640**
Of which:									
Staff costs	264,571	8,184,400	9,937,047	11,635,243	12,811,118	12,056,765	13,258,449	14,213,669	15,319,192
Purchase of goods and services	419,802	2,861,961	3,549,511	4,105,223	4,178,810	4,491,861	5,040,139	5,391,808	5,728,017
Income from sales of goods and services	(6,143)	(380,643)	(500,895)	(600,599)	(660,241)	(34,830)	(47,237)	(59,309)	(68,960)
Current grants to local government (net)	36,910,202	34,165,868	32,721,663	32,376,660	28,784,744	31,982,031	31,906,935	31,603,577	30,879,458
Current grants to persons and non-profit bodies (net)	11,608,279	4,899,607	4,570,904	4,397,035	651,464	4,916,408	4,820,302	4,746,769	4,751,853
Subsidies to public corporations	0	0	0	0	0	0	0	0	0
Rentals	13,847	35,412	101,844	140,395	82,468	-6,999	-6,999	-6,999	-6,999
Depreciation[1]	31,085	830,588	984,695	994,858	1,160,620	1,515,276	1,717,866	1,917,866	2,116,566
Change in pension scheme liabilities	0	0	0	0	0	0	0	0	0
Other resource	896,495	194,260	505,452	563,649	7,221,587	861,590	866,105	922,090	977,513

Table 1: Total Departmental spending (continued)

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource AME									
Grants to Academies via EFA	-	-	-	-	-	1,246,000	-	-	-
Activities to Support all Functions (Department)	75,549	63,627	(9,823)	(5,289)	(3,533)	10,000	(60,552)	(73,068)	(85,528)
Activities to Support all Functions (NDPB)	(2,162)	(2,189)	(1,075)	-	-	-	-	-	-
Executive Agencies	-	(3,601)	(799)	8,080	(6,541)	-	-	-	-
Academies (Net)	-	119,734	412,558	748,788	1,364,308	-	-	-	-
Total resource AME	**73,387**	**177,571**	**400,861**	**751,579**	**1,354,234**	**1,256,000**	**(60,552)**	**(73,068)**	**(85,528)**
Of which:									
Staff costs	7,656	120,363	346,263	593,797	383,102	936,000	-	-	-
Purchase of goods and services	-	-	-	-	2,920	(1,500,000)	-	-	-
Depreciation[1]	1,028	4,254	65,049	165,278	999,123	1,810,000	-	-	-
Take up of provisions	97,465	102,346	17,006	20,359	3,394	58,221	-	-	-
Release of provision	(32,762)	(49,392)	(27,457)	(27,855)	(34,305)	(48,221)	(60,552)	(73,068)	(85,528)

Total Resource Budget	**50,211,525**	**50,969,024**	**52,271,082**	**54,364,043**	**55,584,804**	**57,038,102**	**57,495,008**	**58,656,403**	**59,611,112**
Of which:									
Depreciation[1]	32,113	834,842	1,049,744	1,160,136	2,159,743	3,325,276	1,717,866	1,917,866	2,116,566

Table 1: Total Departmental spending (continued)

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Capital DEL									
Activities to Support all Functions	13,155	(5,260)	2,381	8,579	3,756	50,000	10,379	6,000	4,900
School Infrastructure and Funding of Education (Department)	55,038	(10,643)	(4,956)	1,773	(895)	2,000	-	-	-
Education Standards, Curriculum and Qualifications (Department)	-	10,000	-	-	-	-	-	-	-
Education Standards, Curriculum and Qualifications (NDPB) (Net)	28	-	-	-	-	-	-	-	-
Children's Services and Departmental Strategy (Department)	138,884	39,731	(28)	-					
Children's Services and Departmental Strategy (NDPB) (Net)	44	(1,173)	44	43	164,592	-	-	-	-
National College for Teaching and Leadership	1,580	454	-	(73)	-	-	-	-	-
Education Funding Agency - Excluding Academies	4,820,839	3,919,475	2,893,640	2,992,610	2,727,158	2,473,812	1,942,392	1,878,000	2,135,000
Academies (Net)	12,621	306,217	712,530	1,784,473	2,106,381	-	-	-	-
Grants to LA Schools via EFA[2]	-	-	-	-	-	2,127,578	2,252,634	3,060,000	1,703,100
Grants to Academies via EFA[2]	-	-	-	-	-	610,611	540,595	-	-
Total capital DEL	**5,042,189**	**4,258,801**	**3,603,611**	**4,787,405**	**5,000,992**	**5,264,001**	**4,746,000**	**4,944,000**	**3,843,000**
Of which:									
Capital support for local government (net)	4,689,540	2,032,605	2,235,093	2,525,206	734,823	3,374,197	3,504,051	4,320,000	3,063,100

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Capital grants to persons & non-profit bodies (net)	230,189	(106,033)	(649,343)	(373,659)	138,392	1,268,193	690,975	481,000	663,000
Capital grants to private sector companies (net)	-	(7,302)	81,815	21,280	(512)	-	-	-	-
Purchase of assets	14,855	2,226,554	2,440,484	3,677,215	2,329,844	622,611	550,974	6,000	4,900
Income from sales of assets	(37)	(26,404)	(89,392)	(100,268)	(1,000)	(11,000)	-	-	-
Net lending to the private sector and abroad	4,860	-	-	-	-	-	-	--	-
Other capital	102,782	139,381	(415,046)	(962,369)	1,799,445	10,000	-	137,000	112,000
Total capital budget	**5,042,189**	**4,258,801**	**3,603,611**	**4,787,405**	**5,000,992**	**5,264,001**	**4,746,000**	**4,944,000**	**3,843,000**
Total Departmental spending	**55,253,714**	**55,227,825**	**55,874,693**	**59,151,448**	**60,585,796**	**62,302,103**	**62,241,008**	**63,600,403**	**63,454,112**

Table 1: Total Departmental spending (continued)

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
	.								
Of which:									
Total DEL	55,180,327	55,050,254	55,473,832	58,399,869	59,231,562	61,046,103	62,301,560	63,673,471	63,539,640
Total AME	73,387	177,571	400,861	751,579	1,354,234	1,256,000	(60,552)	(73,068)	(85,528)
Total non-budget	-	-	3,072,871	-	-	-	-	-	-

[1] *Includes impairments and revaluation*

[2] *New Estimate Lines created for future plans, in line with Academy Trust Sector Reporting from 2016-17*

C1. Depreciation in the table above also includes amortisation, impairment and revaluation.

C2. Pension schemes report under IAS 19, and the pension figures include cash payments made and contributions received, as well as certain non-cash items.

C3. Total Departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

C4. Total Departmental staff costs within the table above differs from those published elsewhere in the accounts, because staff costs above include early departure costs and lump sum payments that have been presented elsewhere in the accounts.

C5. Total Departmental revenue and capital grants costs within the table above differs from those published elsewhere in the accounts, due to differences in compilation methodology between the core tables and the accounts.

C6. Total Departmental provisions within the table differ from those published elsewhere in the accounts, because the balances in the tables include costs arising from an NDPB pension scheme, which have been disclosed elsewhere in the accounts.

Table 2: Administration costs

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Plans £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL									
Activities to Support all Functions	225,482	291,013	244,811	228,436	206,328	237,403	232,343	213,754	203,012
Education Standards, Curriculum and Qualifications (NDPB) (Net)	19,254	-	-	-	-	-	-	-	-
Children's Services and Departmental Strategy (NDPB) (Net)	34,451	24,790	18,473	17,516	16,076	16,259	15,424	14,640	13,912
Standards and Testing Agency	3,752	5,534	5,570	5,629	3,193	3,730	3,183	3,109	3,033
National College for Teaching and Leadership	46,406	26,015	21,403	18,340	12,629	13,569	12,018	11,252	10,501
Education Funding Agency - Excluding Academies	68,246	59,330	80,383	71,229	62,531	64,038	67,200	68,910	69,824
Total administration budget	**397,591**	**406,682**	**370,640**	**341,150**	**300,757**	**334,999**	**330,168**	**311,665**	**300,282**
Of which:									
Staff costs	241,077	247,027	207,007	194,225	194,685	223,795	214,303	215,760	205,547
Purchase of goods and services	105,859	97,538	103,630	102,205	87,464	125,950	128,021	108,061	108,191
Income from sales of goods and services	(2,895)	(831)	(539)	(8,069)	-	-	-	-	-
Current grants to local government (net)	-	(32)	-	-	35	-	-	-	-
Current grants to persons and non-profit bodies (net)	13	-	(100)	-	-	-	-	-	-
Rentals	14,061	16,738	13,933	17,607	10,576	(7,000)	(7,000)	(7,000)	(7,000)
Depreciation	15,516	19,460	28,779	13,186	19,632	12,254	14,844	14,844	14,844
Other resource	304	7,708	7,166	3,342	(11,635)	(20,000)	(20,000)	(20,000)	(20,000)

Annex D – Consolidation approach & methodology

D1. The Department has delegated its operational relationship with, and almost all funding of ATs, to the EFA. The EFA Group accounts for its funding of ATs in its accounts, and this funding features in the Department & Agencies column of these Group accounts. For 2015-16, EFA, for the fourth year, prepared consolidated accounts including the results of all ATs with operational academies open by 31 March 2016. This work, along with the Department's consolidation, is unique in government in its scale and complexity. The consolidation includes 2,910 ATs operating 5,552 academy schools, making it one of the largest consolidations in the world. This number of bodies is already twice the number of those in the rest of the UK public sector. The Group faces an unprecedented challenge in producing group accounts on this scale and of this complexity.

D2. For 2015-16 the Department has chosen to continue to consolidate ATs' results using the audited accounts to 31 August that most ATs produce to fulfil their statutory duties. This reporting date differs by seven months from the Department and, in itself, represents a significant departure from HMT's requirements. We are seeking to develop a sustainable approach to consolidation and reporting for the Group in future years, discussed at paragraph 3.77.

D3. As Accounting Officer, I am responsible for complying with the Group's statutory requirements in preparing accounts. In presenting the Group's 2015-16 accounts, I have balanced making reasonable endeavours to comply with these constraints, against the cost to the Group and the burdens on individual ATs, typically small organisations dedicated to teaching. I have sought to convey the limitations to the figures in the Group accounts and the costs of compliance that result from this balance.

D4. The Group delivered this work by preparing its consolidated accounts from the Departmental Group's own financial results and those of ATs. As a central government department, we prepare accounts on a different basis to ATs, as charities, and we disclose information that they do not. Under the terms of their funding agreements with the Secretary of State, ATs submit financial returns containing the extra information required. The ATs funding agreement also set out high-level financial relationships, including the need for each AT to have an Accounting Officer, and made the AT responsible for the proper and regular use of public money. ATs' financial returns to EFA included significant additional information on their discharge of these responsibilities.

D5. The Department underpinned ATs' accountability within the Group by issuing the *Academies' Financial Handbook* (the Handbook) under the funding agreement. The Handbook sets out in full the financial relationship between the EFA and ATs, as well as practical detail on how these relationships should work. It covers the roles of the ATs' accounting officer and governors, financial oversight, management, planning and monitoring, internal control and other matters. It further sets out a remit for local audit of

ATs, covering public interest in regularity and propriety in addition to statutory audit requirements.

D6. The Accounting Officer did not (and practically cannot) exercise personal responsibility towards ATs in the same way that has been done for the remainder of the Group, nor did the EFA routinely check the underlying accounting records each year of the 2,910 ATs. Instead, the Department put in place a system of assurance and accountability[66] that placed reliance on AT Accounting Officers, on the work of ATs' external auditors and on the work of the EFA and its Accounting Officer.

D7. The Accounting Officer in each AT gained assurance through the opinion of its auditors that the trust's accounts provided a true and fair view of its financial position. The EFA Group reviews AT' accounts for evidence of their truth and fairness and on the regularity of transactions entered into. Through the Handbook, the Department obliged ATs to commission their auditors to provide me with an annual opinion on the regularity of ATs' expenditure. The EFA supported this scrutiny by its rigorous investigation of alleged control weaknesses and irregularity.

Limitations

D8. These accounts encompass the Group, being the Department, EAs, NDPBs and 2,910 ATs with 5,552 academies. Relevant ATs were all those with open academies during 2015-16. The Group's accounts incorporated the expenditure, income, assets and liabilities of ATs funded by us. In preparing group accounts, we consolidated the results of ATs as the legal entities operating academies.

D9. We developed our approach to the consolidation of ATs into our accounts in close consultation with HMT, and ATs' representatives, and continue to work with HMT on the move towards sector reporting (discussed in more detail in the Governance Statement). We consulted with the NAO on the development of the consolidation methodology and took full responsibility for the methodology and any decisions relating to its implementation. A senior joint steering group of the Department and the EFA oversaw the consolidation project.

D10. Consolidating the accounts of 2,910 organisations would always be a significant undertaking. In the case of ATs, the Group faced some unique challenges including: differing year ends (31 August for ATs versus 31 March for the Department); differing accounting standards (UK GAAP and the Charities SORP for ATs versus International Financial Reporting Standards and the FReM for the Department) and the variety of ownership structures of the significant estate of academy land and buildings.

D11. In 2015-16, as in 2014-15, we faced an additional challenge. The increasingly complex, and significant capital investment programme, some of which was privately financed represented our continued commitment to driving value for money, and improving

[66] https://www.gov.uk/government/publications/accountability-system-statement--2

educational experiences. However, this was challenging from an accounting perspective and added to the overall complexity of our financial statements.

EFA capital projects

D12. The Department also developed a funding arrangement, and agreed a series of private finance initiative (PFI) contracts to obtain private sector funding and support for the budgeted capital spend, using a separate legal entity, the Aggregator Vehicle plc (Aggregator).

D13. The Aggregator has been consolidated into the Group for the first time in 2015-16. As well as the Aggregator being included in the Group's 2015-16 AR&A, the other side of the Department's PFI transaction (PF2) has also been recognised in the Group's AR&A for the first time.

D14. The point at which capital assets are recognised in the Group was based on the Group's assets under construction (AuC) recognition policy.

Approach to consolidation

D15. The conventional approach for dealing with the issue of non-coterminous year ends would be for the Group to require all ATs to prepare a set of audited accounts as at 31 March each year. Assuming that ATs chose to retain their existing year end of 31 August this would mean additional audit fees for ATs of up to £30 million a year, and an unreasonable additional burden on the finance and administrative staff in academies. It would, in time, be possible for ATs to change their yearend to match the Department. This would, however, mean that ATs were moving away from a financial cycle that matches their business (and funding) cycle in order to meet our requirements. To date we consider that the additional costs and burdens would not reflect value for money for the taxpayer, or contribute to the effective delivery of educational outcomes in ATs.

D16. The Group went through a similar process when deciding how to approach the valuation of land and buildings for these accounts. The C&AG concluded that there was insufficient evidence to support our inclusion of all academy land and buildings in our accounts. We recognise that the ownership and recognition of land and buildings in academies is complex but it is important to note that the Secretary of State retains substantial controls over many circumstances in which academy trusts seek to dispose of land and buildings, which protects the taxpayer's interests. We have made improvements since last year to develop our accounting policies in respect of AuC (as noted above), and improved the underlying data for land and buildings by stratifying the population and improving the assessment of differing ownership and recognition types.

D17. Recognising that our methodology presents substantial challenges to the production of a conventional set of accounts that can be presented as true and fair, we have worked with HMT to find alternative approaches to the consolidation of AT accounts, including a programme of work to evidence the recognition of academy land and buildings. We have developed sector accounting methodology to be used in 2015/16 for the sector and 2016-

17 for the Group, working closely with HMT in its implementation. Further detail on these plans is disclosed from paragraph 3.73 and following.

Our approach to consolidation of ATs' financial results

Summary

D18. This section sets out the process by which the Group consolidated ATs' financial results for 2015-16.

D19. The key issues we considered were:

- non-coterminous year ends (almost all ATs have a financial year end of 31 August);
- the validation of, and effect of, including estimates for academies open at 31 March, that were not included in the reported amounts by ATs at 31 August;
- reconciling our opening balance sheet, and the differences to the aggregate position reported by academies;
- valuation of ATs' land and buildings;
- appropriate recognition of AuC;
- valuation of the Group's liabilities associated with academies' pension schemes; and
- the quality of some ATs' accounts returns.

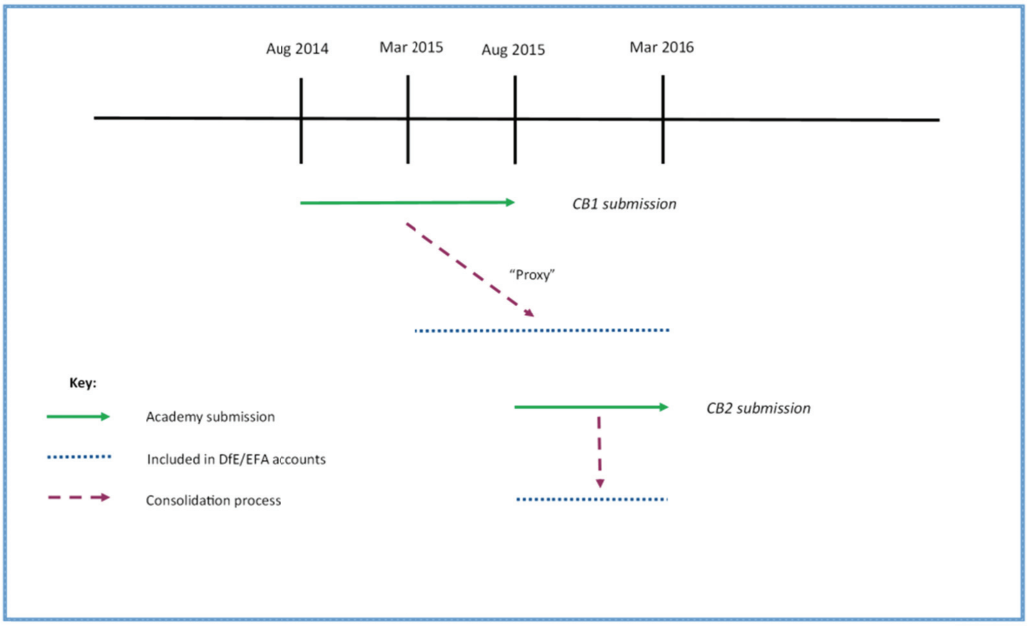
D20. Our full accounting policies are at Note 26 to the Accounts.

Non-coterminous year ends

D21. For those 2,877 ATs that prepared audited accounts as at 31 August 2015, the Group included the financial performance from those accounts as a representation of those ATs' results for 2015-16. We called this consolidation block 1 (CB1). We used these accounts to 31 August 2015 as a proxy for the expected results of these ATs for the 12 month period to 31 March 2016.

D22. For academies that joined existing multi-ATs and were not included in those multi-ATs accounts to 31 August 2015, or those ATs that were open at 31 March 2016 and did not prepare accounts as at 31 August, we collected a second, un-audited financial return to 31 March 2016. We included the consolidated results in these returns alongside those consolidated to 31 August for other academies. We called academies included in this second set of returns consolidation block 2 (CB2). Some ATs with open academies as at 31 August 2015 did not produce accounts as at 31 August 2015 because they are not required by statute to provide accounts of fewer than 6 months duration. For academies that only became operational after 31 August 2015 we asked the trust to produce a CB2 return from the opening date to 31 March 2016.

D23. The diagram below sets out this approach.



D24. In using ATs' results to 31 August, we made the assumption that for established ATs, the majority of their income and expenditure by month for the period 1 September 2014 to 31 March 2016 varied little. Hence, we assume that ATs' income and expenditure for the period from 1 September 2014 to 31 August 2015 should, for all academies, be materially similar to the period 1 April 2015 to 31 March 2016. The ATs' balances for current assets and liabilities should also be materially similar at 31 August 2015 and 31 March 2016. This was the basis of our use of the ATs' results at 31 August 2015 as a 'proxy' for their results to 31 March 2016.

D25. We recognised that this is a significant departure from IFRS 10 and the FReM. This standard permits the consolidation of accounts to year ends that are no more than 3 months apart. We made our approach clear to HMT (who acknowledged our intention) when we first proposed this approach for financial year 2012-13.

D26. Our use of the proxy required us to accept two principal errors and areas of uncertainty into the accounts.

- for those reporting to 31 August 2015, inevitable movements over time between income and expenditure totals for the year to that date, and current assets and liabilities at that date, compared to the totals and balances for the ATs had they reported to 31 March 2016
- the degree of match between 2,910 ATs' recording of the grants they received from the EFA in 2014/15 compared to our records of payment of grants to ATs for 2015-16.

D27. One impact of using non-coterminous year ends between ATs and EFA was that ATs' reporting of income they received from the EFA may not match the equivalent expense recorded by the EFA.

D28. As in earlier years, we identified a mismatch between ATs' records of grants received and the Group's records paid. For 2015-16 we have calculated the difference between the revenue grant paid by the Group in 2014/15 and the extrapolated revenue calculated from AT returns to be £204.5 million (2014-15: £407.0 million). The equivalent figure for capital grant is £152.4 million (2014-15: £55.0 million).

Approach to academies not included in 31 August accounts

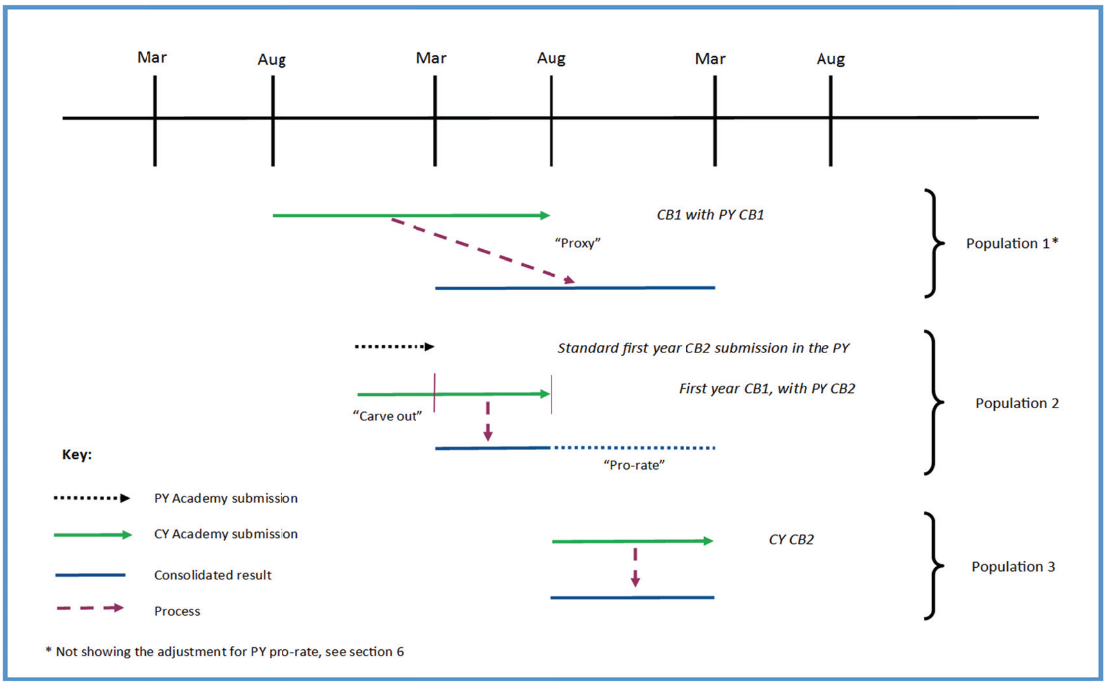
D29. Our use of ATs results to both 31 August, and 31 March required us to accept one principal error, and two key judgements into the accounts:

- differences between opening balances ATs reported to us at 31 August 2015 compared to their closing balances at 31 March 2015, for those ATs that prepared returns at both dates
- the estimate included by us in pro-rating amounts submitted by ATs at 31 August 2015, for those trusts that submitted a return in the prior year to 31 March 2015, following the reconciliation of their opening balances
- all submitted CB2 information was un-audited, and we accept that this was therefore less robust than the equivalent CB1 returns. As such, inclusion of this information, and reliance on its sufficient validity for these purposes, is a key assumption in the approach.

D30. The use of the proxy, and the approach to pro-rating certain AT balances represented two of the most significant judgements arrived at by the Group in applying the consolidation methodology.

D31. The use of results to both 31 August and 31 March in particular incorporated complexity into the ongoing consolidation process. Where ATs in our consolidation approach moved from CB2 (in 2014-15) to CB1 (in 2015-16), the adjustments the Group made to align the reported opening balances for these trusts (the "carve out"), and estimate the trusts' activity to 31 March introduced ("the pro-rate") a significant degree of estimation in the Group accounts.

D32. The diagram below shows the three populations of academies in our consolidated result:



D33. Our approach to testing the returns submitted by ATs in CB2 was threefold:

- we performed validation checks on the returns submitted by the academies
- we visited a sample of 15 ATs within the CB2 group to seek to agree the balances in the returns they submitted to the Group to their books and records
- we compared the balances contained in returns by CB2 ATs in relation to 2014-15 to the balances reported by the same ATs in their returns as part of CB1 this year. We assessed any significant anomalies and found that, as a result of prior year estimated errors in CB2 submissions, the current year's results contained significant errors.

D34. We estimate that, had the Group required it, the additional cost of an audit of returns ATs in CB2 might be £3 million. In light of the assurance available to the Group from other sources, we did not consider this was value for money for public funds.

Support for the proxy and the pro rate judgements

D35. Use of the proxy, and application of the pro-rate, were two significant judgements in the consolidation approach.

D36. For 2015-16 the pro-rate increased AT income by £1.3 billion and expenses by £1.2 billion.

D37. As these accounts are the last time the current consolidation methodology will be applied, the Group did not commission a comparison study in 2015-16 to examine the reasonableness of our use of the proxy and the prorate as we have in previous years.

Reconciling opening balances

D38. The use of two consolidation blocks with August and March reporting periods, and the transition between them created the challenge of reconciling the opening balances submitted by ATs with those closing balances previously reported to the Group by the same ATs.

D39. A key element of this reconciliation was the requirement to record the 'carve out' adjustment in our accounts.

D40. For 2015-16 this had the effect of increasing the opening balances of the ATs affected by £2.0 billion, and reducing their net income (income and expense combined) by the same amount. The largest element of the carve out adjustment was justified by the need to remove the double counting of transfers in for ATs' land and buildings, that were recorded in the affected trusts' returns in CB2 and then CB1.

D41. The table below sets out the full opening balance sheet reconciliation for 2015-16:

Adjustment and narrative	Impact on opening funds £m
Opening net assets reported submitted by academies	(30,015)
Adjustment through initial validation	202
Carve out adjustments	(1,997)
Adjustment for non-returners	(445)
Impact of prior year EFA group central adjustments	1,310
Amendment to LGPS balances	852
Adjustment for central holiday pay accrual	392
Amendments to land and buildings value balances	(3,453)
Reflecting the prior year net pro-rate adjustment	(321)
Unreconciled	51
Current year opening balance for academy trusts	(33,424)
Prior year closing balance reported included in the 2014-15 consolidated accounts	(33,424)

Valuation of AT land and buildings

D42. ATs' land and buildings were potentially the Group's most significant assets by value at £43.3 billion collectively and dominated the Group's Statement of Financial Position. We faced four challenges in accounting for these land and buildings: valuation, acquisition and disposal, impairment, and recognition.

Valuation

D43. ATs valued their land and buildings using a range of methods, and as above, most reported on those values at 31 August, not the Group year end of 31 March. Few of the methods adopted by ATs complied with HMT's reporting requirements for such valuations. The Department therefore continued its approach of commissioning valuations of newly opening academies' land and buildings. We paid an average of £98.22 per valuation for academies opening in 2015-16 and commissioned independent quality assurance of the valuations.

D44. Together with valuations we procured for in-year conversions we also procured valuations for the cohort of academies that were first consolidated in 2012. These depreciated replacement cost (DRC) valuations based upon the school or academy footprint set out in *Buildings Bulletin 103 and 102* replace their previous DRC valuations which were referenced to *Buildings Bulletins 98* and *99*.

D45. All academy trust land and building valuations have now been calculated on a consistent approach of using *Buildings Bulletin 103 and 102*. The valuations for the 1 August 2012 cohort of academy sites represents the first of the ongoing quinennial valuations. The valuations were procured a year early to address the inconsistent use of BB102/103 and BB98/99 across the sector.

D46. Our valuation methodology resulted in each academy having its land and buildings valued every five years. In line with our accounting policy and the FReM, we adopted a policy of indexation between valuation points. In prior years, we used indices published by BIS to update valuations of buildings, but did not apply indexation to land. From 2014-15, we have used the *Office for National Statistics (ONS) - New Work Output Prices – Public (other than housing)* for buildings and the *LSL Acadata House Price Index* for land.

D47. The Group has in 2015-16 revalued academy land and buildings for those ATs that were first consolidated in 2012. This has resulted in a net £5.5 billion movement (after taking account of use of existing revaluation reserves) in the carrying value of academy land and buildings. This net movement can be broken down into a £6.4 billion upward revaluation and a £0.8 billion impairment.

D48. We acknowledge that this is a significant movement in value. Last year the C&AG noted that the Group did not have sufficient evidence to support the valuations of land and buildings performed before 2013. As this is the first time the Group has revalued AT land and buildings, we will need to reflect on these results and whether or not we need to review our valuation policy in light of this first revaluation exercise. The Depreciated Replacement Cost methodology that we use means that changes in pupil numbers, underlying movements in land values and changes in the specification of buildings can all have an effect on historical valuations. This makes it difficult to assess the impact of a revaluation on the Group accounts.

D49. We have started a pilot exercise across 50 academies, to assess the feasibility of compiling an academy-level land and building fixed asset register. We believe this could allow for more accuracy in the valuations, but that will be tested once we have the results of the pilot exercise. The methodology on valuation will be reviewed as part of the work to move to the new reporting framework.

Acquisition and disposal

D50. ATs acquired and disposed of land and buildings throughout 2015-16 and recorded these transactions in their 2014/15 accounts where they prepared these, or their 2015-16 CB2 accounts returns where they were newly opened. The Group used ATs' 2014/15 accounts to 31 August 2015 as a proxy for its financial year. The accounts did not, by definition, include land and buildings transactions for the seven months 1 September 2015 to 31 March 2016.

D51. These transactions fell into five types. The first, the most material, was the addition to land and buildings over the seven-month period likely to result from the completion of the AuC review. The next three types were acquisitions, disposals and impairments over the period; and the final type of transaction were those acquisitions, disposals and impairments over the period that ATs' accounts reflect but that should not be reflected in the Group's accounts. A number of ATs acquired or disposed of land and buildings between 1 September 2015 and 31 March 2016 and appropriately did not reflect these transactions in their 2014/15 accounts. We did not include these acquisitions and disposals in the 2015-16 Group accounts and cannot state definitively the number of ATs making these acquisitions and disposals or the value of these transactions.

Impairment

D52. The Group's 2015-16 accounts included land and buildings valuations for 2,910 ATs, operating 5,552 schools in more than 6,000 buildings and associated land. In the normal course of their operations, ATs' land and buildings may have suffered some degree of impairment that the ATs could not address during the financial year by either routine maintenance or, in some cases, at all. ATs reflected these impairments in their accounts for those land and buildings recognised on their balance sheets; the Group could include the impairments in its accounts.

D53. In some cases, ATs may not have accounted for impairments, not least because the AT has not recognised the value of land and buildings it considered others to own.

D54. To address this, the Group completed its own impairment review of the estate, taking into account the value of the estate and overall materiality, and did not consider there to be any material impairment to the estate, other than as disclosed.

Recognition

D55. Recognition of ATs' land and building assets in the Group accounts is contentious. The Department has chosen to recognise all ATs' land and buildings in its group accounts because the ATs were using these specialised assets and had an obligation to maintain their buildings. As was the case last year, the Comptroller and Auditor General considers that the Department has been unable to demonstrate that these assets meet the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment. Many ATs received partial information on ownership when they converted from local authority maintenance or other past status. Ownership may have differed between buildings the AT accesses and the land the buildings stand on, and several different owners sometimes claim part of the land. Access is often under complex lease arrangements that may, or may not, constitute accounting ownership. Many ATs have established ownership, often at considerable cost and effort; others have relied on information given to them by leaseholders. In preparing its group accounts, Department did not consider it can simply rely on ATs' recognition of their land and buildings as disclosed by ATs in their own accounts.

D56. The Group reviewed the accounts, and financial returns submitted by academy trusts at 31 August 2015 for any that did not disclose a value for land and buildings. Of the sample reviewed (100% of the CB1 population), 172 trusts recorded no value for their land and buildings (2014-15: 191 trusts). The net movement results from 135 trusts that had previously not recognised any value in prior years, recognising some value in the current year against 116 newly reported nil values.

D57. Over 73% of 1,161 church academies in the population reviewed had recognised value for their land and buildings, with 311 not recognising any value.

D58. We had better information about free school ATs' ownership of land and buildings as we were involved in most of the acquisitions of these assets. Free schools are a small proportion of all ATs.

D59. For 2015-16 the Group considered that its inclusion of £43.3 billion of ATs' land and buildings in its accounts best represented the reality of ATs' access to these specialised assets without imposing an unacceptable cost of collecting more data.

D60. We are undertaking a fundamental review of the land and buildings recognition and valuation process and methodology, and presented an options paper to the Programme Board, responsible for overseeing the Department's financial accounting programme, in December 2016. This work should allow us to improve the robustness of the values which will be presented in the SARA.

Valuation of AT participation in the LGPS pension scheme

D61. The most significant liability balance on ATs' balance sheets was the net deficit in relation to ATs' membership of the LGPS. ATs account for pension scheme disclosures under generally accepted accounting practice in the UK, specifically *Financial Reporting Standard 102: The Financial Reporting Standard* (FRS 102). The Group follow FReM that requires adoption of international financial reporting standards, specifically IAS 19. There was little practical difference between valuations completed under these standards as at the same valuation date.

D62. Only ATs that prepared accounts to 31 August 2015 had valuations under FRS 102, and there could have been material changes to these values between this date and 31 March 2016. To address these issues, the Group commissioned its own IAS 19 valuations as at 31 March 2016 from the actuarial firms that provide pension valuations to the LGPS. Where possible, these valuations used a common set of assumptions, and we have reviewed these and agreed each key assumption.

The quality of AT returns

D63. Key to preparing the Group accounts was the accuracy and completeness of returns by ATs. We supported ATs by issuing guidance, offering training and designing returns so that ATs can self-audit as they complete the returns. As noted, we also validated returns at the point at which they are consolidated into the Group accounts.

D64. ATs were required to complete financial returns containing complex information, which can be challenging for newly opened ATs as they may do so as soon as a month after opening. This could result in data issues, even when the AT is receiving appropriate professional financial advice. We validated the returns submitted by ATs to Group in two ways. The first was extensive validation by a combination of automated tests, additional evidence sought through review of AT financial statements and personal enquiry to ATs.

D65. The second, in addition to this programme of validation, was a requirement that ATs commission, at their own expense, an audit of their CB1 accounts return to 31 August 2015. The costs to ATs of doing this (disclosed in their accounts) was a proportion of their £26.2 million overall audit fees and, where the AT paid for professional help in preparing the return, a proportion of their £11.7 million for non-audit fees.

Glossary of key terms

Abbreviation or term	Description
Academies	All schools operated by academy trusts encompassing academies, free schools, university technical colleges and studio schools
ALB	Arm's length body
AME	Annually Managed Expenditure
AR&A	Annual report and accounts
ATs	Academy trusts: the charitable companies that operate all types of academy schools
BB103	Building Bulletin 103, Area Guidelines for Mainstream Schools
CAFCASS	Children and Family Court Advisory and Support Service
CLoS	Clear Line of Sight, an HM Treasury initiative to improve the transparency and consistency of government accounting
CSEC	Children's Services, Equalities and Communication, a directorate of the Department
DEL/CDEL/RDEL	(Capital/Resource) Departmental Expenditure Limit
Department	The core Department for Education, excluding Executive Agencies, Non-departmental Public Bodies and academy trusts.
Department & Agencies	The core Department for Education, plus its three Executive Agencies but excluding Non-departmental Public Bodies and academy trusts
Departmental Group, the Group	The Departmental Group (the Group) encompassing the core Department, Executive Agencies, Non-departmental Public Bodies and academy trusts.
EA	Executive Agency
EFA	Education Funding Agency
EHRC	Equalities and Human Rights Commission
ESD	Education Standards Directorate, a directorate of the Department
Estimate	Group funding, as approved by HM Treasury and subject to specific limits by category of spending.
FCG	Finance and Commercial Group, a directorate of the core Department.
FReM	Financial Reporting Manual, issued by HM Treasury
GAG	General Annual Grant
GEO	Government Equalities Office
GIAA	Government Internal Audit Agency
HMT	HM Treasury
IFD	Infrastructure and Funding Directorate, a directorate of the Department
NAO	National Audit Office
NCTL	National College for Teaching and Leadership
NDPB	Non-departmental Public Body
OCC	Office of the Children's Commissioner

Abbreviation or term	Description
ONS	Office for National Statistics
PAC	Public Accounts Committee
PSBP	Priority School Building Programme, a programme to address the needs of the schools most in need of urgent repair
SEN	Special Educational Needs
SoCiTE	Statement of Changes in Taxpayers Equity
SoCF	Statement of Cash Flows
SoCNE	Statement of Comprehensive Net Expenditure
SoFP	Statement of Financial Position
SoPS	Statement of Parliamentary Supply
SRD	Strategy and Resource Directorate, a directorate of the Department
STA	Standards and Testing Agency
WGA	Whole of Government Accounts
2014-15 & 2015-16	Financial years, ending on 31 March.
2014/15 & 2015/16	Academic years, ending on 31 August.