Department
for Education

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

Department for Education

Consolidated annual report and accounts

For the year ended 31 March 2019

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Performance report

Our year in numbers

Schools

Number of academies – **over 8,000** open academies and **over 400** open free schools

Total number of state schools (including academies) – **over 21,100**

3.3 million pupils in state funded secondary schools

4.7 million pupils in state funded primary schools

1.1 million pupils with SEN

Core funding for schools and high needs **£45.2 billion**

Number of teachers – **452,000** FTE in state schools

Children's services, early years and well-being

Fund over **1.4 million** 2-4 year olds in early education

405,000 children in need

75,000 looked after children

54,000 children subject to a protection plan

Post-16 and skills

over
1.6 million
funded students in further education and sixth form colleges

£16.4 billion
In English student support paid to students on higher education courses

over 8.9 billion
was paid in tuition fees to providers in higher education on behalf of students (2017/18)

1.8 million
applications for support,

made over
7 million
payments

and handled nearly
6 million
telephone calls

214,210
apprenticeship starts between between August 2018 and January 2019

Overview

Who we are and what we do

The Department for Education (DfE) is a major government department providing education, training and care for everyone, whatever their background.

We are responsible for:

- teaching and learning for children in the early years and in primary schools
- teaching and learning for young people in secondary schools
- teaching, learning and training for young people and adults in apprenticeships, traineeships and further education
- teaching and learning for young people and adults in higher education
- supporting professionals who work with children, young people and adult learners
- helping disadvantaged children and young people to achieve more
- making sure that local services protect and support children

Our business model

We are a ministerial department supported by 16 agencies, public bodies and non-ministerial departments. Together we make the departmental group (Group) reported on in this ARA.

We work closely with:

- national and local agencies who look after children
- local authorities
- professionals who work in schools and further and higher education institutions, children's services and health services

Our vision

Our vision is to provide world-class education, training and care for everyone, whatever their background. We will make sure that everyone has the chance to reach their potential, and live a more fulfilled life. We will also create a more productive economy, so that our country is fit for the future.

The seven principles

As we strive to achieve our vision, seven principles will guide our work. These principles will help direct our reforms and plans. The principles are cross-cutting and will shape everything we do as a department, from strategy development through to delivery.

We will develop world-class education with the following principles:

- ensure our academic standards match and keep pace with key comparator nations
- strive to bring our technical education standards in line with leading international systems
- ensure that education builds character, resilience and well-being

To help achieve this we will:

- recruit, develop and retain the best people we can remembering that in education and care, by far the most important factor is the people delivering it
- focus on those most disadvantaged and prioritise in all that we do the people and places left behind
- protect the autonomy of institutions by intervening only where clear boundaries are crossed
- make every pound of our funding count

Our financial performance

The Group is financed through the annual Supply Estimates process managed by HM Treasury (HMT).

The Group also generates a small level of income from levies raised by its industry training boards as well as fees and income from other public bodies and third parties.

We are accountable to HMT, Parliament and the public for how we have used public funds during the year. Annually, DfE publishes its audited consolidated annual report and accounts (ARA) to support parliamentary accountability by comparing the Group's actual financial performance (outturn) to its budgets (Estimate). The Statement of Parliamentary Supply (SoPS), found in the accountability report, provides more detail on the Group's outturn against its Estimate.

In conjunction with the SoPS, we also publish our financial performance based on the government's accounting framework in the Statement of Comprehensive Net Expenditure which is found in the financial statements section.

Forewords

Secretary of State's overview

The past year has been a significant one for many of us in the Department – including for me as I completed my first full year as Education Secretary. I am proud of the progress we have made towards our vision of guaranteeing world class education, training, and care for everyone.

Thanks to our early years childcare offers, 1.4 million children now benefit from some funded education, ensuring that every child has the best start in life. We have made improvements in children's social care, so that more of the most vulnerable children are supported to reach their potential; more than 40 local authorities have been lifted out of intervention and have not lapsed back. In schools, we have focused on the core essentials – helping children to master literacy and numeracy as part of a broader curriculum. 85% of schools are now rated 'good' or 'outstanding' by Ofsted, compared with 66% in 2010. That is a tremendous arc of improvement. More than 50% of children in state-funded schools are now taught in academies or free schools, and 7 out of 10 sponsored academies are 'good' or 'outstanding' – despite replacing schools that were mostly underperforming. We are investing in T Levels – the technical equivalent of A Levels – and the Apprenticeship Levy is making sure all large firms invest in the next generation of workers. A higher rate of disadvantaged 18 year olds are going to university than ever before.

In 2018-19 we:

- Published our first ever Teacher Recruitment and Retention Strategy to recruit, develop and retain the next generation of inspirational teachers. We committed to spend £130 million a year on the Early Career Framework once rolled out to boost development for new teachers.
- Secured an additional £100 million of funding at Autumn Budget to further develop and test the National Retraining Scheme for adult learners looking to upskill.
- Celebrated one year of Opportunity Areas – 12 areas where the Department is prioritising resource to improve social mobility – and showcased some of the programme's early successes in the 'Building the Foundations for Change' document.
- Launched Opportunity North East, with £24 million investment, to help disadvantaged young people in the area to realise their potential.
- Passed regulations which will make Relationships Education in all primary schools, Relationships and Sex Education in secondary schools, and Health Education in state-funded schools compulsory. This will support young people, equipping them for adult life and to make a positive contribution to society.
- Worked with Ofsted to clarify their expectations around how teachers work, and launched a workload reduction toolkit to help leaders address workload issues in their schools.
- Committed an additional £350 million to provide additional support to those with the most complex needs and disabilities. We want to make sure that every school, college, and teacher, is equipped to support young people with special educational needs.

From teachers to social workers, from Ministerial colleagues to officials here in the Department, I would like to thank everyone working in education and children's social care for their incredible work. None of this would be possible without their talent and commitment. A world class education system is an ambitious goal, but it is the right one. For the nation, a world class education system will create a more productive economy. For individuals, it will mean that everyone has the chance to reach their potential and live a more fulfilled life.

I look forward to pursuing this aim together.

Damian Hinds
Secretary of State for Education
4 July 2019

Permanent Secretary's overview

I am pleased to be introducing the 2018-19 ARA which sets out DfE's key achievements and progress against our strategic and corporate objectives over the past financial year.

As ever, it has been another busy year, with the Rt Hon Damian Hinds MP serving his first full year as Secretary of State. I would like to thank him for his leadership of DfE and his ministerial team for all their hard work over the past year to deliver DfE's objectives.

I would also like to thank departmental staff for all their great work, with a particular note of gratitude to those who have supported the critical work of preparing DfE for the UK leaving the EU. Although this remains an uncertain time, I am proud of the preparations that have taken place, and the support that we have been able to offer to departments such as HMRC and Department for Environment, Food and Rural Affairs (Defra), to ensure that we can continue to deliver consistently to a high standard.

DfE is responsible for children's services and for education and training in England, including early years, schools, further and higher education, apprenticeships and skills. This year, DfE was able to bring the Infrastructure and Funding Group together with the Early Years Group, consolidating the work that takes place in schools, and the work that enables it into one place – forming the Early Years and Schools Group.

In October 2018 DfE published the second Academy Sector annual report and accounts (SARA) for 2016/17. This aligns the reporting of financial results with educational performance and has provided greater visibility of academies' funding and spending. The quality of this publication showed a significant improvement on the previous year, supporting DfE's objective of demonstrating accountability.

We have a strong Department that is constantly working to deliver excellent results while providing value for money. Achievements over the last year include:

- Continued work to drive up standards in social work through supporting 22 teaching partnerships, launching new Practice Supervisors Development programmes and the new National Assessment and Accreditation System. DfE also launched Social Work England as the new regulator for the sector. We are continuing to fund local authorities to improve looked-after children's educational attainment through Virtual School Heads and Social Impact Bonds, and we are supporting young people to stay with foster parents through Staying Put and piloting Staying Close
- Our Building the Foundations for Change document was published in October 2018 and showcased some early successes around the approach to improving the life chances of children and young people through the Opportunity Areas programme. Planning has been completed for year two of the Opportunity Areas programme, with a review of governance arrangements across the Opportunity Areas resulting in a number of support measures to achieve greater consistency and accountability
- The launch of the Teacher Recruitment and Retention Strategy in January 2019, which focuses on how DfE is to recruit in the future and learn lessons from previous periods. This is a key priority for DfE as over 20% of new teachers are leaving the profession within the first two years of teaching and 33% are leaving within their first five years. The strategy will focus on creating the right climate for leaders to establish supportive school cultures, transform support for early career teachers and ensuring that teaching remains an attractive career

- The opening of 56 new free schools so far in the academic year 2018-19. This will create over 40,000 places when at full capacity
- 32 English hub schools have been appointed and had development plans approved. DfE has developed a new model for managing the hubs – a strategic English Hubs Council and a Training Centre to train and qualify the work of literacy specialists
- The successful delivery of exams and results season including 20 reformed GCSEs, 12 A Levels and 25 AS Levels that were being awarded for the first time in 2018
- There have been 1.7 million apprenticeship starts since May 2015. 1.4% of public sector workers started an apprenticeship, compared to a public sector target of 2.3% over the period 2017-21. The new 'Fire It Up' campaign for apprenticeships was launched in January 2019, with the first phase running until March 2019. This has resulted in much higher exposure than previous campaigns, with a TV campaign also assigned. Communications around apprenticeships have increased by more than 13%
- Contracts have been awarded for the development of the first three T Level qualifications and the Industry Placement Pilot review was published in 2018 to assist with adapting plans for future delivery
- The government's service to assist with finding postgraduate teacher training had its 100,000th user in October 2018. The service currently advertises courses for over 1,000 providers across England
- DfE's consolidated ARA was laid in Parliament, on time (pre-recess). The SARA was published for the second time with a single qualification arising from the prior year's land and buildings valuation
- This ARA has received a regularity audit qualification due to a control total breach. The breach arose from a difference between forecast RPI and actual year end RPI used to value student loans. More information can be found on page 17

Over the past year, we have continued to focus on embedding our four transformation aims into everything we do, so we can fully achieve our ambition of creating a Department that is more user-centred, empowered, evidence-based and focussed on end-to-end delivery. Our People Survey recorded the highest level of engagement since the survey began in 2009. We now have in place a portfolio of major projects and programmes, led by empowered and supported Senior Responsible Officers (SROs).

I am proud that DfE has made the Stonewall Top 100 Employer list for the second year running, climbing 22 places. Diversity rates in DfE have increased since September 2018, with our Diversity and Inclusion Strategy identifying key areas to target, including BAME and disabled representation at Senior Civil Service (SCS) level, which are now on the rise. We remain focused on promoting and attracting an ever more diverse range of talent, spread right across the country. We need to ensure a more inclusive culture, allowing us to effectively deliver DfE's agenda and contribute to the wider service goal of being the UK's most inclusive employer by 2020.

I am immensely proud of all staff within DfE, its executive agencies and arm's length bodies who are delivering DfE's priorities and ambitions through a period of major change for the government and for the country. I would like to thank them for their hard work. I am confident that DfE will continue to serve ministers, Parliament and the public well into the future.

Jonathan Slater
Permanent Secretary
4 July 2019

Lead non-executive's overview

Having joined DfE as lead non-executive board member in October 2017, it has been an honour to support DfE over the past year.

In the reporting year 2018-19, DfE's governance structure remained broadly the same following significant restructuring in 2017-18. The new structure has enabled the board and its committees to effectively support DfE's challenging and ambitious programme of delivery.

The effective operation of DfE's governance structure this year was supported strongly by the sponsorship and commitment of both our Secretary of State, Damian Hinds, and the Permanent Secretary, Jonathan Slater, and my thanks go to both of them.

Full information on membership changes and the roles of committees can be found in the governance statement.

Departmental board

The board met four times in 2018-19 and its agenda over the year included digital strategy, changes in the labour market, children in need and the Spending Review.

I am grateful to the Rt Hon Anne Milton MP who has continued to support the Chair as Minister for the Board, and to Rt Hon Nick Gibb MP who brings a great deal of expertise and constructive challenge to the board.

In October, board members attended a full-day strategy meeting off-site hosted by Imperial College London where the agenda focused on changes to the labour market, and the role of education in meeting the challenges these changes will present.

I am delighted to welcome two new board members: Toby Peyton-Jones and Irene Lucas. Toby is an industry champion for education and skills within Siemens and is currently a board member at the Institute for Apprenticeships and Technical Education. Irene is the Chair of the Hays Travel group and was previously a Director General at Department of Communities and Local Government. I am grateful for the valuable contributions they have already made in their short time with DfE. Ruby McGregor-Smith and Ian Ferguson continue as board members and the relationships they have built within DfE have allowed them to provide a deep level of insight and challenge to some of the most critical areas of work.

Committees

The Audit and Risk Committee (ARC) continued with Ian Ferguson as Chair. The ARC has focused on addressing the technical accounting challenges surrounding the Departmental accounts. The ARC welcomed the sign off of the 2017-18 ARA. The committee also scrutinised the SARA for 2017/18 which is expected to be laid before Parliament in July 2019. It is also providing increased support and challenge to the risk management and assurance processes within DfE.

The network of audit committee chairs from across DfE's arm's length bodies met twice in the last year, providing a line of sight to and from DfE and allowing for best practice to be shared.

The Nominations Committee met three times over the year and provided assurance on DfE's public appointments processes, and continues to support the Permanent Secretary in talent management and succession planning for DfE's most senior officials.

The Implementation Committee continued to consider how DfE is set up to deliver policy priorities and complements the work of the non-executive team in advising on the delivery of major projects.

The Leadership Team and its sub-committees continued to meet regularly, with Performance, Risk and Resourcing Committee changing to Performance and Risk Committee (PRC) in November 2018, with the resourcing function moving to the newly formed Investment Committee. PRC will no longer approve business cases, allowing it to focus on the core functions of managing performance and top tier risks across DfE. I am grateful to the Permanent Secretary and his executive team for managing these committees and overseeing the successful formation of the Investment Committee.

I am also grateful to my non-executive team for their support on panels for significant public appointments to the boards of our arm's length bodies including Ofqual, the School Teachers' Review Body, the Student Loans Company, the Office for Students and the Social Mobility Commission.

Looking ahead

Following the addition of two new non-executives to our team, I have worked with my non-executive colleagues to consider our roles and responsibilities to ensure that we are readily available and can input effectively outside of formal committee time to support critical areas in DfE. This will include supporting deep dives and projects on critical areas of delivery, sitting as panel members for significant public appointments and contributing to the oversight of arm's length bodies.

I am also keen to continue work through the network of chairs of arm's length bodies, as well as networks of CEOs and audit committee chairs, to strengthen DfE's relationship with its arm's length bodies and share best practice.

I look forward to working with my fellow non-executive board members and the wider DfE to continue to promote effective support, challenge and guidance, and to continually work to improve our governance system.

Richard Pennycook
Lead non-executive board member
4 July 2019

Structure of the DfE

DfE is led by the Secretary of State for Education who is responsible to Parliament for the Group as a whole.

Ministers look to DfE's Accounting Officer, the Permanent Secretary, to delegate within the Group to deliver their decisions and to support them in policy-making and managing public funds.

Public sector bodies are classified based on the level of control DfE has over them. Executive agencies act as an arm of DfE, undertaking executive functions, rather than giving policy advice.

The other bodies in the Group are separate legal entities, but DfE usually sets their strategic framework. DfE also normally appoints the body's chair and all non-executive members of the board, and is consulted on the appointment of the CEO.

As well as the Group covered by this ARA, DfE works with other public sector bodies to achieve our objectives. These bodies have more authority over their own policies and are not consolidated into this Group ARA.

Core Department and Agencies
Department for Education
Education and Skills Funding Agency (ESFA)
Standards and Testing Agency (STA)
Teaching Regulation Agency (TRA)

Executive NDPBs
Office of the Children's Commissioner (OCC)
The Construction Industry Training Board (CITB)
The Engineering Construction Industry Training Board (ECITB)
Film Industry Training Board for England and Wales (FITB)
Institute for Apprenticeships and Technical Education (IFATE)
Office for Students (OfS)
Social Work England (SWE)
Student Loans Company Limited (SLC)

Advisory NDPBs
School Teachers Review Body (STRB)
Social Mobility and Child Poverty Commission (SMC)

Other
Aggregator Vehicle PLC
Located Property Limited (LocatED)
Office of the Schools Adjudicator

This year saw DfE repurpose one of its agencies. On 1 April 2018 the National College for Teaching and Leadership (NCTL) was renamed the Teaching Regulation Agency (TRA) and the majority of NCTL's operations were transferred over to DfE, creating the opportunity for seamless policy and delivery work on recruiting, developing and retaining teachers and leaders. The repurposed agency, TRA, continues to lead on the regulation of the teaching profession, including misconduct hearings.

Additionally, as a result of Machinery of Government (MoG) changes, the responsibility for the Government Equalities Office and the Equality and Human Rights Commission (an NDPB) transferred from DfE to the Home Office on 1 April 2018. In a later move in 2018-19 both bodies transferred to the Department for International Development.

DfE separates its strategic responsibilities and priorities into several operational groups, one of which (ESFA) is also an executive agency of DfE.

On 1 April 2018, as part of organisational changes to align policy and delivery align with Departmental priorities, there were a number of Director General moves across the Group:

- Capital Group, which is responsible for capital funding, building new schools, rebuilding and refurbishing existing schools, and setting standards and guidance for school buildings, moved from ESFA to the core department
- as a result, all Capital Group activities, including sponsorship responsibility for Located Property Limited and the management of Aggregator Vehicle PLC, are now part of the core department and have been removed from ESFA
- responsibility for T Levels and apprenticeships transferred to ESFA from the core department with the role of IFA being expanded to also include T Levels and technical education. IFA's name was subsequently amended to the Institute for Apprenticeships and Technical Education (IFATE) to reflect this

The Group does not receive income arising from payments made by employers under the Apprenticeship Levy. The levy is collected by HMRC through PAYE; HMRC recognises employer levy costs as income in the trust statement found in their ARA. See note 22.6 to the accounts for more information regarding the Group's exposure to the levy.

The lowest level of financial information presented in this ARA is the sub-consolidation of DfE and its three executive agencies, "Department and agencies". Consequently, the two moves described above are not visible within the accounts. More information is presented in note 9 to the accounts.

At the year end, the operational groups had the following responsibilities:

Group	Responsibilities	Contributing agencies and NDPBs
Early Years and Schools Group (EYSG)	Responsibility and oversight for early years and schools, including: • early years • academies, free schools and regional delivery • the curriculum and qualifications • school accountability and safeguarding • supply and retention in the teaching workforce • school funding, analysis, and infrastructure • school strategy	Office of the Schools Adjudicator STA STRB TRA

Group	Responsibilities	Contributing agencies and NDPBs
Education and Skills Funding Agency (ESFA)	To improve education and skills through excellent policy design, operational delivery, expert funding and impactful market oversight. Responsibility to administer funding to deliver education and skills, from early years through to adulthood. Responsibility for rolling out the apprenticeship, technical education and qualifications reform programmes, and delivering the National Apprenticeship Service and National Careers Service.	IFATE

Group	Responsibilities	Contributing agencies and NDPBs
Higher and Further Education Group (HEFE)	Overall responsibility for oversight of higher and further education, including: • student finance • funding for sixth forms and the adult education budget • careers advice • student choice • implementing the higher education primary legislation • sponsorship of the Office for Students • the Student Loans Company • delivery of the Post-18 Review	CITB ECITB FITB OfS SLC

Group	Responsibilities	Contributing agencies and NDPBs
Operations Group (OG)	Overall responsibility for: • ensuring DfE is sufficiently resourced (people, data/information, finance and IT) and organised right to deliver its business objectives • ensuring that efficient and effective systems and processes, driven by customer needs, underpin our services • delivering DfE's objectives for the school estate so that all children can access a good school place and learn in good quality, safe environments	LocatED Aggregator Vehicle PLC

Group	Responsibilities	Contributing agencies and NDPBs
Social Care, Mobility & Disadvantage Group (SCMD)	Overall responsibility for oversight of social care, mobility and disadvantage, including: • promoting outcomes of disadvantaged pupils and young people • development and delivery of the SEND strategy • delivery of, and response to, Edward Timpson's review of Exclusions • delivering major reforms to children's social care • increasing social mobility through Opportunity Areas around the country • management of the private offices for the Permanent Secretary, Secretary of State and ministers • management of the communications directorate including the ministerial and public communications division	OCC SMC SWE

Group	Responsibilities	Contributing agencies and NDPBs
Strategy and International Group	Responsibility for Departmental strategy and international activity, including: • holding SRO responsibility for the Department's EU Exit Programme and Spending Review preparations • bringing together work brigaded under other operational groups, to provide the right level of leadership and priority to this critical work	

Financial review of the year

Introduction

As the 2018-19 financial year ended, we have looked back at the challenges that DfE has faced during the year and reviewed the way that it has taken ownership of the financial implications of decisions that it makes, whilst ensuring that it remains accountable for how it spends taxpayers' money.

The priority for this year has been to ensure that we have a tight grip on Group finances, and are able to demonstrate our ongoing commitment to delivering value for money in everything we do, whilst continuing to deliver a world class education system.

This review will focus on the financial performance achieved by the Group in 2018-19 in meeting the aforementioned challenges and in particular will focus on:

- significant events that occurred during the year
- financial outturn
- future plans

Significant events

Establishment of an Investment Committee

The Leadership Team has established an Investment Committee as a sub-committee of Leadership Team.

The committee is responsible for investment decisions related to high value or higher risk activities. It considers business cases for significant investment proposals and commercial agreements on behalf of DfE's Leadership Team.

The committee approves the release of funds for any and all expenditure over the threshold for committee approval, including, but not limited to, major change programmes. It will ensure that investments deliver value for money, meet regularity and propriety considerations and are affordable, deliverable and sustainable.

The committee will provide advice to the Leadership Team to support them to take decisions on cross-cutting issues, and escalate matters requiring Leadership Team consideration and decision.

Sale of the second tranche of student loan book

As part of its programme of student loan sales, in December 2018 the government completed a second sale of a portion of the Group's Pre-2012 English student loan book, as announced by ministers. The sale included loans issued by English local authorities under the previous (Pre-2012) system, specifically those with a statutory repayment due date that falls between 2007-2009.

The carrying value of the loans sold in the 2018 loan sale was £3.1 billion, leading to a loss on disposal of £1.1 billion, this loss has been recorded in the Statement of Comprehensive Net Expenditure (SoCNE).

The loss on sale recorded in the accounts primarily arises because of the prescribed treatment for the fair value of the loans. HMT rules (FReM) require the Group, and all government bodies, to apply a discount rate of RPI+0.7% to calculate the fair values of financial instruments recognised by government bodies in their ARAs.

In addition, HMT requires the Group to apply a compound discount rate composed of RPI + hurdle rate + asset specific premium when assessing the retention value for the sale in order to meet HMT's Green Book value for money asset disposal tests. The Green Book compound rate cannot due to its composition match the RPI+0.7% discount rate used to calculate carrying value.

In comparison investors make their own assessment of risk, borrowing costs and other matters, such as cashflow, in order to calculate their own market-based fair value assessment. As such, different approaches are prepared for different purposes according to whether HMT or private sector assessment is relevant.

Differences also may arise because the loans that have been sold into the market are not typical of the whole book held by DfE. As such, direct comparisons may not be 'like-for-like'. This may be primarily in terms of the length of time the loans have been held, and the specific modelling to support the sale was able to draw on different data. Accordingly, the model used for valuing the loan book in this ARA remains the correct one for DfE to apply for valuing the whole book in line with HMT requirements.

Further details on how student loans are fair valued, including assumptions, can be found in note 13.3 to the accounts.

Breach of DfE's RAME control total

During 2018-19, DfE breached its RAME Parliamentary control total.

The primary reason for the RAME overspend of approximately £311 million was an unexpected downward movement in the RPI used to calculate year end actuals against the RPI level forecast by the OBR that was used to set the budget in the Supplementary Estimate.

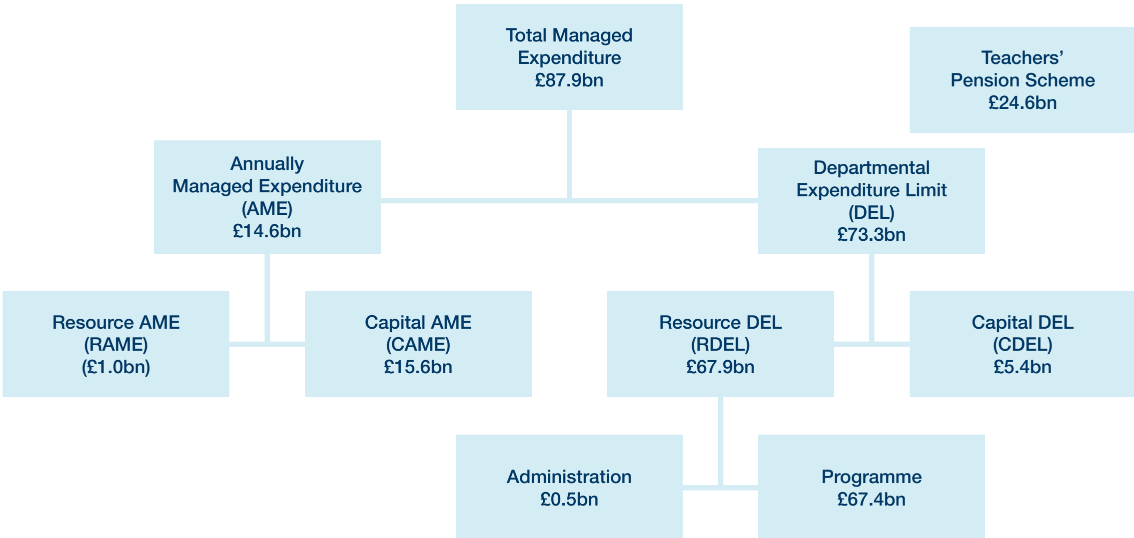
The change in RPI had an impact on the effective interest income, which continues to be recognised for budgetary purposes, for student loans. This meant there was a lower level of effective interest created than expected.

For the year ended 31 March 2019, DfE has a RAME control total of (£1,341 million), and outturn stands at (£1,030 million) of which (£1,041 million) relates to student loans; this generates a breach of the control total by £311 million.

Further details on how student loans are fair valued, including assumptions, can be found in note 13.3 to the accounts.

Outturn by budget type

The following diagram and table explain the different budgets managed by DfE and their purpose. The balances provided below are the actual outturn for the year with figures in brackets representing income. Summary explanations of the budget types are provided below, for more detailed explanations see HMT's Managing Public Money.



Budget type	Summary description
TME	The total amount that the Group spends is known as Totally Managed Expenditure (TME). TME is split into two categories: AME and DEL.
AME	Annually Managed Expenditure (AME) budgets are volatile or demand-led in a way that DfE cannot control. The majority of the Group's AME expenditure is derived from student loans. AME can itself be split into RAME and CAME which are detailed below:
RAME	Resource AME budgets are all classed as programme costs. This includes non-cash costs of provisions and effective interest on student loans.
CAME	Capital AME budgets cover funds that contribute towards long term investment such as student loan issues and repayments, interest added to borrower accounts, plus the capital cost of levy bodies.
DEL	Departmental Expenditure Limit budgets are firm, planned annual budgets set for multi-year Spending Review periods.
RDEL	Resource DEL is mainly programme budgets, which is spent in delivering the Group's front line services such as schools and social work.
Admin	A subset of RDEL is administration – the running costs of the Group including back office staff, buildings and ICT.
Programme	Programme budgets are mainly grants and contract payments associated with front-line delivery. It also includes non-cash costs such as impairment of student loans, depreciation and some provisions.
CDEL	Capital is for spending on assets and investment such as colleges, universities and schools. Always programme costs.
TPS	Teachers' Pension Scheme: England and Wales (TPS). Contributions from teachers and employers in England and Wales with the shortfall in resources to fund pension payments being financed by the Exchequer. It is managed separately to the Group's TME and is treated as AME. The majority of the cost is realised to the outstanding pension liability rather than the pension benefits paid to retired teachers. The TPS has its own Supply Estimate and produces its own standalone ARA and is not included in this consolidated ARA.

Accounting for student loans has moved to fair value through profit and loss following the adoption of IFRS 9 Financial Instruments (IFRS 9). However, budgeting for student loans, in agreement with HM Treasury, remains based on amortised cost, for which effective interest and impairment are still applicable terms.

2018-19 financial outturn

In 2018-19 DfE's TME limit was £104.9 billion against which the Group spent a total of £87.9 billion. The table below shows the Group's performance against its 2018-19 control totals as agreed by Parliament in the *2018-19 Supplementary Estimates*.[1]

Type of spend	Budget £m	Outturn £m	2018-19 Variance £m	Budget £m	Outturn £m	2017-18 Variance £m
Departmental Expenditure Limit	**83,501**	**73,302**	**10,199**	**83,801**	**78,242**	**5,559**
Resource	77,977	67,900	10,077	78,863	73,335	5,528
Of which cash	62,294	61,623	671	60,567	60,230	337
Of which non-cash	15,683	6,277	9,406	18,296	13,105	5,191
Capital	5,524	5,402	122	4,938	4,907	31
Annually Managed Expenditure	**21,412**	**14,602**	**6,810**	**17,519**	**14,182**	**3,337**
Resource	(1,341)	(1,029)	(312)	(876)	(1,589)	713
Capital	22,753	15,631	7,122	18,395	15,771	2,624
Total Managed Expenditure	**104,913**	**87,904**	**17,009**	**101,320**	**92,424**	**8,896**

Resource DEL cash

The underspend of £671 million is primarily driven by unused budget cover set aside at Supplementary Estimates to cover volatility in demand-led programmes such as apprenticeships and other protected budgets.

Resource DEL non-cash

The non-cash underspend reflects unused budget cover set aside for potential volatility of student loan book related impairments.

The movement in impairments is dependent on the Office for Budgetary Responsibility's (OBR) macroeconomic forecasts, including earnings, RPI and the Bank of England base rate, which are published after Supplementary Estimates are finalised.

Capital

The underspend of £122 million is primarily due to a combination of lower than anticipated capital spend on demand driven activities, alongside some in-year changes to construction programme costs.

Capital AME

The underspend of £7 billion is a result of unused budget cover set aside at Supplementary Estimates to cover the volatility in student loan outlay, capitalised and effective interest, and repayments.

These balances are dependent on macroeconomic forecasts, published by the OBR after Supplementary Estimates are finalised.

1 https://www.gov.uk/government/publications/supplementary-estimates-2018-19.

Resource AME

The Group's overspend of £311 million is a result of the final outturn being greater than the budget cover that DfE requested at Supplementary Estimates to cover the volatility in effective interest relating to student loans.

DfE estimated that budget cover of £1.341 billion, of which £1.305 billion related to student loans, would be required at Supplementary Estimates based on an assumed discount rate of 4.09%.

The discount rate used in the Group's final outturn calculations are fully dependent on macroeconomic forecasts, published by the OBR after Supplementary Estimates are finalised.

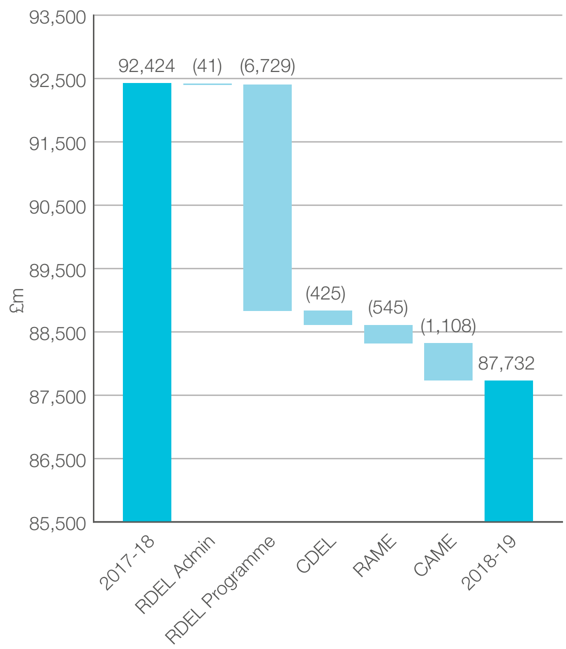
For 2018-19, the final discount rate used (as required by FReM) was 3.44% which resulted in a £411 million variance between what DfE had calculated the forecast outturn to be as part of the Supplementary Estimate process in comparison with the Group's actual final outturn.

The Resource AME overspend of £311 million is primarily a result of a change in the discount rate used in the final outturn calculations.

Year-on-year variance

DfE's TME has decreased by a total of £4.5 billion from £92.4 billion in 2017-18 to £87.9 billion in 2018-19.

The graph below shows the reduction of TME from 2017-18 to 2018-19.



The decrease is primarily due to:

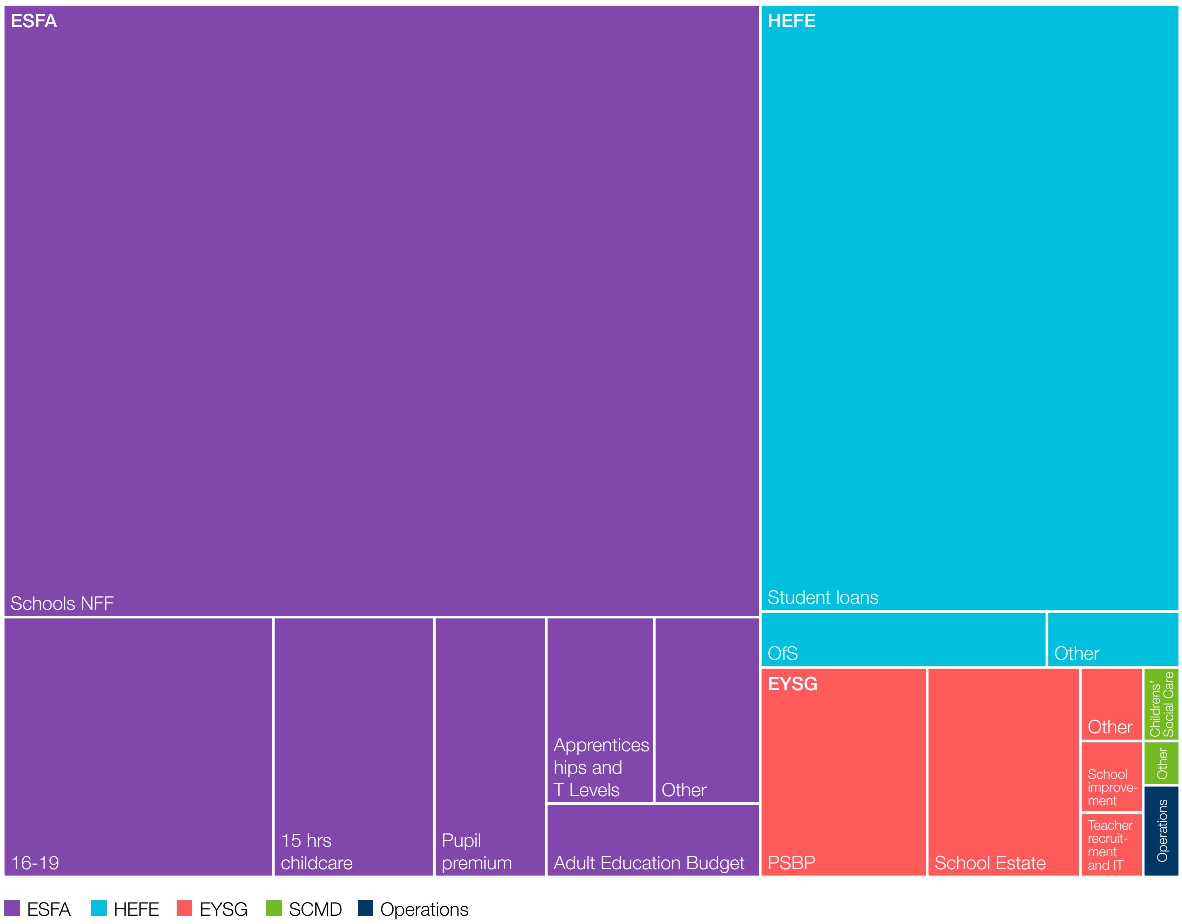
- RDEL Programme: of the £5.4 billion total reduction in year-on-year expenditure, £5.2 billion relates to a reduction in non-cash expenditure predominantly driven by spending on student loan impairments, including those driven by changes to macroeconomic forecasts
- Capital DEL: the £495 million increase in year-on-year expenditure is primarily due to £400 million in additional funding for Schools Condition announced as part of the Autumn Statement
- Resource AME: £560 million more income (which offsets RAME expenditure) mainly due to the volatility of effective interest applied to student loans and the impacts of changes in macroeconomic forecasts

Outturn by business group

The figure below shows the amount spent by each of DfE's five key business groups. This section provides commentary to support the financial statements and the Group's performance during the past year and should be read in conjunction with the financial statements (including notes) that are set out from page 118.

Note 2 to the accounts details the Net Expenditure for the Group by operating segment, and notes 3-8 set out expenditure and income in detail.

2018-19 Outturn by business group



HEFE: HEFE is responsible for funding the provision and uptake of higher and further education learning and the support for the sector and learners to provide and undertake these learning opportunities.

EYSG: EYSG is responsible for funding the early years and schools system, supporting the sector to strengthen system and school leadership, reforming the curriculum, design and delivery of national curriculum tests, improving the supply and retention of talented teachers and leaders and ensuring effective oversight of academies and free schools through the work of Regional School Commissioners.

Operations: Operations is responsible for the provision of essential corporate services to support delivery of ministerial priorities, and delivering DfE's objectives for the school estate.

SCMD: SCMD is responsible for leading work to deliver major reforms to children's social care and increasing social mobility through Opportunity Areas around the country. Also responsible for providing essential corporate services including overseeing Ministers' private offices, communications and department of state functions.

ESFA: The ESFA is an executive agency sponsored by DfE that is accountable for funding education and skills for children, young people and adults.

Future plans

DfE's finance function plays a critical role in supporting ministers and DfE to allocate resources effectively to deliver its strategic objectives.

Looking ahead to 2019-20 the key areas of focus for DfE's finance function are:

- continuing to work with other government departments to support the EU Exit negotiations and understand the financial implications of exiting the EU
- leading and negotiating the Group's budget for years beyond 2020, as part of Spending Review 2019 which may only be for one year
- supporting the ongoing programme of sales of Pre-2012 English student loans, as announced by the government in November 2013. The student loan book sale in 2018-19 represented the second of this programme of sales. Each sale in this programme will be subject to an assessment of market conditions and value for money before proceeding
- maintaining focus and discipline in delivering our financial strategy, improving financial capability, governance, control and a cost conscious culture to put us in a good position to deliver our priorities

In addition to the above areas of focus, DfE has also looked further ahead to understand how it will focus the organisation to ensure that it continues to deliver a world class education system well into the future, and is in the process of developing Single Departmental Plan (SDP) that will form the basis of our continued commitment to delivering world class education that provides opportunities to all.

The SDP does not set out to provide an answer to all but rather a guidance document that details DfE's strategic priorities and direction, and the performance measures that DfE will hold itself accountable to in the delivery of education services.

By holding DfE accountable to specific performance measures, DfE commits to the delivery of key outputs that will have a positive impact on educational outcomes, and that will allow DfE to continue to deliver world class educational services well into the future.

Trends in TME

	2018-19 Outturn £m	2017-18 Outturn £m	2016-17 Outturn £m	2015-16 Outturn £m	2014-15 Outturn £m
Departmental Expenditure Limit					
Administration	**491**	**529**	**510**	**485**	**542**
Of which cash	458	494	478	455	501
Of which non-cash	33	35	32	30	41
Programme	**67,409**	**72,806**	**67,771**	**61,985**	**61,659**
Of which cash	61,165	59,736	58,995	58,866	60,309
Of which non-cash	6,244	13,070	8,776	3,119	1,350
Capital	**5,402**	**4,907**	**5,732**	**5,068**	**4,764**
Of which cash	5,402	4,907	5,732	5,068	4,764
Total DEL	**73,302**	**78,242**	**74,013**	**67,538**	**66,965**
Of which cash	67,025	65,137	65,205	64,389	65,574
Of which non-cash	6,277	13,105	8,808	3,149	1,391
Annually Managed Expenditure	**14,602**	**14,182**	**11,231**	**3,446**	**9,426**
Resource	(1,029)	(1,589)	(1,841)	(8,196)	(1,137)
Capital	15,631	15,771	13,072	11,642	10,563
Total Managed Expenditure	**87,904**	**92,424**	**85,244**	**70,984**	**76,391**

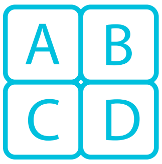
Performance analysis

Our priorities

DfE has published a *Single Departmental Plan*[2] for 2018-19 which sets out our strategic priorities across four main delivery areas. We have reviewed our progress against these priorities in order to assess DfE's performance over the year.

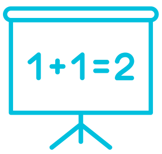
Our vision

World class education, training and care for everyone, whatever their background



Delivery area 1: Children's services, early years and well-being

- support local authorities to deliver high performing children's services everywhere
- secure a highly capable, highly skilled social work workforce (including through the National Assessment and Accreditation System and SWE)
- ensure that children in need of help and protection are supported by a national system of excellent and innovative practice (including through a new What Works Centre)
- promote the educational outcomes of disadvantaged children and young people
- continue to deliver and embed our offer of 30 hours of free childcare for working parents
- improve our understanding of how best to support parents to develop their children's learning at home
- improve our understanding of child well-being and happiness



Delivery area 2: Schools

- ensure there are sufficient high-quality teachers in our schools for the long term, by delivering our Teacher Recruitment and Retention strategy
- support schools to get the best out of their budgets, improving school resource management, providing more advice, support and deals for schools
- maintain our focus on ensuring all children can access a place at a 'good' or 'outstanding' school
- elevate the status of our teaching profession by: strengthening qualified teacher status, reducing unnecessary workload, and supporting the Chartered College of Teaching
- continue to build school-led system capacity across the country, giving our academies and maintained schools the space and support to thrive, and helping schools to make the positive choice of grouping together in successful multi-academy trusts

2 https://www.gov.uk/government/publications/department-for-education-single-departmental-plan/may-2018-department-for-education-single-departmental-plan

- provide targeted, place-based support in the areas that need it, including through our Opportunity Areas
- design and deliver the new curriculum fund to provide excellent curriculum plans and content
- drive forward our focus on key subjects within the curriculum, including through the English Baccalaureate (EBacc), phonics and computer science
- ensure new relationships and sex education (RSE), and personal, social, health and economic education (PSHE) support young people to stay safe and prepare for life in modern Britain, and work with Department of Health and Social Care to improve children's mental health through improved support
- work with the Ministry of Housing, Communities and Local Government to create a stronger, more integrated Britain

Delivery area 3: Post-16 and skills

- deliver T Levels as a gold standard for technical and professional excellence, benchmarked against the systems of world leading countries
- continue our ground-breaking reforms to apprenticeships, with quality at the core
- review Post-18 education and funding to make sure that our system is joined up and promotes access and success in all forms of Post-18 education – providing real choice, quality and value for money for everyone, as well as delivering the skills our country needs
- develop a national retraining scheme to drive up adult learning and retraining
- scrutinise the quality of technical education at higher levels through a qualifications review, focused on levels 4 and 5
- improve capacity, quality and resilience of the further education sector, working with Department for Business, Energy and Industrial Strategy (BEIS) to support the government's ambitious industrial strategy
- raise the status of our further education teaching profession
- improve the quality of careers advice and guidance for children, young people and adults so that they are aware of the breadth of opportunities available to them
- boost exports by making the most of our international reputation in the provision of higher education and other areas
- put in place the right conditions for a flourishing education technology sector, supporting innovative ideas in online and offline delivery

Delivery area 4: Building our department together

- be user-centred: we know who our users are and meet their needs
- deliver end-to-end: we design and deliver around our users' needs
- empower yourself and others: we value teams who take initiative and make improvements
- make evidence-based decisions: we use evidence to make effective decisions

Our highlights this year

Children's services, early years and well-being

800

Nearly **800 high achieving graduates** training to become a social worker

£100 million

Healthy Pupils Capital Fund using revenue from Soft Drinks Industry Levy

An estimated **325,000** children in **30 hours** place from 1 January to 31 March 2019 – **10% increase** on same period in 2018

Schools

56 free schools opened creating **40,000** places at capacity

32

primary schools have become **English hubs**

£324 million

funding to primary schools to improve quality of **PE and sport for children**

38% of pupils took EBaac subjects, up from 22% in 2010

over £40 billion

funding paid to providers across the whole sector **on time**

Post-16 and skills

allocated to the **National Retraining Scheme**

FE Insolvency regime implemented and in force on 31 January 2019

Over **700 secondary schools** and colleges participate in **20 new careers hubs**

Building our department together

Staff engagement
increased to 65%
in the 2018 People Survey
(2017: 62%)

158 interactive L&D sessions on how to "be user-centred" delivered – 95% of people agreed/strongly agreed this was "**a good use of their time**"

Performance against our priorities

Delivery area 1: Children's services, early years and well-being

Area primarily delivered by: SCMD.

Supporting local authorities

During the year, we have built upon facilitating a robust sector-led improvement system by continuing to work with local authorities, through Regional Improvement Alliances, to aid in our delivery of high-performing children's services.

7% reduction in local authorities judged by Ofsted as inadequate, compared with 2017's inspections

We have continued to focus on improving the experiences and outcomes of children in care and support local authorities to:

- improve looked-after children's educational outcomes
- support young people to stay with foster parents beyond the age of 18
- provide therapeutic support to adopted children

43% of local authority children's services are rated good or outstanding by Ofsted, an increase of 7% since last year

We launched the *Care Leaver Covenant*[3], part of the government's *keep on caring*[4] strategy to support people leaving care to become independent. We also continue to support the move to a less fragmented adoption system by establishing larger regional adoption agencies across England and have published *Fostering Better Outcomes*[5] which sets out how we will continue to improve fostering services.

57% of 19 to 21 year-old care leavers in education, employment or training compared to 55% in 2015-16

Securing a skilled social work workforce

We continue to support the social work workforce. Over the past year we have had the following key achievements:

- nearly 800 high achieving graduates training to become a social worker on one of our fast track programmes
- 10 new teaching partnerships between universities and local authorities set up
- new Practice Leaders and Practice Supervisors Development programmes launched
- the first 100 social workers accredited by the new National Assessment and Accreditation System
- launched our first consultation on rules and standards, through our new regulator, SWE, and we will be ready to begin our regulating role by the end of the year

3 https://www.gov.uk/government/news/major-new-scheme-launched-to-support-young-people-leaving-care
4 https://www.gov.uk/government/publications/keep-on-caring-supporting-young-people-from-care-to-independence
5 https://www.gov.uk/government/publications/fostering-better-outcomes

The primary objective of SWE will be protection of the public through setting professional, education and training standards for social workers, and providing assurance that those registered meet the standards, are qualified and remain fit to practise.

DfE secured £84 million for its Strengthening Families, Protecting Children programme which aims to improve social work practice and decision-making in up to 20 local authorities with high or rising demand for children's social care services.

Supporting children in need of help and protection

Our new What Works Centre for Children's Social Care is now generating and disseminating evidence, and we have established a new national panel to draw out and share the lessons from the most serious cases across the country.

We are working closely with 17 local areas to trial the new system ahead of rollout across the country as they implement the new statutory multi-agency arrangements which places a duty on health, local government and police to work together to safeguard children and young people in their area.

Over the past year we also published updated statutory Working Together guidance for all agencies involved in commissioning or providing services for children and families who need help or protection.

Educational outcomes of disadvantaged and young people

We have invested in an Essential Life Skills programme to enable disadvantaged children and young people living in some of the most deprived parts of the country to participate in regular extra-curricular activities which will enable them to develop essential life skills and get the best start in life.

This programme gives the most disadvantaged children the opportunity to develop the key skills such as resilience, self-control and communication which, in turn, supports educational attainment and future success in the labour market.

30 hours of free childcare for working parents

325,000 children in a 30 hours place between 1 January to 31 March 2019, compared to 294,000 children for the same period in 2018

Supporting learning at home

We are now developing a public-facing campaign to improve the quality and quantity of parent-child interactions and make it easy for parents to adopt the positive behaviours that will help their children to develop their communication, language and literacy skills.

Child well-being

The Healthy Pupils Capital Fund was a £100 million one-year fund in 2018-19 which used revenue from the Soft Drinks Industry Levy to improve children's and young people's physical and mental health by enhancing access to facilities for physical activity, healthy eating, mental health and wellbeing and medical conditions.

The funding has been used to improve facilities such as kitchens and dining halls, sports halls and multi-use games areas, changing rooms, swimming and hydro pools, and outdoor active play spaces.

Delivery area 2: Schools

Area primarily delivered by: EYSG.

High quality teachers

2,110 more postgraduate entrants to Initial Teacher Training (ITT)

The Initial Teacher Training Census 2018/19 was published in November 2018 showing that 29,255 postgraduate trainees started ITT this year. This was a 3 percentage point improvement against the Teacher Supply Model target, which is the statistical model used to estimate the future national need for teachers. We achieved 91% of the overall target, 103% of the primary target and 83% of the secondary target.

Every day, teachers get the chance to inspire children and young people, shaping thousands of lives. But the growing number of pupils means we need to attract even more people into the profession, and then make sure they are supported to not just stay, but to thrive.

We have developed a Teacher Recruitment and Retention Strategy in collaboration with the profession and experts across the sector. It sets out DfE's plans to champion the profession and build on the 30,000 classroom teachers the government aims to recruit each year, support the 450,000 teachers already working in schools in England, and commits £130 million a year to boost development for new teachers through the Early Career Framework.

School resource

Over £40 billion of funding paid to local authorities, schools and early years providers on time

Each year, our main expenditure is the Dedicated Schools Grant (DSG). This grant provides funding for:

- the core running costs of all state-funded, mainstream schools (both maintained schools, which are funded by the local authority, and academies, which are funded directly)
- additional support for children with high cost special educational needs and disabilities, including the core running costs of state-funded special schools
- educational support that local authorities provide directly
- the government's free early years childcare entitlements for 2, 3 and 4 year-olds

2018-19 was the second year that DSG allocations for schools were calculated using the new National Funding Formula (NFF). The NFF was introduced to address historic unfairness in allocations, which were previously calculated by reference to historic spending patterns. The NFF, by contrast, calculates allocations based on relative need, looking at the specific characteristics of children and local areas. It was introduced following extensive public consultation.

As it allocates a total of over £40 billion a year, ensuring the accuracy of DSG calculations is of crucial importance. A strong quality assurance process has ensured that DSG allocations have been made without error, allowing local authorities, schools and early years providers to receive their funds in a timely manner.

In addition to the DSG, the Group also provides the Pupil Premium, which is additional funding to mainstream and special schools, based on the number of children who have been eligible for free school meals in the last six years. This funding is provided to assist schools to close the gap in attainment between these children and their peers.

Additional funding was announced during the year for:

- a teachers' pay grant of £188 million in 2018-19 and £321 million in 2019-20, to assist schools to manage the cost of the teachers' pay award
- an increase in high-needs allocations by £225 million in both 2018-19 and 2019-20; in response to pressures on local authorities' high needs budgets

In September 2018, we published the *school resource management strategy*[6] which sets out the range of help and support in place to help schools reduce their costs and get value for money, together with an analysis of school spending. Examples of this include:

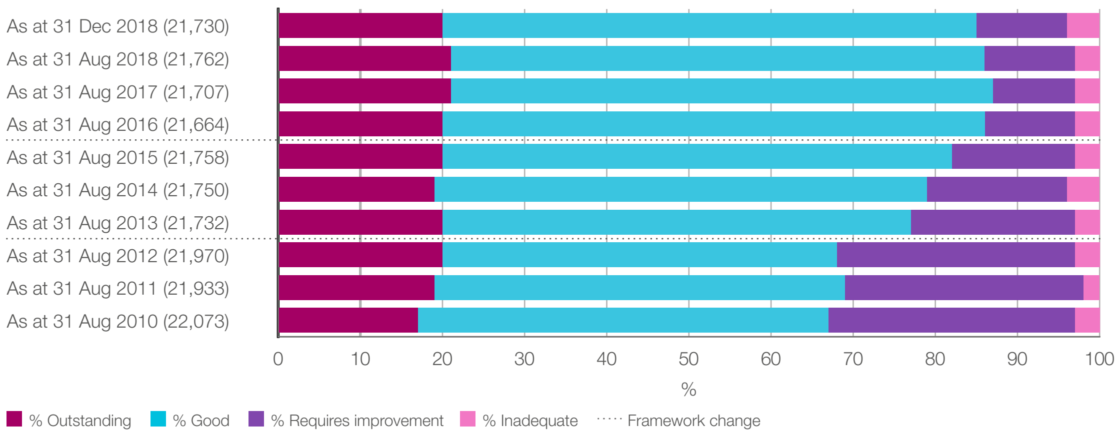
- a new deal for agency supply staff, so that schools get visibility on agency mark-ups and agencies are required to adhere to standard levels of practice, including on the use of 'temp-to-perm' fees
- roll out of a teacher vacancy listing allowing schools to advertise vacancies for free
- it is now easier for schools to directly compare their spending patterns with schools that are like them.

However, there is more to do. We will continue to expand capacity to deliver hands-on support to the schools and trusts that need it most. And we need to address the challenges of securing enough engagement on national deals.

Access to 'good' or 'outstanding' schools

85% of schools are good or outstanding

At the end of December 2018, 85% of schools were judged good or outstanding at their most recent inspection, compared to 86% in August 2018 and 87% in August 2017. The slight drop in the percentage compared to previous years is due to a slight fall in the proportion judged outstanding, highlighted in the table below. This is partly driven by the outcomes of inspections of schools which were previously outstanding, around half of which declined at their inspection in 2018/19.



6 https://www.gov.uk/government/collections/schools-financial-health-and-efficiency

Elevate the status of our teaching profession

In May 2018, we published the government's response to the Strengthening Qualified Teacher Status and Improving Career Progression consultation, which sets out a range of proposals to support our Teacher Recruitment and Retention Strategy. This includes a commitment to improve support for early career teachers through an Early Career Framework and strengthened induction; and improved continuous professional development and new career pathways for all teachers.

Provide targeted, place-based support

Last year, we announced the publication of our ambitious delivery plans for 12 Opportunity Areas (OAs) which are those parts of the country which face entrenched challenges in improving social mobility. The delivery plans for the 12 OAs outline how we plan to build young people's knowledge and skills and provide them with the best advice and opportunities.

In 2018-19, the Group worked alongside local partners and stakeholders including schools, businesses, voluntary organisations and local authorities to successfully implement the programme and begin delivery of a wide range of projects and interventions carefully selected to raise attainment and improve outcomes for children and young people.

In October 2018, we published *Opportunity Areas: Building the foundations for change*.[7] While it is still too early to demonstrate the full impact of the programme, this document shows the progress being made in delivering the programme and some successes around this collaborative approach to improving the life chances of children and young people in the OAs.

Opportunity Area: Derby
Building on the achievements of the existing Derby Primary Strategy Group, over £100,000 of Opportunity Area funding through this programme has been used to expand a successful phonics programme, alongside school-led primary programmes including reading, comprehension, mathematics, and support for children with English as an additional language. Early signs are encouraging with reading at both key stage 1 and key stage 2 improving faster in Derby than nationally.

The National Foundation for Educational Research's independent evaluation[7] into the implementation of OAs, published in October 2018, identified many reasons to be optimistic about the potential of the programme. However, the report did also urge caution about the work still to do and highlights the scale of the challenge in effecting lasting change over the three year time-scale of the programme. We are already considering these challenges as part of our work on 'Building our department together' as we seek to understand how our policy and delivery approaches can best support improved outcomes in places left behind.

7 https://www.gov.uk/government/publications/opportunity-area-programme-research-and-analysis

Focus on key subjects within the curriculum

We continue to recommend that pupils take the core subjects (English Language, English Literature, Maths, Science, History or Geography and a language) which make up the EBacc, to help keep options for young people open. Choosing the EBacc at GCSE gives pupils access to a full range of employment options, provides the broad knowledge that employers are looking for, and is also recommended by Britain's most prestigious universities. Our ambition is that 75% of year 10 pupils will take up study of the EBacc by 2022 and 90% by 2025. 38% of pupils are currently taking the EBacc subjects (up from 22% in 2010).

Nevertheless, our forecasts indicate that we are not on track to meet the EBacc ambition (based on current interventions we expect 53% of pupils to be studying the EBacc by 2022). The main barrier to the EBacc ambition is languages take up (with over 80% of pupils who take four out of the five subjects missing out on a language). The causes are complex but involve a perception that a Modern Foreign Language (MFL) GCSE is harder than other GCSEs and issues with the quality of MFL teaching. Ofsted's new framework is likely to help push up language uptake to an extent, given its more explicit emphasis on the EBacc. Additionally, we have set up an MFL hub to help improve the quality of MFL teaching. This is currently in pilot, but we hope to expand the hub programme over time so that it has national reach.

32 primary schools, all with a background of excellent teaching of reading and phonics, have been appointed to become English hubs. They are distributed across the country to benefit the areas that most need support.

A new National Centre for Computing Education was launched in November 2018. The centre will deliver a suite of programmes designed to improve the teaching of computing and drive up participation in computer science, particularly among girls.

Supporting young people to stay safe and prepare for life in modern Britain

We have published DfE's response to the consultation on the *Mental Health in Schools Green Paper*.[8] This has committed government to offer training to a designated senior lead for mental health in every school and college over five years from 2019/20 and to provide mental health support teams to 20-25% of schools and colleges by 2023. Working with Department for Health and Social Care (DHSC) and NHS England, we have also selected and announced the *2018/19 trailblazer areas*[9] that will be putting in place mental health support teams in 2019.

£324 million
provided to primary schools to improve the quality of PE and sport

In 2018/19 the PE and Sport Premium provided £324 million funding to English primary schools to make additional and sustainable improvements to the quality of the PE and sport offered to pupils. This fund consists of over £100 million from DfE, £60 million from DHSC, and £160 million from the Soft Drinks Industry Levy.

Additionally, we have recently announced our intention to make health education a compulsory part of the curriculum for the first time, with all schools teaching it by September 2020, and have launched a consultation on the draft regulations and guidance. This will mean that all schools will teach children about the benefits of a healthier lifestyle, what determines their physical health and how to build mental resilience and well-being – including how to stay safe on and offline, and the importance of healthy relationships. To support this, we are looking at how we can best support schools to have access to the best, most innovative teaching materials developed by experts.

8 https://www.england.nhs.uk/mental-health/cyp/trailblazers/
9 https://www.england.nhs.uk/mental-health/cyp/trailblazers/mh-support-teams/

Priority Schools Building Programme

The £4.4 billion programme is rebuilding and refurbishing 537 schools in the worst condition across the country in two phases. Many schools in the first phase of the programme were open by the end of 2017, two years earlier than originally planned. As of 3 March 2019, work is complete at 36 schools in the second phase, with 124 contracts signed.

Modern methods of construction

We are looking to use modern methods of construction to drive efficiencies and provide better value for money in the construction of new school buildings. Constructing school buildings by using offsite methods (i.e. manufacturing modules in a factory and craning these modules together onsite) has many benefits including:

- access to a wider market of providers
- stimulating bidders and levels of innovation
- reducing costs
- reducing construction times
- minimising site disruption and thereby impact on site neighbourhood

We have completed eight projects in 2018-19 using our modular frameworks and expect to complete another 24 projects in 2019-20.

Free schools

Free schools are state-funded schools created to meet the need for pupil places, the need for an alternative to low quality local provision or local demand for new provision (including through providing innovative and distinctive educational offers). They deliver high quality places where they are needed.

We have opened 56 free schools so far in 2018/19. These will create 40,000 places at capacity. A further three schools are set to open in the remainder of the 2018/19 academic year.

Delivery area 3: Post-16 and skills

Area primarily delivered by: ESFA and HEFE.

Deliver T Levels

T Levels will help us to deliver high quality technical education to ensure that young people have the skills they need to move into the fulfilling careers they want.

We have announced capital funding for providers to improve their facilities and equipment to bring them up to the current industry standards. We have appointed The Education and Training Foundation to develop and offer training for T Level teachers and lecturers.

Apprenticeships

We have made a number of changes to improve and strengthen the quality of apprenticeships:

- we made it a legislative requirement for the planned off-the-job training hours to be included in the apprenticeship agreement
- we introduced a feedback service allowing employers registered on the apprenticeship service to leave feedback on their apprenticeship training provider
- we funded Ofsted to carry out monitoring visits on all new apprenticeship providers within 24 months of their funding start date

The Quality Alliance (representing bodies responsible for the quality of apprenticeships led by IFATE) have published a quality statement and a quality strategy, setting out *14 statements of best practice*.[10] This will help ensure the highest quality in the design and delivery of apprenticeships.

Provide real choice, quality and value for money in Post-18 education

Through our regulator, OfS, we have invested £1.4 billion on teaching and regulation in the higher education sector.

As a regulator, we maintain a register of higher education providers, and require the providers to meet clear standards for registration. This gives assurance to students on value for money, the quality of the education, and the access and participation planning for disadvantaged groups they can expect from all registered higher education providers in England.

The funding for teaching includes:

- supporting the costs of providing higher education courses where those costs exceed the higher tuition fee cap of £9,250
- the Student Premium to support disadvantaged students and those at risk of non-continuation
- funding for world-leading specialist provision

Over £8.9 billion
paid in tuition fees to providers in higher education on behalf of students

Students from the lowest-income households who started their courses in 2018/19 have access to the largest ever amounts of cash-in-hand support for their living costs.

Disadvantaged 18 year olds
52% more likely
to enter university in 2018 than in 2009

The annual threshold for repayment of Post-2012 student loans will increase to £25,725 from April 2019.

10 https://www.instituteforapprenticeships.org/quality/the-quality-strategy/

The Post-18 Education and Funding Review was launched in February 2018 and focuses on choice and competition across a joined-up Post-18 education and training sector, a system that is accessible to all, delivering the skills our country needs and value for money for graduates and taxpayers.

An independent panel was set up to inform the review. The report was presented to Parliament in May 2019.

Adult learning and retraining

We have allocated £100 million to the National Retraining Scheme, and we will work across government, and with Confederation of British Industry, Trades Union Congress and employers, to give every worker the opportunity to upskill or retrain for the new economy.

Institutes of Technology

Our aim is to develop a network of 10-15 high-quality Institutes of Technology (IoTs) throughout England with an investment of £170 million.

The new IoTs are being created through innovative collaborations between high-quality further education colleges, universities and leading employers. They will deliver higher level technical education with a clear route to skilled employment, specialising in the delivery of higher technical education with a particular focus on STEM-based (science, technology, engineering and mathematics) routes, especially engineering and manufacturing, digital and construction. As such, they will form a key part of the government's drive to create a world-class technical education system.

IoTs will provide a natural progression route for those studying STEM-based T Levels. They will also help to widen participation for learners that are under-represented, including women in STEM, BAME communities, low-income neighbourhoods and mature/part-time learners, with flexible learning offers.

Further education

The Strategic College Improvement Fund has helped 63 colleges across England secure funding to work with a high performing 'partnering' college to share their knowledge and expertise to help tackle issues such as raising the standard of teaching or boosting learner attendance and retention.

27 colleges subject to formal intervention due to poor financial health

The further education insolvency regime was implemented and came into force on 31 January 2019. This provides legal certainty on what would happen in the rare event that a further education or sixth form college corporation becomes insolvent, and important protection for learner provision in such cases.

Further education teaching profession

We have launched the Taking Teaching Further scheme to encourage experts from a range of technical sectors to work in further education.

The scheme will pay for up to 150 professionals from sectors such as engineering and computing to retrain as further education teachers.

Taking Teaching Further fulfils a manifesto commitment to bring industry expertise and practical experience into England's further education sector, so students gain the skills and knowledge that will help them secure good jobs, while also providing businesses with the skilled workforce they need.

Careers advice and guidance

We have made significant progress implementing the Careers Strategy. Over 700 secondary schools and colleges are now participating in 20 new careers hubs to improve the careers guidance that young people get.

International reputation

The International Education Strategy will aim to support the education sector to increase the value of education exports from early years through to higher education. The strategy is jointly owned by DfE and the Department for International Trade.

The strategy will set out two overarching ambitions: to grow the value of education exports to £35 billion by 2030 and to increase the number of international students choosing the UK as a study destination for higher education to 600,000.

Education technology sector

The use of technology in education will be transformed by the Education Technology Strategy which was published in April 2019. The strategy commits funding to support innovation and raise the bar in schools, colleges and universities across the country. Specific aims of the strategy include using technology to reduce teacher workload and promoting the use of innovative technology for pupils with special educational needs and disabilities.

Delivery area 4: Building our department together

Area primarily delivered by: HEFE and Operations Group.

DfE is running a culture change and leadership programme to improve the way we work so that we better achieve our priorities, meet the expectations of our users and ministers, and adapt to an increasingly complex political and external landscape.

This includes four transformation aims:

- being user-centred
- delivering end-to-end
- empowering yourself and others
- making evidence based-decisions

The purpose is to start a conversation about each of these aims in order to develop a common and consistent understanding of the aim; share examples from across DfE where we implement the aim well; and identify what would help our people to operate this way more effectively and provide the support required to facilitate this.

We are focussing on each of these transformation aims in turn, in individual phases. To date we have had sessions to discuss what it means to be part of the Group, where we outlined our four transformation aims and completed the delivery of our being user-centred aim.

Staff engagement
increased to 65%
in the 2018 People Survey (2017: 62%)

Score for 'leadership and managing change' section of People Survey
increased to 53%
(2017: 47%)

Alongside working together to achieve our transformation aims, we are also improving our ways of working, making better and wider use of technology and smarter working practices. Our user-centred approach to 'smarter working' practices means we are constantly evolving and engaging colleagues in new and exciting ways to think about their ways of working and how they could work more efficiently and effectively. As a result of a large scale campaign to encourage colleagues to make better use of our technology we have increased confidence and capability. This is evidenced through our People Survey results, which show that 82% of staff agree that the technology we provide enables them to work flexibly.

Score for 'the tech we provide enables me to work flexibly' section of People Survey
increased by 28%
to 82% over the past two years

We have also been taking a user-centred approach to how our workspaces are designed and allocated in order to make more efficient use of them. We have relocated all our staff in Coventry from two buildings into one, but in doing so an office space has been designed based on the types of work undertaken. The new design provides significantly more choice and flexibility than was the case previously and has enabled the Group to comfortably base all of our staff in Coventry in one location, helping build a cohesive and collaborative culture.

Non-financial matters

Social matters

DfE launched a Diversity and Inclusion Strategy in 2018, which focuses on creating a department where everyone is able to bring their whole self to work and where honesty, challenge and innovation are encouraged and valued. The strategy builds on the Civil Service Diversity and Inclusion Strategy launched in 2017.

DfE has featured in the Business in the Community's Best Employers for Race List 2018, Stonewall's Index 2019 (56th, up from 78th in 2018) and Social Mobility Employer's Index 2018 (18th, up from 49th in 2017). DfE has 11 active diversity and inclusion employee networks involved in the delivery of the strategy.

DfE actively promotes volunteering and provides three paid special leave days for non-statutory volunteering and six paid special leave days for statutory volunteering, which includes school governors. Employees are encouraged to volunteer to support a range of social causes at local and national level.

Respect for human rights

DfE values human rights and equality and diversity are central components of its activities and societal objectives.

This includes compliance with obligations established by the Equality Act 2006 in the context of employment, in which:

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

Anti-corruption and anti-bribery matters

The Group is committed to upholding high standards of honesty and integrity in all its activities. We operate a zero-tolerance approach to bribery and corrupt activities and mandate employee training to highlight personal responsibilities to tackle bribery and corruption in accordance with the Bribery Act 2010.

DfE has a Standards of Behaviour Policy, which establishes clear expectations for employee conduct and behaviour. This covers bribery, fraud and theft. All suspected cases of bribery, fraud and theft are fully investigated and disciplinary action is taken in accordance with departmental policy.

Support for whistleblowing has remained a high priority in DfE. Six cases were received during the previous year and none related to bribery or fraud. DfE regularly reviews whistleblowing arrangements to ensure employees feel able to raise cases and that they are handled appropriately.

Devolution

We fully support the government's strategy to maintain and strengthen the Union and to work effectively with the Devolved Administrations (DAs) in ways that deliver clear benefits to all four nations. We firmly believe that there is much to be gained from working with the DAs and much that we can learn from one another. We have a Devolution Engagement and Capability Plan which builds on this belief and sets out how we support our ministers' objectives for maintaining effective collaboration and engagement with the DAs.

Although education, children's services and skills are mainly devolved, DfE works with the DAs in a number of important ways, including liaising on domestic policies which require cross-border co-operation, consultation and co-ordination, exchanging policy ideas and sharing best practice.

This year, there were a number of benefits through co-operation with the DAs, which included:

- 'Four Nations' meetings which provide a forum for policy dialogue and exchange of ideas and where challenges are shared across the UK, for instance, addressing teacher workload
- successful collaboration has enabled schools in Northern Ireland, Scotland and Wales being able to access our recommended national deals, such as for energy efficiency and office supplies
- participation in the One Civil Service Interchange schemes, which enables our staff the opportunity to work-shadow colleagues in the other nations

Forward look

Our vision is to provide world-class education, training and care for everyone in England, whatever their background. This will make sure that everyone has the chance to reach their potential, and live a more fulfilled life. It will also create a more productive economy, so that our country is fit for the future.

The Secretary of State has identified his top priorities for DfE to focus on. They are broad and ambitious. We need to ensure our academic standards match and keep pace with key comparator nations, to be pursued for example through our work on subjects within the curriculum, the curriculum fund, and qualifications review work strands. We must also strive to bring our technical education standards to the level of leading nations such as Germany and Japan, through our work on T Levels and apprenticeships, establishing a further education sector fit for purpose, and retraining adults as the economy changes. A third priority is to encourage education which builds character, resilience and well-being, which is why as well as investing in children's mental health, we will look to ensure we support schools, colleges, and early years settings, to incorporate it into everything they do.

Seven cross-cutting principles will guide our work as we strive to achieve this vision. We will remember that in education and care, by far the most important factor is the people delivering it, so we will strive to recruit, develop and retain the best. In all our work, we will prioritise the people and places left behind, the most disadvantaged. We will protect the autonomy of institutions by intervening only where clear boundaries are crossed; and we will make every pound of our funding count. Further detail about our plans for 2019-20 is published in our *Single Departmental Plan*.[11]

11 https://www.gov.uk/government/publications/department-for-education-single-departmental-plan/may-2018-department-for-education-single-departmental-plan

Key risks

Our key risks are those that, if materialised, would have significant impact on our Departmental objectives. All our key risks are owned at director level, managed on a day-to-day basis in the relevant director area, and regularly reported through our corporate level committee structure. Further information on our risk management framework can be found in the accountability report on page 65.

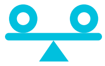
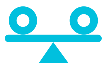
Our overall risk profile has remained challenging for the year particularly given the scale of organisational and transformational change that the Group is going through.

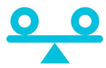
Of those reported in last year's ARA, cyber security threat, local children's service failure and not having sufficient levels of high-quality teachers remain significant risks. We also continue to focus on the existing risk in relation to the financial resilience of our further education colleges.

Effort to address the challenge of DfE exceeding its control totals has included the implementation of a revised approach to in-year budget management. Whilst this has helped to strengthen the position, the risk remains under close management particularly given external factors involved. This is evidenced by the recent breach in RAME for the year end, which was the result of an unexpected external change which DfE had no control over.

The risk in relation to the ESFA's core funding system, reported last year, has reduced in severity following effective action to address.

Significant risks that have been managed during 2018-19 include the following:

Risk	Mitigation	Direction for year
There is a risk that DfE is unable to deliver due to a sustained cyber-attack. **Risk owned by Operations Group.**	DfE takes this risk very seriously. Robust attack assessments against financial and ESFA systems have been carried out through the year highlighting cross cutting service risks and system risks. A programme of works is underway to increase the effectiveness of our 'secure by design' principle with early engagement in system design and life-development activities. A vulnerability management system has also been established and is now running across the estate.	
There is a risk that a significant number of further education colleges are not financially resilient enough to make the long-term investments required. **Risk owned by HEFE.**	This relates to further education colleges and their ability to support the local economy and offer a comprehensive range of government priority programmes. To address this risk, on-going monitoring arrangements are now in place to enable timely provision of support and intervention, and a bespoke insolvency regime has been introduced. A programme focused on building leadership capacity and capability is in place. The area review programme and the investment in restructuring that followed, and other targeted initiatives, have helped to stabilise the sector.	
There is a risk of widespread local children's service failure which could arise due to financial pressures, increasing demand, pace of reform or unforeseen court rulings. **Risk owned by SCMD.**	We have seen an improving position through the year, and we remain on-track against our trajectory for reducing the number of Ofsted 'inadequate' local authorities. Rising demand, tightness of funding and improvement capacity within the system remain a challenge. Action has focused on improving performance of individual local authorities, strengthening improvement capacity and wider system change (e.g. through workforce reform, and the development of an evidence and learning infrastructure). Further analytical work has taken place to look at drivers of increased demand and spend.	
There is a risk that schools have an insufficient number of high-quality teachers resulting in poor educational outcomes for pupils. **Risk owned by EYSG.**	This is a key risk to the government's objective that all children and young people have access to a high-quality education. In January, we published the Teacher Recruitment and Retention Strategy, which outlines the key areas where our focus, reform and investment will have the biggest impact on mitigating this problem. The strategy's policies include: transforming support for early career teachers through the Early Career Framework; putting in steps to support flexible working and helping school leaders establish more supportive school cultures with a new Ofsted framework designed to reduce teacher workload. We are also working with ITT providers to ensure we are accepting every applicant who is ready to train to teach.	

Risk	Mitigation	Direction for year
There is a risk that uncertainty over Spending Review decisions associated with the longer-term scope, shape and reach of the apprenticeships reform programme may delay decisions that compromise delivery deadlines. Risk owned by ESFA.	During 2018-19 the risk in relation to apprenticeship reform was refined to be focused on the provider market and the ability to respond to change. Whilst the position with the provider market has improved the risk relating to one of our complex change programmes and its ability to respond effectively to sizeable shift in requirements has emerged as one of our significant challenges. Action to address has initially focused on increasing collaboration and early sight of any potential changes and also looking at our workforce planning.	
There is a risk that high needs costs increase significantly more than available funding. Risk owned by SCMD.	This was a risk that was escalated during 2018-19 and if materialised would have a serious adverse impact on local authority and school finances, and ultimately the education of disadvantaged children and young people. DfE has undertaken work to understand what is driving the cost increases, in order to develop the right strategy going forward, and in the short term allocated an additional £250 million over 2018-19 and 2019-20. There was also a further £100 million increase in capital funding announced in December 2018.	

The Group's status as a going concern

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 2018-19 or following the year-end, that may affect this status.

Budgets for central government departments are collectively agreed in Spending Review exercises overseen by HMT. The Chancellor has confirmed that a Spending Review will take place in 2019 to agree funding for future years. The Spending Review settlement will be confirmed by a vote in Parliament for Supply and Appropriation Acts. There is no reason to believe this process will not continue. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Jonathan Slater
Accounting Officer
4 July 2019

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

Accountability report

Accountability report

The accountability report sets out how we meet the key accountability requirements to Parliament. It is broken down into three areas:

- the corporate governance report which provides an overview of the Group's leadership and our risk management approach
- remuneration and staff report which details remuneration and staff expenses and policies
- parliamentary accountability which contains the Statement of Parliamentary Supply, associated notes, and audit certificate

Corporate governance report

The purpose of the corporate governance report is to explain the composition and organisation of DfE's governance structures and show they support the achievement of DfE's objectives.

Directors' report

Ministers and the board

Ministers at 31 March 2019

The Rt Hon Damian Hinds MP
Secretary of State for Education

Overall responsibility for Department for Education.

The Rt Hon Nick Gibb MP
Minister of State for School Standards

Responsible for the recruitment and retention of teachers, supporting a high quality teaching profession, admissions, national funding formula for schools, curriculum, assessment, school accountability, personal, social health and economic education, alternative provision, preventing bullying in schools, behaviour and attendance, exclusions and alternative provision policy.

NDPB responsibility: STRB

The Rt Hon Anne Milton MP
Minister of State for Apprenticeships and Skills

Responsible for apprenticeships including the Apprenticeship Levy, technical education and skills, T Levels, careers education, Post-16 funding, further education colleges, sixth form colleges, adult education (including the National Retraining Scheme), reducing the number of young people who are not in education, employment or training, and DfE's non-executive board.

NDPB responsibility: IFATE, CITB, ECITB, FITB

Chris Skidmore MP
Joint Minister of State for Universities, Science, Research and Innovation with BEIS

(from 5 December 2018)

Responsible for universities and higher education reform, higher education student finance, widening participation and social mobility in higher education, education exports (including international students, international research), review of Post-18 education and funding, and tackling extremism in higher education.

NDPB responsibility: SLC, OfS

Lord Theodore Agnew
Parliamentary Under Secretary of State for the School System

Responsible for free schools, university technical colleges and studio schools, academies, faith schools, independent schools, home education and supplementary schools, interventions, school improvement, school governance, school capital investment and counter extremism and integration in schools, further education colleges and sixth form colleges.

NDPB responsibility: Aggregator Vehicle PLC, LocatED

Nadhim Zahawi MP
Parliamentary Under Secretary of State for Children and Families

Responsible for children's social care, special educational needs, education policy in response to the race disparity audit, safeguarding in schools, disadvantaged pupils, healthy pupils, early years policy, childcare policy, inspection and regulation, delivery of 30 hours free childcare offer, and social mobility.

NDPB responsibility: OCC, SMC

Our management

We are committed to ensuring our board has the right skills and experience to enable challenge and breadth in our strategic thinking.

Key

D Departmental Board
I Implementation Committee
L Leadership Team
A Audit & Risk Committee
N Nominations Committee
I Implementation Committee Chair
L Leadership Team Chair
A Audit & Risk Committee Chair
N Nominations Committee Chair

Jonathan Slater
Permanent Secretary
Accounting Officer

D I L N

Skills and experience
Jonathan's previous roles in government include being Director General at Cabinet Office, Ministry of Defence and Ministry of Justice.

Appointment: May 2016

Indra Morris
Deputy Permanent Secretary (from January 2019), Director General, Social Care, Mobility & Disadvantage Group

D I L

Skills and experience
Indra was previously Director General at both HM Treasury and Ministry of Justice.

Appointment: January 2017

Mike Green
Chief Operating Officer and Director General, Operations Group

D I L

Skills and experience
Mike was formerly the Director of Capital for ESFA and Director of Commercial in DfE. Before joining the Civil Service, Mike was a civil engineer and spent his career in the private sector in construction and retail.

Appointment: October 2017

Emran Mian
Interim Director General, Strategy and International Group

I L

Skills and experience
Emran was formerly the Acting Director General for Higher Education and Further Education. Prior to returning to the Civil Service in February 2017, Emran ran the Social Market Foundation, a cross-party think tank.

Appointment: January 2019

Paul Kett
Director General, Higher and Further Education Group

I L

Skills and experience
Paul has experience in strategy, policy and project delivery. Previous roles include Director of Army Reform for the British Army.

Appointment: February 2017

Andrew McCully CBE
Director General, Early Years and Schools Group

I L

Skills and experience
Andrew has had a 32-year career in the Civil Service and has held a wide range of senior posts. He was made a CBE in 2019.

Appointment: September 2010

Eileen Milner
Chief Executive,
Education and Skills Funding Agency

I L

Skills and experience
Eileen has held a number of senior roles in the technology and public services advisory space. She began her career in local government, specialising in education services, later moving into higher education.

Appointment: November 2017

Jonathan Clear
Chief Financial Officer (joint role with Iain King) and Director of Strategic Finance, Operations Group

D I L

Skills and experience
Jonathan is a qualified accountant with previous senior finance roles at Department for Work and Pensions and Ministry of Justice.

Appointment: October 2017

Iain King
Chief Financial Officer (joint role with Jonathan Clear) and Director of Operational Finance, Operations Group

Skills and experience
Iain is a qualified accountant with previous senior finance roles at Department for Business, Energy and Industrial Strategy and Department for Business, Innovation and Skills.

Appointment
October 2017

Richard Pennycook
Lead non-executive board member

D I N A

Skills and experience
Richard is chair of Howdens Joinery, Fenwick and the British Retail Consortium.

Appointment
October 2017

Baroness Ruby McGregor-Smith CBE
Non-executive board member

D I N

Skills and experience
Ruby was formerly the Chief Executive of the Mitie Group, a strategic outsourcing company, and was the first Asian woman to be appointed to such a role in the FTSE 250 or FTSE 100. Ruby received a CBE in 2012.

Appointment: December 2015

Ian Ferguson CBE
Non-executive board member

D I A N

Skills and experience
In 1981, Ian founded Metaswitch Networks, a company that develops telecommunications software. Ian received a CBE for services to education and training in 2005.

Appointment: January 2016

Toby Peyton-Jones
Non-executive board member

D I N

Skills and experience
Toby has held a wide variety of leadership roles within Siemens, working in China, USA and Europe. He has been an industry champion for education and skills, a role he continues to perform on behalf of Siemens today. He was a commissioner in the UK Commission for Employment and Skills and is currently a board member at the IFATE.

Appointment: November 2018

Irene Lucas CBE
Non-executive board member

D I N

Skills and experience
Irene is the chair of the Hays Travel group, a board member of Sport England and the Academy for Sustainable Communities. She was previously a Director General at the Department of Communities and Local Government. Irene received a CBE for services to local government in 2008.

Appointment: November 2018

Ministers and officials appointed in 2018-19

Emran Mian was appointed Interim Director General of Strategy and International Group to assist with preparations for the impact of EU Exit on DfE.

Indra Morris has been appointed Deputy Permanent Secretary and will support the Permanent Secretary's capacity for cross-government work.

DfE appointed two new non-executive board members, Toby Peyton-Jones and Irene Lucas, giving DfE a full team of five non-executives. They will serve on the Implementation Committee and Nominations Committee along with the rest of the non-executive team.

Departing ministers and officials in 2018-19

DfE's closing membership is shown in the photomontage above. Ministers and officials who left in the year are given below:

Ministers	Date to	Position
Sam Gyimah MP	30 November 2018	Joint Minister of State for Universities, Science, Research and Innovation with BEIS

Executive board members	Date to	Position
Philippa Lloyd	28 September 2018	Director General, Higher and Further Education

Register of interests

DfE maintains a register of interests to ensure that potential conflicts of interest can be identified. Executive and non-executive board members are required to declare details of company directorships and other significant interests, on appointment to the board and on an annual basis. DfE publishes *the register*[12] annually alongside its ARA.

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*.[13]

Data management

	2018-19	2017-18	2016-17
No. of incidents	2	2	1

There were two protected personal data related incidents in 2018-19 which were reported to the Information Commissioner's Office. On subsequent investigation, evidence suggested that personal data was compromised in neither of the incidents. Further detail on data security and compliance is in annex A.

Department spending

Remuneration paid to auditors for non-audit work

For 2018-19, the audit of the Group and its component entities, except for Aggregator Vehicle PLC, was undertaken by the Comptroller and Auditor General (C&AG). There has been one change in 2018-19 – SLC appointed the NAO on behalf of C&AG as their external auditor. Non-audit fees disclosed below were paid to component auditors other than the National Audit Office (NAO).

	2018-19 £000	2017-18 £000	2016-17 £000
Non-audit fees	–	47	186

Note: All costs are at Group level

12 https://www.gov.uk/government/collections/dfe-annual-reports
13 https://www.parliament.uk/mps-lords-and-offices/standards-and-interests/

Political donations and expenditure

DfE has not made any political donations during the year (2017-18: £nil).

Research spending

	2018-19 £m	2017-18 £m	2016-17 £m
Department	29.0	19.6	14.2
Agencies	0.3	1.0	0.8
NDPBs	0.6	2.0	1.7
	29.9	22.6	16.7
Of which: central research	6.2	5.1	6.3
policy units/policy evaluation research	23.7	17.5	10.4

Further details of DfE's research strands are available online.[14]

Financial instruments and exposure to risk

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. However, the Group is exposed to some level of risk generated by DfE's student loan portfolio, which is classified as a financial instrument.

Further information on the risks associated with financial instruments are set out at note 11 to the accounts.

Board's declaration

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

14 https://www.gov.uk/government/organisations/department-for-education/about/research

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), HMT has directed DfE 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 DfE (inclusive of its executive agencies) and its sponsored non-departmental public bodies (NDPBs) designated by order made under the GRAA by Statutory Instrument 2018/313 (together known as the Group, consisting of DfE and sponsored bodies listed at note 25 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of DfE and the Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Group for the financial year.

In preparing the accounts, the Accounting Officer of DfE 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 the HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- ensure DfE 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
- prepare the accounts on a going concern basis
- confirm that the ARA as a whole is fair, balanced and understandable and take personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable

HMT has appointed the Permanent Secretary as Accounting Officer for DfE.

The Accounting Officer of DfE has also appointed the Chief Executives (or equivalents) of its sponsored NDPBs as Accounting Officers of those bodies. The Accounting Officer of DfE is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that DfE makes 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, for the purposes of consolidation within the resource accounts.

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

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 DfE and its NDPBs are set out in Managing Public Money published by HMT.

The *Accounting Officer System Statement for DfE*[15] was published on 31 August 2017. An updated Accounting Officer System Statement is due to be published later in 2019. As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that DfE's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

15 https://www.gov.uk/government/publications/department-for-education-accounting-officer-system-statement

Governance statement

Overview

Our governance statement sets out our governance, risk management, the assurances I have received, as Principal Accounting Officer, and our compliance with HMT's Corporate governance in central government departments: code of good practice.

How we are structured

DfE is a ministerial department that is supported by and works with 16 agencies and public bodies, as listed in note 25 to the accounts, who assist DfE in implementing its policies and achieving its aims and objectives. The agencies and public bodies consist of executive agencies, executive NDPBs, advisory NDPBs and other organisations.

The agencies are part of DfE and are well-defined business units which carry out executive functions within government. They have a clear focus on delivering specific outputs within a framework of accountability to ministers.

The executive or advisory NDPBs have a role in the processes of national government, but are not a government department or part of one, and which accordingly operate to a greater or lesser extent at arm's length from ministers. NDPBs have different roles, including those that advise ministers and others, which carry out executive or regulatory functions, and they work within a strategic framework set by ministers.

As the Permanent Secretary and Accounting Officer for the whole Group, I have responsibility for reviewing the effectiveness of the Group's systems of internal control. My review was informed by my senior management team (including Accounting Officers for agencies and NDPBs, who have responsibility for the development and maintenance of their internal control frameworks), Government Internal Audit Agency (GIAA), 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 complete an annual assurance return covering risk management, the operation of related controls in their areas of responsibility, and their use of resources allocated to them.

This supplemented the regular reporting to the Leadership Team 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. The main findings are summarised within this statement below.

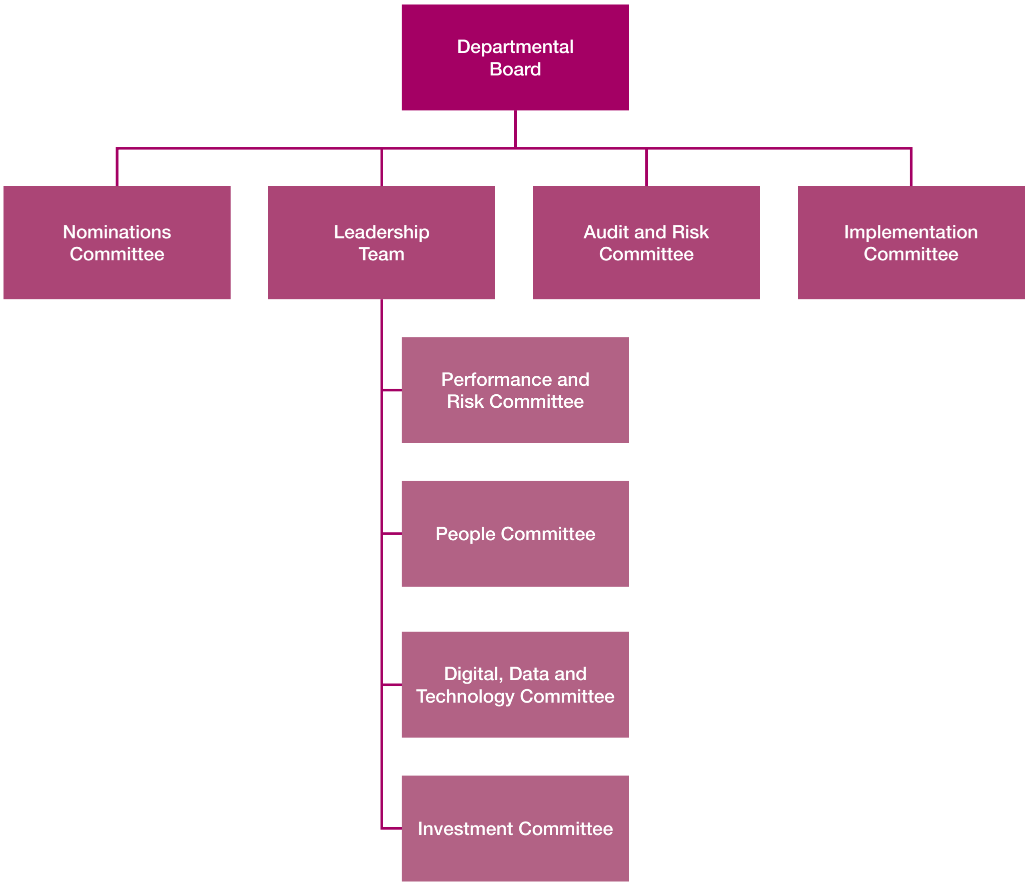
During 2018-19, the ARC regularly reviewed management of issues and near misses, and provided guidance on matters of risk and assurance. It scrutinised the Group's internal audit plan, findings from reports and progress with follow-up actions. ARC also regularly reviewed recommendations from Public Accounts Committee and value for money reports and arrangements for managing incidents of fraud, error and debt.

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 academy trust Accounting Officers, Ofsted, and the Accounting Officers of our NDPBs and agencies. These Accounting Officers reported either directly to me or to me via the ESFA on the probity and appropriateness of the use of Group funding allocated to them.

DfE'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 August 2017. An updated version will be published later in 2019.

The board and its committees receive management information covering a variety of disciplines to enable them to monitor the performance of DfE. This includes financial and workforce data; indicators of progress against DfE'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.

DfE's governance structures



In the reporting year 2018-19, DfE's governance structure remained broadly the same following significant restructuring in 2017-18.

There were some changes to the sub-committees of the Leadership Team in 2018-19:

- the Performance, Risk and Resourcing Committee changed to the Performance and Risk Committee (PRC) in November 2018. It will no longer have a function in approving business cases, allowing the committee to focus on its core functions of managing performance and top tier risks across DfE
- the Investment Committee was formed in November 2018 and is responsible for approval of financially significant or contentious business cases related to activities where DfE will make an investment decision. It will approve all business cases which meet the thresholds, not just major change programmes

Departmental Board

Overview

Meeting at least four times a year, the board is chaired by the Secretary of State and membership comprises of ministers, the Permanent Secretary, three Directors General, the Director of Strategic Finance and non-executive board members.

Key duties

The board provides the collective strategic and operational leadership of DfE. It is supported by the Implementation Committee, ARC, Leadership Team and the Nominations Committee.

This year

Significant items the board considered were:

- the purpose of the board
- the Children in Need review
- DfE's long-term strategy
- DfE's digital strategy

Outcomes

- the board considered DfE's position ahead of the Spending Review and the trade-offs associated with this process
- the board looked at the Labour Market and our Digital Strategy and agreed on the areas to focus on in these spaces going forward

Attendance at meetings

Member	Meetings attended (out of possible)
Ministers	
Rt Hon Damian Hinds MP	4/4
Rt Hon Nick Gibb MP	4/4
Rt Hon Anne Milton MP	4/4
Non-executive board members	
Richard Pennycook	4/4
Ian Ferguson	4/4
Baroness Ruby McGregor-Smith	4/4
Irene Lucas	2/2
Toby Peyton-Jones	2/2
Senior officials	
Jonathan Slater	2/4
Indra Morris	3/4
Mike Green	2/4
Jonathan Clear	4/4

Implementation Committee

Overview

Meeting at least five times a year, the Implementation Committee (the remit of which was revised from the former Performance Committee) supports the board by scrutinising DfE's performance and delivery, both in the wider sense and in the context of particular projects and issues. It is chaired by the lead non-executive board member and consists of the Permanent Secretary, Directors General, the non-executive board members, the Director of Strategic Finance, the Chief Analyst and the Head of Delivery Unit.

Key duties

The Implementation Committee has an overview of DfE's overall performance, taking into account the wider agenda and the Secretary of State's priorities. The committee advises the board on the delivery of DfE's strategy, providing independent assurance that DfE has in place the necessary conditions for success, and the capability and capacity to deliver.

This year

Significant items discussed by the committee were:

- T Levels and the Sainsbury Review into technical education in England
- increasing the uptake of apprenticeships
- branding and marketing of T Levels and apprenticeships
- preparations for EU Exit

Outcomes

- reviewed implementation challenges facing the T Levels and apprenticeships programmes
- reviewed plans for the marketing of T Levels and apprenticeships and agreed that branding needs to promote parity between academic and practical routes
- examined the challenges presented by EU Exit, particularly in the event of a No Deal scenario

Attendance at meetings

Member	Meetings attended (out of possible)
Non-executive board members	
Richard Pennycook	6/6
Ian Ferguson	6/6
Baroness Ruby McGregor-Smith	4/6
Toby Peyton-Jones	2/2
Irene Lucas	1/2
Senior officials	
Jonathan Slater	4/6
Paul Kett	6/6
Philippa Lloyd	2/3
Andrew McCully	5/6
Eileen Milner	4/6
Indra Morris	6/6
Mike Green	5/6
Emran Mian	2/2
Jonathan Clear	6/6
Osama Rahman	4/6
Emily Curtis	4/6

Audit and Risk Committee

Overview

The ARC is a sub-committee of board. It met six times during the year. Membership (see below) consists of two non-executive board members, one of whom is the chair, and four independent members. Internal audit (GIAA), the NAO, the Permanent Secretary, the Chief Operating Officer, the Chief Executive of the ESFA and the Operational Finance Director and Director of Strategic Finance also regularly attend.

Key duties

ARC supports the board and the Accounting Officer by providing independent scrutiny, support and challenge of DfE's arrangements for governance, risk management and internal controls.

ARC also provides support, guidance and advice to the executive and monitors progress on the delivery of key statutory and legislative requirements.

In particular it provides scrutiny to the Group ARA, the SARA and the ARAs of agencies, and reviews the work of DfE's internal and external auditors.

This year

The ARC:

- recommended sign-off of the appropriate ARAs after due review, scrutiny and amendment
- considered the 2018-19 ARA, the 2017/18 SARA and the other required ARAs (ESFA, STA, TRA), as well as the updated AOSS
- reviewed the overall risk management framework, the status of issues and near misses, cyber security, fraud and General Data Protection Regulation (GDPR) readiness
- provided guidance to improving DfE's grant assurance structure and processes
- reviewed, and commented on, the plans to increase the commercial capability, and to oversee business appointments
- scrutinised DfE's internal audit plan and the reports causing concern
- scrutinised the accounting implications of the sale of student loans

Outcomes

- For the third year running the 2018-19 Group ARA was laid before Parliament on time pre-recess.
- This ARA has been qualified for a RAME control total breach. The breach arose from a larger than expected movement in RPI as at year end compared to the OBR-forecast RPI used as part of the Group Supplementary Estimates budgeting process.
- The laying of the SARA for 2017/18 has also been brought forward to July 2019. SARA received a single qualification on the comparative value of land and buildings (31 August 2017). The closing value of land and building as at 31 August 2018 was unqualified. This is a considerable achievement requiring significant effort and expertise from DfE.
- Workshops have been held prior to ARC meetings to allow for in-depth analysis and review of major technical accounting issues, including the student loan book valuation and sale, academy land and buildings valuation and recognition, the transition to IFRS 9 for financial instruments, grant management and NDPB financial liaison. These workshops are now an established part of the assurance fabric for DfE.
- The network meetings of NDPB ARC chairs continue and are creating cohesion, as are the NDPB CEO network meetings with NDPB chair meetings now in place.
- The GIAA reports continue to provide good additional assurance although the committee would like to see more focus on timely implementation of follow up actions.
- The Risk Management Framework, both its presentation and operational execution, continues to improve, although further work is needed to give full assurance to the committee.

Attendance at meetings

Member	Meetings attended (out of possible)
Non-executive board members	
Ian Ferguson	6/6
Richard Pennycook	6/6
Independent members	
Christopher Baker	6/6
Natalie Elphicke	6/6
Nigel Johnson	5/6
Hunada Nouss	1/1
Mark Sanders	5/5

Leadership Team

Overview

Meeting at least 10 times a year, the Leadership Team provides day-to-day executive leadership and management on behalf of the board. It is chaired by the Permanent Secretary and it consists of the Directors General, the Chief Executive of the ESFA and the Director of Strategic Finance. The Director of Transformation routinely attends.

The Leadership Team is supported by four sub-committees:

- the Performance and Risk Committee (formerly the Performance, Risk and Resourcing Committee) which provides oversight of the breadth of DfE's performance and risks
- the Investment Committee which approves financially significant or contentious business cases
- the People Committee which provides oversight of DfE's people and workforce strategy
- the Digital, Data and Technology Committee, which provides oversight of DfE's digital capacity, capability and prioritisation

Key duties

The Leadership Team is responsible for oversight of DfE's operations, including DfE's financial position, HR and workforce issues, performance and risk, and communications and staff engagement.

This year

Significant items discussed by the Leadership Team were:

- departmental security
- budget planning for 2019-20
- EU Exit resourcing

Outcomes

- reviewed DfE's security, including preparedness for a cyber-attack
- approved admin and programme budgets for 2019-20
- agreed to plans to embed shared values across DfE and its NDPBs

Attendance at meetings

Member	Meetings attended (out of possible)
Senior officials	
Jonathan Slater	10/10
Paul Kett	9/10
Philippa Lloyd	4/4
Andrew McCully	9/10
Eileen Milner	9/10
Indra Morris	10/10
Mike Green	10/10
Emran Mian	6/6
Jonathan Clear	10/10

Nominations Committee

Meeting at least three times a year, the Nominations Committee has oversight of the senior talent management and pay in DfE. It is chaired by the lead non-executive board member and consists of the non-executive board members, the Permanent Secretary and the HR Director.

Key duties

The Nominations Committee supports the board by providing independent scrutiny, assurance and advice for:

- DfE's plans, strategies and systems for senior talent management
- senior performance management
- pay and reward
- succession planning
- board appointments and public processes

This year

The Nominations Committee discussed:

- Director General pay and talent
- non-executive board recruitment
- public appointments
- the conduct and social media activity of public appointees

Outcomes

- reviewed senior talent assessment, agreed Director General performance markings and supported the overall distribution of performance management markings of the SCS
- agreed that the committee's scope on public appointments will focus principally on appointments recognised as 'significant' or 'PM interest', and will provide scrutiny on the due diligence process maintained by DfE's Public Appointments team
- scrutiny of the non-executive recruitment process

Attendance at meetings

Member	Meetings attended (out of possible)
Non-executive board members	
Richard Pennycook	3/3
Ian Ferguson	3/3
Baroness Ruby McGregor-Smith	2/3
Toby Peyton-Jones	1/1
Irene Lucas	–/1

Managing our risks

To help ensure we achieve our priorities, we need to manage risks at all levels in the Group. Risk management is integrated into the way we work from operational decision making through to the management of strategic risks reflected in our Top Tier Risk Report. This section explains how we identify and then address those risks.

The risk management framework

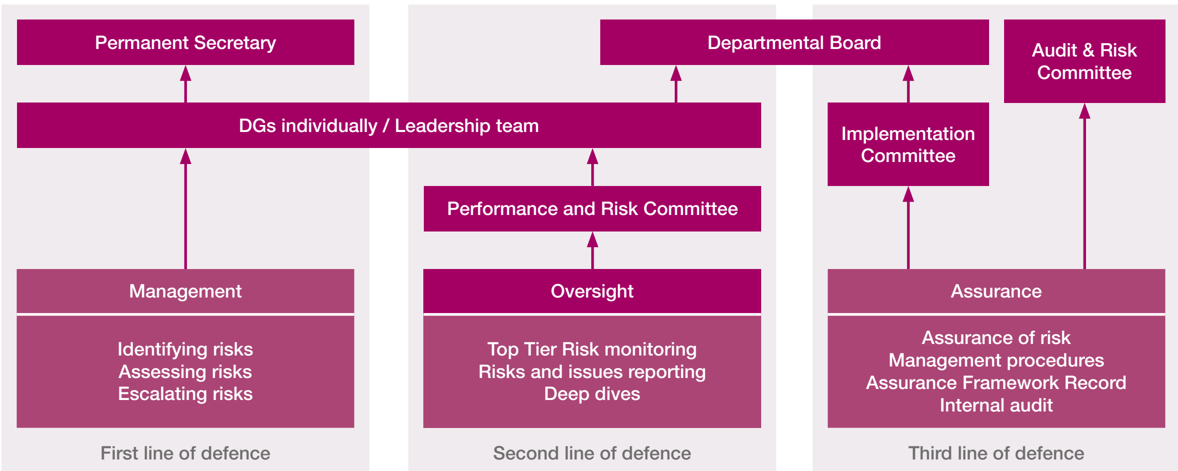
Our risk management approach seeks to devolve accountability to those best placed to effectively manage risks at the right level.

A corporate risk team acts as the central point for advice and guidance on effective risk management. The team is responsible for the effective implementation of DfE's risk management framework and co-ordinates DfE's Top Tier Risk Report, which is the route by which the most significant risks are escalated to DfE's board and committees.

The central team is also responsible for monitoring and reporting near misses and unexpected issues, ensuring measures are introduced to reduce the likelihood of issues reoccurring.

This framework is drawn against the 'three lines of defence' model recommended by HMT and widely-used across government. In this:

- the first line of defence is the effective direct management of risks by people who are clear on their role as owners of the risk, involved within the processes themselves, and supported to identify and manage risks and issues
- the second line of defence relates to the oversight arrangements in line with set policies and standards, providing support for direct management – it ensures the first line is operating as it should
- the third line of defence brings in independent challenge and assurance from people outside the executive decision-making structures to ensure the whole system is functioning effectively



Risk assurance

ARC

In order to ensure that the risk management processes and policies are fit for purpose, and that the risks captured are appropriate, ARC continually reviews risk management arrangements and practices across DfE.

Assurance Framework Record

Our SCS are accountable for implementing effective systems and controls within their areas of responsibility to identify and manage risks and are therefore required to complete an Assurance Framework Record on an annual basis. This acts as confirmation of acceptance of responsibilities and should include agreed arrangements related to appropriate governance arrangements, processes for the escalation of risks and issues, and reporting arrangements, ensuring that progress, risks and the use of resources are monitored, proactively managed and reported, and that ministers and stakeholders are appropriately involved and informed.

Risk capability improvements this year

DfE is focused on the continuous improvement of our risk management capability. During the last year we have undertaken a significant review, including facilitating deeper understanding of our underlying risks through a new series of deep dives and further enhancement to our overarching risk framework. Specifically, we have:

- refreshed our key risk management framework components, including the strengthening of escalation processes and building in our approach to issue management
- reviewed DfE's top tier risks at regular intervals to ensure they are reflective, and we are managing those risks which have greatest impact
- updated our committee responsibilities to enable improved focus on risk management
- introduced a deep dive approach to the review of our key risks at both Performance and Risk committee and Leadership Team level
- strengthened the arrangements in place with our agencies and NDPBs to improve visibility of risks, joint working and risk information flow
- further developed supporting learning material and continued to deliver risk management learning sessions across DfE

Other sources of assurance

Counter fraud, error and debt

DfE works with Cabinet Office and across government to leverage the experience and strength of other government expertise to drive down fraud within the public sector.

A dedicated central fraud team provides strategic guidance and co-ordination of activity, overseen by a nominated board member. DfE and all NDPBs adhere to cross-government, Cabinet Office led functional standards for counter-fraud activity.

Instances of fraud and error are reported to both the Cabinet Office and to ARC, through regular updates.

Where an allegation of fraud is made, a written report is provided detailing both the case and any recommendations for improvement.

Each of DfE's bodies has its own counter-fraud team, to co-ordinate local efforts. DfE and its bodies take a risk-based approach in this area, to ensure that available resources and time are focused on the highest-risk areas. Fraud risk assessments are in place across each business area and DfE undertakes fraud measurement exercises each year.

This year, DfE piloted the use of central resource to manage debt, which resulted in improved cash collection and a reduction in both DfE's year old debt and, subsequently, its impairment allowance (bad debt provision). Management of the handover of debts from our service provider to DfE debt owners resulted in reduced debt exposure. These successes justified the recruitment of a permanent debt manager to ensure continuous improvement through the challenging year of change ahead. DfE carries out a rolling programme of review of controls designed to ensure fraud, error and debt are minimised. The new processes and new policy were audited by GIAA to ensure DfE was working to best practice.

Knowledge, information and asset management

The Knowledge and Information Management (KIM) team are now ahead of schedule in terms of paper records reviews and compliance with the Public Records Act 20-year rule, and have extended this to an ambition to eradicate paper files by 2025. The team is developing a search tool to enable electronic records reviews. Migration projects are being increasingly managed in-house, saving money and improving the skills of our people as we move content to Office365 as our platform of choice. Educating DfE staff, including through a new KIM induction workshop, is further improving take up and use of Office365 applications.

The GDPR programme, owned by DfE's Chief Data Officer, made some significant data protection achievements in the year. DfE made commercial preparations, advising on contract clauses. Privacy notices were drafted and the incident reporting process was revised and promoted. A new Data Protection Officer was appointed. Education and awareness of GDPR was given the highest profile, especially leading up to 25 May 2018, when the regulation came into force. Work is in progress on data life-cycle and governance to further improve DfE's GDPR compliance.

Education of Information Asset Owners (IAOs) on their GDPR and wider responsibilities is strengthening DfE's Information Asset Register and the way in which information risks are managed. DfE took the lead in the development of an IAO learning module now hosted in Civil Service Learning.

No significant issues arose in year. Details of personal data issues reported to the Information Commissioner in 2018-19 are set out in annex B.

NDPB risk management

Each of DfE's NDPBs have their own governance structure where risk management is embedded, and so they identify and manage their own risks.

The NDPBs work in partnership with DfE which supports the work of the NDPBs and helps to manage risk jointly.

Each NDPB maintains its own risk register, the content of which is visible to DfE. Visibility of risk across the Group is essential in:

- identification of system risk
- enabling joint working across NDPBs and DfE to minimise shared risk by apportioning proportionate mitigating factors
- identification of new areas of risk
- helping spot new ways of mitigating similar risks

NDPB risks are escalated into DfE via PRC, alerting PRC as to when assistance is required, and provides assurance that risks are being managed effectively and the Group is protected.

Analytical quality assurance

DfE has made a commitment to enhance and embed quality assurance across analytical models. In April 2019 we launched the new DfE quality assurance framework, which mandates usage of these standards for all modelling, as well as expanding to wider data analysis. To support this launch, we have developed a large training programme, running April-June 2019, which will provide DfE's analytical function and those using data outputs an opportunity to attend training. Alongside this we are developing a network of quality assurance champions who will support and monitor the use of the framework.

Last year we made a commitment to assess the strength of quality assurance of business critical models. Ultimately, we prioritised the development of the new framework over such an assessment. Instead, we have liaised with the SROs for each business critical model to ensure that all models and outputs used over 2018-19 are fit for purpose and appropriate quality assurance arrangements have been implemented. We have received confirmation from all SROs that these arrangements are in place for their business critical models. Over 2019-20 we will prioritise high-risk business critical models to review and assess the quality assurance of these models.

Government's Internal Audit Agency

DfE sought assurance through internal audit provided by the Government Internal Audit Agency.

The internal audit plan is set at the beginning of the financial year, informed by a number of considerations including DfE's business plan, organisational changes and key identified areas of risk. It is reviewed by ARC, and revisited as appropriate during the year to reflect changing circumstances.

ARC reviews at each meeting all Limited and Unsatisfactory rated internal audit reports for that period. It also receives quarterly progress reports, including updates on completed and outstanding actions arising from recommendations.

Finally, I review the internal audit annual report each year, together with ARC. DfE also takes assurance from the internal audit functions of those NDPBs not covered by GIAA.

DfE benefits from other independent assurance processes such as major project reviews and NAO studies targeting areas of high risk or interest.

GIAA annual report

The GIAA's Group Chief Internal Auditor has provided me with their annual report, which incorporates her opinion on the Group's system of governance, risk management and internal control.

Of the four possible opinion ratings, the rating given by GIAA for 2018-19 was Moderate. A Moderate rating states that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. The opinion direction is made on the basis of the work and assurance provided during 2018-19 to date, meetings with senior management, and the provision of our advisory work.

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

In 2018-19, GIAA issued seven reports with assurance rated as Limited and one report with an assurance rating of Unsatisfactory, out of a total of 48 reports. This compares with 11 Limited reports and one Unsatisfactory report out of a total of 63 in 2017-18. A Limited rating states that there are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective. An Unsatisfactory rating states that there are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

The reports which received a Limited or Unsatisfactory rating are:

Limited assurance
DfE Contingent Labour
DfE Contracts Finder Compliance
Standards and Testing Agency – Test Operations Readiness
Digital, Data and Technology – Risk Management
IT Disaster Recovery
Information Governance
Independent Inquiry into Child Sex Abuse

Unsatisfactory assurance
Social Work England – Information and Technology Governance (including GDPR)

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

Departmental response to the Unsatisfactory report

The Unsatisfactory report for Social Work England – Information and Technology Governance was issued towards the end of 2018-19. Management have broadly accepted the conclusions and recommendations and an action plan is being put in place to address the identified issues.

NAO reports

Value for money studies

The NAO undertakes around 60 value for money studies each year, which Parliament use to hold the government to account for how it spends public money. Each study examines an area of government expenditure, and their objective is to form a judgement on whether value for money has been achieved.

The NAO defines good value for money as the optimal use of resources to achieve the intended outcomes. Their role is not to question government policy objectives, but to provide independent and rigorous analysis to Parliament on the way in which public money has been spent to achieve those policy objectives. As well as reaching an overall conclusion on value for money, the NAO makes recommendations on how to achieve better value for money and to improve the services under examination. More information regarding the value for money studies can be found online.

Investigations

The NAO conducts investigations to establish the underlying facts in circumstances where concerns have been raised with them, or in response to intelligence that NAO gathered through its wider work across government.

The NAO published the following reports relating to the Group in 2018-19:

Report title	NAO summary
Value for money studies	
The sale of student loans[16] (July 2018)	Examined the government's sale of its first batch of student loans, which were sold in December 2017. The report sets out the main outcomes of the sale; how government assessed value for money in deciding to sell; and how UK Government Investments managed the sale.
Ofsted's inspection of schools[17] (May 2018)	Examined Ofsted's role, its performance and its impact.
Pressures on children's social care[18] (January 2019)	Sets out recent trends in pressures on children's social care demand and activity. The report covers the response of both national and local government to these pressures and provides an analysis of what is causing variations in demand for children's social care between local authorities.
The Apprenticeships Programme[19] (March 2019)	An update from September 2016, which examined the programme's spending and budgeting, the number and type of apprenticeships; and oversight of the programme.
Investigations	
Investigation into oversight of the Student Loans Company's governance, and management of its former chief executive[20] (May 2018)	As noted in last year's ARA.

The four value for money reports above lead to the Public Accounts Committee evidence sessions detailed overleaf.

16 https://www.nao.org.uk/report/the-sale-of-student-loans/
17 https://www.nao.org.uk/report/ofsteds-inspection-of-schools/
18 https://www.nao.org.uk/report/pressures-on-childrens-social-care/
19 https://www.nao.org.uk/report/the-apprenticeships-programme/
20 https://www.nao.org.uk/report/investigation-into-oversight-of-the-student-loans-companys-governance-and-management-of-its-former-chief-executive/

Public Accounts Committee

During the year, I attended the following Public Accounts Committee meetings, on behalf of DfE:

PAC	Hearing date
Delivering STEM (science, technology, engineering and mathematics) skills for the economy	18 April 2018
Converting schools to academies	16 May 2018
Ofsted's inspection of schools	25 June 2018
Sale of student loans	10 September 2018
Academy accounts and performance	21 November 2018
Transforming children's services	4 February 2019
The Apprenticeships Programme	25 March 2019

More details on the above meetings can be found on the *PAC website*.[21]

Audit qualifications

This Group ARA has been qualified because the Group has exceeded its RAME control total by £311 million. More information concerning the breach is provided in the financial commentary on page 17.

21 https://www.parliament.uk/business/committees/Committees-A-Z/commons-select/public-accounts-committee/

Corporate governance code

With the exception of the departures explained below, DfE has complied with HMT's Corporate governance in central government departments: code of good practice.

Mike Green was appointed Chief Operating Officer and Director General of Operations. The role of Chief Finance Officer has been jointly fulfilled by two qualified accountants as required by Managing Public Money: Jonathan Clear, Director of Strategic Finance, and Iain King, Operational Finance Director.

Jonathan Clear is a member of the board, and the Leadership Team, and also attends Implementation Committee, ARC, Investment Committee and PRC meetings.

Iain King represents DfE's finance function at ARC meetings, and attends People Committee, Investment Committee and Digital, Data and Technology Committee meetings.

An assessment of the board's effectiveness is set out in the report from the lead non-executive on page 10.

Shared service provision

DfE and its agencies have an outsourced shared service arrangement for provision of certain areas of its internal finance, HR and procurement transactional processes. This arrangement has been in place since 2013.

During the year, the service provider's external assessment of the design and operation of controls (undertaken in accordance with International Standard on Assurance Engagements (ISAE 3402)) received a qualified opinion from its ISAE 3402 auditors, as a number of the controls in place at the service provider had not operated as expected. The number of exceptions was less than in the previous year, continuing the improving trend.

No impact on the accounts was identified by the auditors and further progress on addressing exceptions is expected in 2019-20. There have also been no significant failures of service during the year.

However, DfE is keen to see an improvement in the service and process quality, experienced by staff and in DfE's ability to use transactional service data to generate better quality management information. Given the combination of service and control challenges, DfE will be replacing its transactional service arrangements to ensure it operates processes that are fit for purpose, flexible, and offer the best possible support to DfE.

Conclusion

I have considered the evidence provided regarding the production of the governance statement and the independent advice and assurance provided by the ARC. I conclude that DfE has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement.

Jonathan Slater
Accounting Officer
4 July 2019

Remuneration and staff report

Overview

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

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

There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. Non-disclosure is acceptable only where publication would:

- be in breach of any confidentiality agreement
- prejudice the rights, freedom or legitimate interest of the individual
- cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted
- affect national security or where an individual may be at risk if his or her name is disclosed

In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.

Westminster departments are also required to follow guidance contained in the annual Employer Pension Notice issued by the Cabinet Office.

Remuneration part A: unaudited

Ministers' and other board members' remuneration policy

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.

Performance management and reward policy for members of the 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 the Senior Salaries Review Body (SSRB) recommendations.

SCS pay is decided by the SCS Remuneration Committee, chaired by the Permanent Secretary, and comprising members of the Leadership Team. The SCS Remuneration Committee makes decisions within the limits and delegated authorities set by the government in response to the annual report of the SSRB, who *publish additional information*.[22]

22 https://www.gov.uk/government/organisations/review-body-on-senior-salaries

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

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 the ministerial head of DfE. 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.

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

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*.[23]

Service contracts

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

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*.[24]

23 https://www.gov.uk/government/publications/civil-servants-terms-and-conditions
24 http://www.civilservicecommission.org.uk/

Remuneration part B: audited

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the ministers and most senior management (i.e. board members) of DfE. Where board members joined or left in the year annualised remuneration values have been presented in italics.

Ministers

	Salary		Pension benefits (to nearest £000)		Total	
	2018-19 £	2017-18 £	2018-19 £	2017-18 £	2018-19 £	2017-18 £
Secretary of State						
Rt Hon Damian Hinds MP (from 9 January 2018)	67,505	15,425 *(67,505)*	17,000	4,000	85,000	19,000
Ministers of State						
Rt Hon Nick Gibb MP	31,680	31,680	7,000	8,000	39,000	40,000
Rt Hon Anne Milton MP (from 12 June 2017)	31,680	25,432 *(31,680)*	7,000	6,000	39,000	32,000
Sam Gyimah MP (from 9 January 2018 to 30 November 2018)	–	–	–	–	–	–
Chris Skidmore MP (from 5 December 2018)	–	–	–	–	–	–
Parliamentary Under Secretaries of State						
Lord Agnew (from 28 September 2017)	–	–	–	–	–	–
Nadhim Zahawi MP (from 9 January 2018)	–	–	–	–	–	–

Salary costs reported for ministers above reflect the pay received for their period of appointment as a DfE minister. Where ministers move departments in month, the originating department will pay the full month's salary.

No benefits-in-kind or severence payments were paid to minsters during 2018-19 (2017-18: £nil).

Chris Skidmore MP (and previously Sam Gyimah MP) served in a joint post as Minister of State for Universities, Science, Research and Innovation with BEIS. Their ministerial salaries and pensions are paid by BEIS and disclosed in their ARA.

No remuneration was taken by Lord Agnew or Nadhim Zahawi in either year presented in this report.

Officials

	Salary		Bonus payment		Pension benefits (to nearest £000)		Total	
	2018-19 £000	2017-18 £000	2018-19 £000	2017-18 £000	2018-19 £000	2017-18 £000	2018-19 £000	2017-18 £000
Permanent Secretary								
Jonathan Slater	160-165	160-165	–	–	58	24	220-225	185-190
Directors General								
Indra Morris	135-140	135-140	5-10	–	–	–	140-145	135-140
Mike Green (from 31 October 2017)	155-160	65-70 *(155-160)*	10-15	–	60	25	230-235	90-95
Howard Orme (to 18 May 2018)	15-20 *(160-165)*	155-160	–	–	4	25	20-25	180-185
Director								
Jonathan Clear (from 31 October 2017)	100-105	40-45 *(100-105)*	–	–	59	56	160-165	95-100

No severance payments were paid to officials during 2018-19 (2017-18: £nil).

The pension benefits total for Howard Orme include £3,933 (2017-18: £11,800) of employer's contributions paid into a partnership scheme.

Indra Morris chose not to be covered by the Civil Service pension arrangements during the reporting year.

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 increase excludes increases due to inflation or any increase or decreases due to a transfer of pension rights.

Pension benefits movements are affected by duration of membership and earnings during this time and contain an actuarial calculation.

Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by DfE and thus recorded in this ARA. 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 (£77,379 from 1 April 2018) 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 DfE and is therefore shown in full in the figures above.

Four of the non-executive board members received remuneration from DfE:

	2018-19 £	2017-18 £
Richard Pennycook	28,817	–
Baroness Ruby McGregor-Smith	15,000	15,000
Toby Peyton-Jones	6,250	–
Irene Lucas	2,500	–
Marion Plant	–	12,500
David Meller	–	12,500

Benefits-in-kind

The monetary value of benefits-in-kind covers any benefits provided by DfE and treated by HMRC as a taxable emolument.

During the year 2018-19 no board members received benefits-in-kind (2017-18: nil).

Bonuses

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 2018-19 relate to performance in 2018-19 and the comparative bonuses reported for 2017-18 relate to the performance in 2017-18.

DfE awards bonuses as part of the performance management process. DfE sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high quality public services. DfE follows the performance management arrangements for the SCS, and DfE's performance management framework for managing and rewarding performance throughout the year.

Pay multiples

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

The banded remuneration of the highest-paid director in DfE in 2018-19 was £160,000-165,000 (2017-18 was £160,000-165,000). This was 4.1 times (2017-18: 4.2) the median remuneration of the workforce, which was £40,073 (2017-18: £38,755). The small increase in median remuneration is largely due to changes in the distribution of staff across DfE's grade structure, with more staff in higher grades compared to 2017-18.

In 2018-19, nil (2017-18: nil) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,000 to £165,000 (2017-18: £18,500 to £165,000).

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.

Ministerial pensions

	Accrued pension at age 65 as at 31/3/19 £000	Real increase in pension at age 65 £000	CETV at 31/3/19 £000	CETV at 31/3/18 £000	Real increase in CETV £000
Secretary of State					
Rt Hon Damian Hinds MP	0-5	0-2.5	43	24	8
Ministers of State					
Rt Hon Nick Gibb MP	5-10	0-2.5	96	79	5
Rt Hon Anne Milton MP	5-10	0-2.5	108	89	6
Sam Gyimah MP	–	–	–	–	–
Chris Skidmore MP	–	–	–	–	–
Parliamentary Under Secretaries of State					
Nadhim Zahawi MP	–	–	–	–	–
Lord Agnew	–	–	–	–	–

The CETV values presented above are as at the date ministers either joined or left DfE.

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*.[25]

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 MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

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.

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

Officials

	Accrued pension at pension age as at 31/3/19 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/19 £000	CETV at 31/3/18 £000	Real increase in CETV £000
Permanent Secretary					
Jonathan Slater	60-65 plus a lump sum of 185-190	2.5-5 plus a lump sum of 7.5-10	1,433	1,248	58
Directors General					
Indra Morris	–	–	–	–	–
Mike Green	20-25	2.5-5	317	240	35
Howard Orme (to 18 May 2018)	–	–	–	–	–
Director					
Jonathan Clear	25-30	2.5-5	306	226	25

Civil Service pensions

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: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos

25 https://www.mypcpfpension.co.uk/

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).

Employee contributions are salary-related and range between 4.6% and 8.05% of pensionable earnings for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 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 is 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.

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

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

Further details about the *Civil Service pension arrangements*[26] can be found online.

26 https://www.civilservicepensionscheme.org.uk/

Cash Equivalent Transfer Values – ministers and officials

A 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 (ministerial or official) membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the 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 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.

Real increase in CETV

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.

The real increase in the value of the CETV

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.

Compensation and payments to past directors

No payments have been made to former directors of DfE in 2018-19 (2017-18: £nil).

McCloud Judgement

In 2015 the government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination.

The government has failed in its bid to seek permission to appeal this decision. Consequently, the government expects the court will require steps to be taken to compensate employees who were transferred to the new schemes.

Impact of the Court of Appeal Ruling

At this point in time the legal process is ongoing and it is therefore not possible to say whether there will be an impact on Civil Service pension schemes, such as TPS.

Equally uncertain is the effect on public sector employers such as the Group whose staff are members of affected schemes. One outcome could be an increase in employer contribution rates following a periodic revaluation. However, due to the uncertainty we are unable to scope any response.

Staff report part A: audited

Staff costs

	2018-19					2017-18
	Group					Group
	Permanently employed staff	Ministers	Special advisers	Other	Total	Total (restated)
	£000	£000	£000	£000	£000	£000
Wages and salaries	376,570	201	161	56,666	433,598	421,908
Social security costs	44,422	15	20	2	44,459	44,052
Pension costs	72,758	–	37	5	72,800	68,836
	493,750	**216**	**218**	**56,673**	**550,857**	**534,796**
Less recoveries in respect of outward secondments	(471)	–	–	–	(471)	1
	493,279	**216**	**218**	**56,673**	**550,386**	**534,797**
Of which:						
Department and agencies	310,410	216	218	42,589	353,433	338,434
NDPBs	182,869	–	–	14,084	196,953	196,363
	493,279	**216**	**218**	**56,673**	**550,386**	**534,797**

The increase in staff costs during the year is attributable to both an increase in staff numbers and an increase in staff employed at higher grade structures (as denoted in the tables below). The restatement of 2017-18 costs has been caused by the transfer of function following HEFCE's closure on 1 April 2018. Salary costs were transferred but no staff transferred to the new BEIS body.

Staff secondments into other departments to support EU Exit work were not charged by the Group.

Average number of persons employed

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

	2018-19					2017-18
	Group					Group
	Permanently employed staff	Ministers	Special advisers	Other	Total	Total
	Number	Number	Number	Number	Number	Number
Department	4,318	6	2	155	4,481	3,706
Agencies	1,687	–	–	381	2,068	2,239
NDPBs	4,628	–	–	427	5,055	5,107
	10,633	**6**	**2**	**963**	**11,604**	**11,052**

The Group has included European school teachers in DfE staff numbers above. 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 are not applicable to teachers because they are bound by separate terms laid down by the European Schools Convention (EU treaty/law).

Pension schemes

The Group operates a range of pension schemes for its employees depending upon their role. Details of the Group's pension schemes are described further below.

Civil Service pensions

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

The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office.

For 2018-19, employers' contributions of £39.2 million (2017-18: £32.4 million) were payable to the PCSPS and CSOPS at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. It is estimated that employer contributions for 2019-20 will be £53.7 million.

The scheme 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 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Partnership pension accounts

Group employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £328,000 (2017-18: £233,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015, and from 8% to 14.75% of pensionable earning from 1 October 2015. The Group also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £14,000 (2017-18: £9,000), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and CSOPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the year end were £30,000 (2017-18: £23,000). Contributions prepaid at that date were £nil (2017-18: £nil).

Reporting of Civil Service and other compensation schemes

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

- employees who agreed to leave during the year and left by 31 March 2019
- employees who have committed to leave by 31 March 2019, for whom the exit packages have been accrued.

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 and agencies

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
Exit package cost band	**2018-19**	**2017-18**	**2018-19**	**2017-18**	**2018-19**	**2017-18**
£25,001-£50,000	–	–	–	3	–	3
£50,001-£100,000	–	–	3	–	3	–
£100,001-£150,000	–	–	1	–	1	–
Total number of exit packages	**–**	**–**	**4**	**3**	**4**	**3**
Total costs (£000)	**–**	**–**	**400**	**87**	**400**	**87**

Group

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
Exit package cost band	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<£10,000	–	4	2	1	2	5
£10,001-£25,000	2	2	7	5	9	7
£25,001-£50,000	1	2	2	10	3	12
£50,001-£100,000	1	3	11	5	12	8
£100,001- £150,000	–	–	1	1	1	1
Total number of exit packages	**4**	**11**	**23**	**22**	**27**	**33**
Total costs (£000)	**136**	**291**	**1,246**	**805**	**1,382**	**1,096**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. 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 agencies are borne and managed centrally by DfE. Information on departure costs and numbers for each agency are also reported in the individual agency's ARA to aid transparency.

Ill-health retirement costs are met by the pension scheme and are not included in the table. Seven persons (2017-18: one person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £57,000 (2017-18: £27,000).

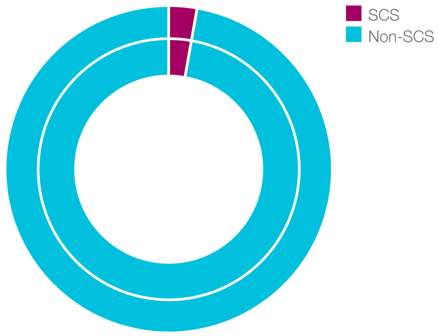
Staff report part B: unaudited

Staff by grade and gender

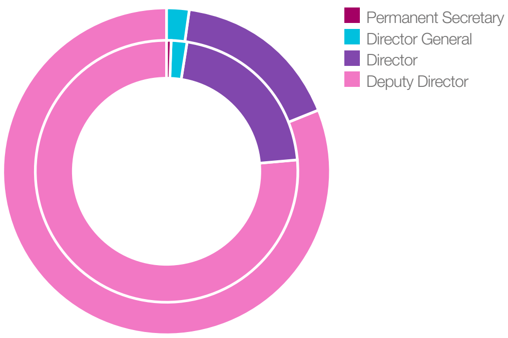
The charts below cover permanent staff as at 31 March 2019, based on headcount. The disclosures have been calculated using data received from DfE (including European school teachers), agencies and NDPBs.

2018-19	Male number	Female number
Permanent Secretary	1	–
Director General	4	4
Director	33	30
Deputy Director	122	144
Non-SCS	4,949	6,227
	5,109	**6,405**

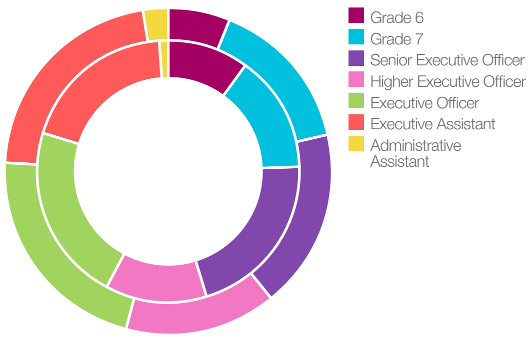
Group staff by gender
(Inner ring – male, outer ring – female)



SCS staff by gender
(Inner ring – male, outer ring – female)



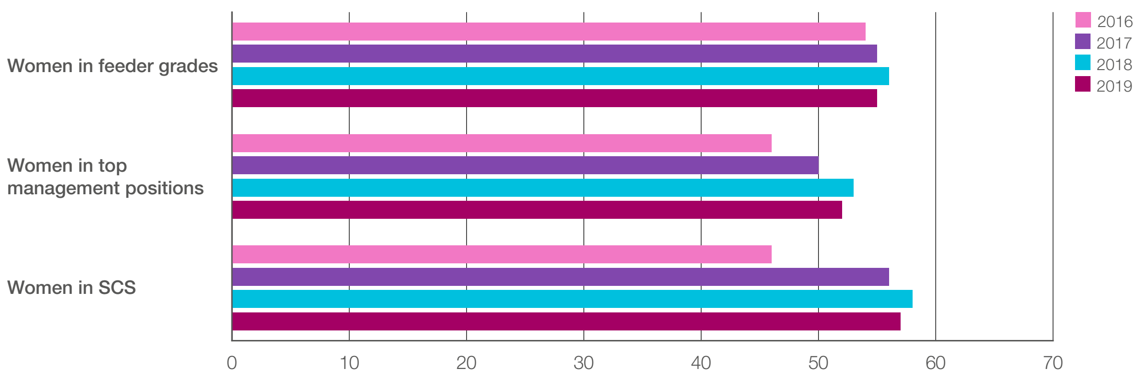
Non-SCS staff by gender
(Inner ring – male, outer ring – female)



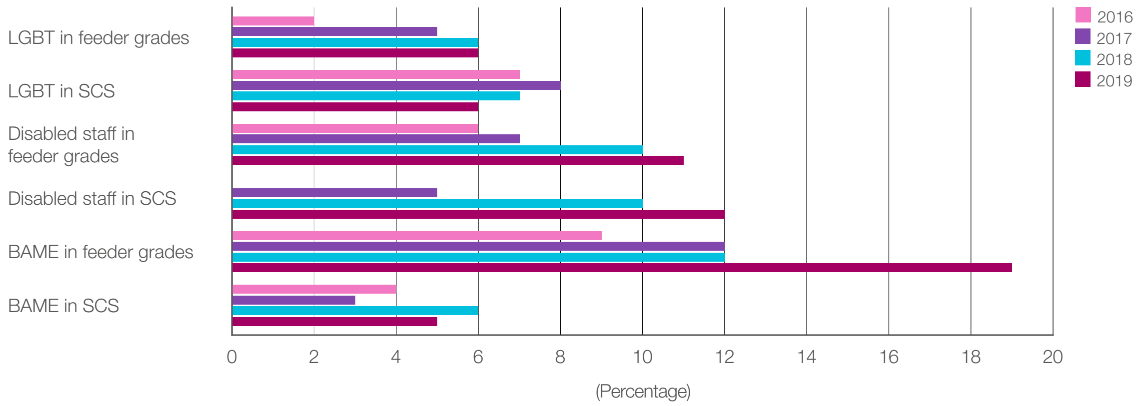
Addressing under-representation

The diversity and inclusion strategy introduced specific targets for the representation of BAME and disabled staff in the SCS for the first time. The targets, which have been agreed with Cabinet Office, are 8.3% and 9% for disabled and BME staff respectively by 2020, and 12% and 13% by 2023.

Under-representation – Women



Under-representation – LGBT, disabled and BAME



Analysis of staff policies and statistics

Our people

Recruitment practice

DfE has a duty to ensure it is fully compliant with the Civil Service Commissioner's recruitment principles. DfE's approach to recruitment reflects its commitment to become a more inclusive employer. To build core recruitment capability and ensure consistent application of the new Civil Service wide Success Profiles framework, DfE invested in providing bespoke recruitment training and made this mandatory for anyone running a new campaign.

Sickness absence

Figures below show the average number of working days lost through sickness absence across DfE and agencies.

	2018-19	2017-18	2016-17
Days per FTE	4.0	3.9	4.0

The figure above compares well with figures across the Civil Service, which were 6.9 average working days lost per full time equivalents (FTE) in the year ending *31 March 2018*[27] (30 June 2017: 6.8 average workings days).

Commitment to improving diversity

DfE has received recognition for its efforts on diversity in external benchmarking exercises. Over the last year it has been named as one of the Top 100 Employers for Race, ranked 56th in the Stonewall Index, out of nearly 500 employers, and 18th in the Social Mobility Employer Index, climbing from 49th the previous year.

Since the summer of 2018, 55 Fair Treatment Ambassadors have been appointed to provide advice and support in cases of bullying and harassment, and DfE now has around 70 fully trained mental health first aiders, to provide support for individuals and managers and to increase awareness of mental health issues within DfE.

The 2018 People Survey saw DfE's positive score for inclusion and fair treatment rise to 83%. The overall engagement score was also up at 65%.

The representation of BAME and disabled employees in our SCS ranks has continued to be a priority. The percentage of SCS who reported that they had a disability at 31 March 2019 was 12%, which is an increase from the 10% of a year previously. The percentage of SCS who are BAME was 5%, and this is an area that requires considerable improvement.

There was a large increase in the percentage of our employees recording their diversity information. As at 31 March 2019, 89% had provided information about their ethnicity, 88% about their sexual orientation, and 71% about their disability status.

Training throughout the period has focused on increasing awareness and boosting management capability in diversity and inclusion. Training

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

courses and workshops have included inclusive leadership sessions, unconscious bias workshops, allies training delivered by Stonewall, mental health awareness and well-being confident leader workshops.

DfE's 11 diversity networks continued to thrive, and there were numerous diversity themed blogs, lunch and learn sessions and other diversity related events across all Departmental locations.

Staff policies for disabled persons

DfE gained Disability Confident Leader Level 3 status in 2017. This means it is seen as a champion for disability confidence, with a role in supporting other employers to become disability confident, particularly its NDPBs.

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

Gender pay gap reporting

DfE's median gender pay gap as at June 2018 was 5.6%. The previous figure as at June 2017 was 5.9%. The figure for 2019 is not available at the time of publication. The figure will be published by the *Government Equalities Office*[28] late in 2019 and will be included in the Group's 2019-20 ARA.

Engagement with employees

DfE and 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.

DfE has developed a Strategic Workforce Plan 2017-20 which aims to improve the experience and outcomes for all our staff, ensuring our talented workforce is diverse and inclusive and that we create an attractive place to work. In order to meet these aims, the Strategic Workforce Plan focuses on five 'workforce priorities'. We will use these priorities to monitor our performance, using the following measures:

Workforce priority	Measure 1	Measure 2	Measure 3
Create an inclusive workforce that supports social mobility	Increased representation and declaration rates across all diversity groups.	Number of level 2 and 3 apprenticeship starts increased across DfE to 150/year.	Top 40 employer – Social Mobility Employer Index Ranking.
Develop effective leaders	'My Manager' results in the People Survey increase from 74% (2017).	Number of direct reports per manager increased to 1:4 by the end of 2018-19 and fewer 1:1 reporting relationships.	SCS Performance Management Framework more aligned with EA-G6 framework.
Establish a coherent locations footprint	Maintain the London workforce at no more than 2,300 FTE during 2018-19.	Number of functions/work areas based in 1-2 main sites increased by 2020.	Number of SCS based in regional locations aligns with the proportion of our workforce based in regional locations.
Attract highly skilled talent	Proportion of vacancies filled through recruitment exercises increased from 60% to 75%.	Average time to hire reduced to 50 working days.	Increased diversity of applicants and appointments to reflect the public we serve.
Build internal skills and capability	'L&D has helped to improve my performance' results in the People Survey (currently 54% in 2017).	Fewer capability gaps reported by groups as part of future workforce planning activity.	More people participating in L&D opportunities, including leadership and talent development programmes.

28 https://www.gov.uk/government/organisations/government-equalities-office

DfE conducts a full People Survey annually, with the results published each December.

	2018-19	2017-18	2016-17
Response rate	91%	88%	92%
Engagement index	65%	63%	62%

The information from the survey is being used to support development of DfE's strategies and continually improve our levels of employee engagement.

Consultancy and temporary staff

Consultants are hired to work on projects in a number of specific situations:

- where the Group does not have the skill sets 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 Group needs. We are committed to the consistent application of the *Cabinet Office's 2010 controls on consultancy and other spending.*[29]

For DfE and its agencies, spend on consultancy requires completion of a business case which is signed off by a SCS. 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 nine months, or are for procurement related consultancy, they are subject to Cabinet Office controls.

The Group's consultancy expenditure was as follows:

	2018-19 £m	2017-18 £m	2016-17 £m
Department	12.0	9.0	6.0
Agencies	1.1	0.4	0.1
NDPBs	–	5.2	6.0
	13.1	**14.6**	**12.1**

This expertise was mainly used to support change programmes across the Group and specialist research contracted out to third parties.

The Group 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 was as follows:

	2018-19 £m	2017-18 £m	2016-17 £m
Department	43.0	27.2	22.5
Agencies	0.8	9.1	13.9
NDPBs	13.1	14.0	14.5
	56.9	**50.3**	**50.9**

29 https://www.gov.uk/government/collections/cabinet-office-controls

Review of tax arrangements of public sector appointees

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, during 2018-19.

The tables on the following pages set out this information. Where agencies and NDPBs are not named in the tables below, that body does not have any discloseable engagements.

For all off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months

	Department	ESFA	STA	IFATE	SLC	CITB	Group
Number of existing engagements as at 31 March 2019	63	27	28	1	45	20	184
Of which:							
less than one year at time of reporting	37	2	7	–	19	9	74
between one and two years at time of reporting	10	10	15	1	22	4	62
between two and three years at time of reporting	11	1	6	–	4	5	27
between three and four years at time of reporting	3	7	–	–	–	1	11
four or more years at time of reporting	2	7	–	–	–	1	10

All new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months

	Department	STA	IFATE	CITB	ECITB	Group
Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	41	1	5	18	1	66
Of which:						
Number assessed as caught by IR35	22	1	–	–	–	23
Number assessed as not caught by IR35	19	–	5	18	1	43
Number engaged directly (via PSC contracted to Department) and are on the departmental payroll	–	–	–	–	–	–
Number of engagements reassessed for consistency/assurance purposes during the year	12	1	–	–	–	13
Number of engagements that saw a change to IR35 status following the consistency review	–	–	–	–	–	–

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019

	SLC	SWE	Group
Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year	2	1	3
Total number of individuals on- and off-payroll that have been deemed board members and/or senior officials with significant financial responsibility, during the financial year. This figure should include both on- and off-payroll engagements	13	13	164

Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 requires relevant public sector organisations to report on trade union facility time in their organisations. 2018-19 is the second year of reporting.

Relevant union officials

	Department and agencies	
	2018-19	2017-18
No. of employees	23	20
Full-time equivalent employee numbers	5,597	5,840

The full-time equivalent employee numbers are those as at March 2019 for DfE and agencies. These numbers are different to those disclosed for DfE and agencies within the average number of persons employed table on page 82, which reports the monthly average number of staff over the full year, as opposed to the number of staff in employment at the end of the year.

Percentage of time spent on facility time

	Department and agencies	
	2018-19	2017-18
% of time	Number of employees	Number of employees
0%	–	–
1-50%	23	20
51-99%	–	–
100%	–	–

Percentage of pay bill spent on facility time

	Department and agencies	
Item	2018-19	2017-18
Total cost of facility time	£13,437	£18,778
Total pay bill (£m)	£250.2	£314.8
% of the total pay bill against facility time	0.005%	0.006%

Paid trade union activities

The percentage of hours spent by employees who were relevant union officials during the relevant period on paid trade union activities was 1.54% (2017-18: 5.8%).

Staff redeployments

Grade	Defra No.	OGDs No.	2019 Total No.
Director	–	1	1
Grade 6	7	5	12
Grade 7	40	5	45
Senior Executive Officer	51	–	51
Higher Executive Officer	58	7	65
Executive Officer	21	–	21
Executive Assistant	1	1	2
	178	**19**	**197**

The average duration of staff redeployments as at 31 March 2019 was 29 days.

The estimated annual cost, based on average staff salaries, to admin and programme budgets.

	Defra £m	OGDs £m	Total £m
Admin	8.8	1.3	10.1
Programme	0.5	–	0.5
Total	**9.3**	**1.3**	**10.6**

Parliamentary accountability and audit report

Overview

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

Statement of Parliamentary Supply: audited

For the year ended 31 March 2019

Summary of resource and capital outturn 2018-19

		2018-19							2017-18
		Estimate			Outturn				Outturn
	Note	Voted £000	Non-voted £000	Total £000	Voted £000	Non-voted £000	Total £000	Voted outturn compared with Estimate: saving/ (excess) £000	Total £000
DEL									
Resource	S1	77,976,691	–	77,976,691	67,900,431	–	67,900,431	10,076,260	73,334,294
Capital		5,524,370	–	5,524,370	5,401,824	–	5,401,824	122,546	4,907,374
AME									
Resource	S1	(1,340,546)	–	(1,340,546)	(1,029,469)	–	(1,029,469)	(311,077)	(1,588,729)
Capital		22,752,800	–	22,752,800	15,630,828	–	15,630,828	7,121,972	15,771,439
Total budget		**104,913,315**	**–**	**104,913,315**	**87,903,614**	**–**	**87,903,614**	**17,009,701**	**92,424,378**
Total		**104,913,315**	**–**	**104,913,315**	**87,903,614**	**–**	**87,903,614**	**17,009,701**	**92,424,378**
Total resource		76,636,145	–	76,636,145	66,870,962	–	66,870,962	9,765,183	71,745,565
Total capital		28,277,170	–	28,277,170	21,032,652	–	21,032,652	7,244,518	20,678,813
Total		**104,913,315**	**–**	**104,913,315**	**87,903,614**	**–**	**87,903,614**	**17,009,701**	**92,424,378**

Net cash requirement 2018-19

	2018-19		2018-19	2017-18
Note	Estimate £000	Outturn £000	Outturn compared with Estimate: saving/(excess) £000	Outturn £000
S3	87,270,239	80,686,981	6,583,258	77,865,012

Administration costs 2018-19

	2018-19		2017-18
Note	Estimate £000	Outturn £000	Outturn £000
S1	515,287	490,999	528,352

Figures in the areas outlined in bold above 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.

Explanation of variances between Estimate and outturn are given in the commentary on significant variances between Estimate and outturn in the financial review of the year on page 16.

The Group has incurred an excess of Resource AME because there was an unexpected downward movement in the RPI used to calculate the year end student loan balances against the RPI level forecast by the OBR that was used to set the budget for the assets in the Supplementary Estimate. The change in RPI had an impact on student loan effective interest income, which continues to be recognised for budgetary purposes, for student loans. This meant there was a lower level of effective interest created than expected which gave rise to the higher control total. DfE will seek Parliamentary approval by way of an excess vote in the next Supply and Appropriation Act.

The notes on pages 95-100 form part of this Statement of Parliamentary Supply.

Notes to the Statement of Parliamentary Supply: audited

S1 Net outturn

S1.1 Analysis of net resource outturn by section

	2018-19										2017-18
							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
Spending in DEL											
Voted expenditure:											
Activities to Support all Functions	378,448	(49,538)	328,910	59,013	(40,348)	18,665	347,575	371,580	24,005	20,272	350,415
School Infrastructure and Funding of Education (Department)	–	–	–	222,291	(8,615)	213,676	213,676	488,407	274,731	120,095	179,112
School Infrastructure and Funding of Education (ALB) (net)	(1,462)	–	(1,462)	(15,203)	–	(15,203)	(16,665)	3,301	19,966	19,966	21,903
Education Standards, Curriculum and Qualifications (Department)	–	–	–	4,498,315	(60,514)	4,437,801	4,437,801	4,500,037	62,236	62,236	4,235,527
Social Care, Mobility and Equalities (Department)	–	–	–	322,223	(789)	321,434	321,434	330,964	9,530	9,530	192,031
Social Care, Mobility and Equalities (ALB) (Net)	1,732	–	1,732	2,729	–	2,729	4,461	11,380	6,919	6,919	21,244
Standards and Testing Agency	3,428	–	3,428	58,119	(26)	58,093	61,521	62,937	1,416	1,416	53,445
National College for Teaching and Leadership	213	–	213	6,148	–	6,148	6,361	7,325	964	998	398,268
Education and Skills Funding Agency (ESFA)	77,113	(559)	76,554	3,526,685	(199,552)	3,327,133	3,403,687	4,026,885	623,198	623,198	3,270,782
Grants to LA Schools via ESFA	–	–	–	29,642,268	(534)	29,641,734	29,641,734	29,599,699	(42,035)	–	30,027,073
Grants to Academies via ESFA	–	–	–	20,705,172	–	20,705,172	20,705,172	20,592,571	(112,601)	–	18,660,914
Higher Education	–	–	–	7,194,594	(62,618)	7,131,976	7,131,976	16,331,385	9,199,409	9,168,584	13,934,480
Further Education	–	–	–	106,652	–	106,652	106,652	147,835	41,183	41,183	242,192
Skills Funding Agency	–	–	–	–	–	–	–	–	–	–	–
Higher Education (ALB) (net)	74,484	–	74,484	1,447,526	–	1,447,526	1,522,010	1,487,486	(34,524)	–	1,738,716
Further Education (ALB) (net)	7,140	–	7,140	5,896	–	5,896	13,036	14,899	1,863	1,863	8,192
Total spending in DEL	**541,096**	**(50,097)**	**490,999**	**67,782,428**	**(372,996)**	**67,409,432**	**67,900,431**	**77,976,691**	**10,076,260**	**10,076,260**	**73,334,294**

	2018-19										2017-18
							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
Spending in AME											
Voted expenditure:											
Activities to Support all Functions (Department)	–	–	–	(7,690)	–	(7,690)	(7,690)	(17,640)	(9,950)	(9,950)	(10,003)
Activities to Support all Functions (ALB)	–	–	–	228	–	228	228	–	(228)	(228)	28
Executive Agencies	–	–	–	5,815	–	5,815	5,815	(136)	(5,951)	(5,951)	(4,987)
Higher Education	–	–	–	2,972,471	(4,003,777)	(1,031,306)	(1,031,306)	(1,323,275)	(291,969)	(291,969)	(1,620,985)
Further Education	–	–	–	–	(12,107)	(12,107)	(12,107)	–	12,107	12,107	(12,925)
Skills Funding Agency	–	–	–	–	–	–	–	–	–	–	–
Higher Education (ALB)	–	–	–	1,732	–	1,732	1,732	296	(1,436)	(1,436)	(13,587)
Further Education (ALB) (net)	–	–	–	13,859	–	13,859	13,859	209	(13,650)	(13,650)	73,730
Total spending in AME	**–**	**–**	**–**	**2,986,415**	**(4,015,884)**	**(1,029,469)**	**(1,029,469)**	**(1,340,546)**	**(311,077)**	**(311,077)**	**(1,588,729)**
Total budget	**541,096**	**(50,097)**	**490,999**	**70,768,844**	**(4,388,881)**	**66,379,963**	**66,870,962**	**76,636,145**	**9,765,183**	**9,765,183**	**71,745,565**

S1.2 Explanation of variances

Commentary of the variances of outturn to Estimate are provided in the financial review of the year starting on page 16.

S1.3 Analysis of net capital outturn by section

	2018-19						2017-18
			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	Total £000
Spending in DEL							
Voted expenditure:							
Activities to Support all Functions	85,504	(1)	85,503	86,380	877	877	42,173
School Infrastructure and Funding of Education (Department)	1,786,856	(292,389)	1,494,467	1,482,175	(12,292)	–	2,130
School Infrastructure and Funding of Education (ALB) (net)	(4,185)	–	(4,185)	13,716	17,901	17,901	67,983
Education Standards, Curriculum and Qualifications (Department)	6,077	–	6,077	11,024	4,947	4,947	398
Social Care, Mobility and Equalities (Department)	6,856	(344)	6,512	6,053	(459)	–	(50)
Social Care, Mobility and Equalities (ALB) (net)	2,304	–	2,304	2,636	332	332	631
Departmental Unallocated Provision	–	–	–	–	–	–	–
Standards and Testing Agency	1,981	–	1,981	1,955	(26)	–	2,295
National College for Teaching and Leadership	–	–	–	–	–	–	–
Education and Skills Funding Agency (ESFA)	202,968	(13,327)	189,641	183,392	(6,249)	–	1,477,732
Grants to LA Schools via ESFA	2,317,919	(16,463)	2,301,456	2,430,536	129,080	16,462	2,319,697
Grants to Academies via ESFA	1,037,248	(14,197)	1,023,051	1,016,559	(6,492)	–	762,546
Higher Education	119,521	–	119,521	18,161	(101,360)	–	17,516
Further Education	8,653	(169)	8,484	57,244	48,760	34,500	106
Skills Funding Agency	–	–	–	–	–	–	–
Higher Education (ALB) (net)	166,859	-	166,859	213,657	46,798	46,798	214,098
Further Education (ALB) (net)	153	–	153	882	729	729	118
Total spending in DEL	**5,738,714**	**(336,890)**	**5,401,824**	**5,524,370**	**122,546**	**122,546**	**4,907,373**

	2018-19						2017-18
	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	£000
Spending in AME							
Voted Expenditure:							
Activities to Support all Functions (Department)	–	–	–	–	–		–
Activities to Support all Functions (ALB)	–	–	–	–	–		–
Executive Agencies	–	–	–	–	–		–
Higher Education AME	20,262,386	(4,845,046)	15,417,340	22,332,280	6,914,940	6,914,940	15,565,362
Further Education AME	242,836	(31,203)	211,633	417,720	206,087	206,087	205,387
Skills Funding Agency AME	–	–	–	–	–	–	–
Higher Education (ALB) AME	–	–	–	–	–	–	–
Further Education (ALB) (net)	1,855	–	1,855	2,800	945	945	945
Total spending in AME	**20,507,077**	**(4,876,249)**	**15,630,828**	**22,752,800**	**7,121,972**	**7,121,972**	**15,771,439**
Total budget	**26,245,792**	**(5,213,140)**	**21,032,652**	**28,277,170**	**7,244,518**	**7,244,518**	**20,678,812**

S1.4 Explanation of variances

Commentary of the variances of outturn to Estimate are provided in the financial review of the year starting on page 16.

S2 Reconciliation of outturn to net operating expenditure

		2018-19	2017-18
	Note	Outturn £000	Outturn (restated) £000
Total resource outturn in Statement of Parliamentary Supply			
Budget	S1	66,870,962	71,745,565
Non–budget	S1	–	–
		66,870,962	**71,745,565**
Add:			
Capital grant	5.2	5,065,439	4,181,807
Other capital expenditure		15,939	–
Utilisation of financial guarantee	19	–	13,452
Less:			
Income payable to the Consolidated Fund	S4	(6,629)	(96)
Capital grant income		(24,436)	(40,975)
Pension asset income		–	(3,873)
Other adjustments		(36,386)	(36,039)
Net operating cost in SoCNE		**71,884,889**	**75,859,841**

Other adjustments include the impact of intra-Group transactions and other differences.

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	76,636,145	66,870,962	9,765,183
Capital outturn	S1	28,277,170	21,032,652	7,244,518
		104,913,315	**87,903,614**	**17,009,701**
Accruals to cash adjustments:				
Adjustment for NDPBs:				
Remove voted resource and capital		(1,751,209)	(1,705,647)	(45,562)
Add cash grant in aid		1,796,682	1,722,693	73,989
Adjustments to remove non-cash items:				
Depreciation, amortisation and impairment	6.2	(15,646,276)	(11,087)	(15,635,189)
New provision and adjustment to previous provision	18	(59,106)	(40,833)	(18,273)
Other non-cash adjustments		(2,092,053)	(6,439,756)	4,347,703
Adjustments to reflect movements in working balances:				
Movement in receivables	SoCF	–	(107,228)	107,228
Movement in payables	SoCF	41,947	(741,241)	783,188
Use of provision	18	66,939	89,013	(22,074)
Use of financial liabilities	19	–	17,453	(17,453)
Net cash requirement		**87,270,239**	**80,686,981**	**6,583,258**

S4 Income payable to the Consolidated Fund

S4.1 Analysis of income payable to the Consolidated Fund

	Outturn 2018-19		Outturn 2017-18	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income outside the ambit of the Estimate	6,629	*6,629*	96	*96*
Excess cash surrenderable to the Consolidated Fund	1,934,265	*1,934,265*	1,714,901	*1,714,901*
Total income payable to the Consolidated Fund	**1,940,894**	***1,940,894***	**1,714,997**	***1,714,997***

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: audited

Public sector losses and special payments

A1 Losses statement

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

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
Total number of cases	**37,457**	**37,528**	**38,243**	**38,356**
	£000	**£000**	**£000**	**£000**
Cash losses	604	613	394	394
Fruitless payments and constructive losses	1,842	1,845	8,983	8,990
Claims waived or abandoned	79,557	79,557	67,381	67,381
Store losses	61	72	–	–
	82,064	**82,088**	**76,758**	**76,765**

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

	Value of fruitless and constructive losses £000
Sunk costs written-off	455

Sunk costs written-off

During the year the Group wrote-off investment into the National College for Creative and Cultural Industries due to the project being paused.

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

	Value of claims £000
FE sector loans	
Redcar and Cleveland College	3,251
North Shropshire College	6,079
Accrington and Rossendale College	3,475
Cornwall College	6,934
Prospect College of Advanced Technology	1,762
Lambeth College	10,610
Bradford College	9,274
Kirklees College	2,800
Stoke on Trent College	4,475
Stockport College	8,350
Coulsdon College	850
Overpaid grant recoveries	
Future Tech Studio School	317
Bolton Wanders Free School	353
Robert Owen Academy Trust	662
Re-brokerage debt forgiveness	
Heathrow Aviation Engineering UTC	543
UTC Plymouth	451
Rye Academy	889
Student loans	
Write-off of employer deductions	2,671
Interest forgone	14,655

FE sector loans

The Group provides exceptional financial support and restructuring facility support to colleges when funding is urgently required to meet college liabilities in order to protect education and training provision for learners. The policy intent was to provide funding as a loan wherever possible. Where a loan repayment schedule cannot be agreed immediately, funding is provided as conditional grant with one of the conditions being that it will be converted to a loan subject to the Group's determination. In very exceptional circumstances a non-repayable grant may have been provided. The affordability of repaying exceptional financial support loans or conditional grants has been considered alongside the requirement for restructuring funding, and in some cases ministers in DfE and HMT have agreed to waive the repayment of the exceptional financial support in cases where it is necessary to implement a long term solution which puts the college on a sound financial footing. The list above is of colleges where a repayment over £300,000 has been waived.

Unrecoverable grant over-payments

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

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

Re-brokerage debt forgiveness

Balances owed by academies may in some circumstances be waived to facilitate the re-brokerage of the academy to a more sustainable academy trust.

Student loans

HMRC collects on behalf of DfE student loan repayments collected from borrowers by employers through the tax system. During 2018-19, £2.7 million (2017-18: £2.5 million) was written off in respect of student loan repayments which have been collected by the employer from the borrower but were uncollectable by HMRC, normally because of employer insolvency. The number of cases relating to these losses is 36,602 (2017-18: 37,678).

An IT system issue occurred at SLC causing interest on student loans to be undercharged in cases where borrowers reported a change of circumstances (CoC) between 2012 and 2017, such as withdrawal or change of course, causing the interest accrued for the period prior to the CoC to be removed from the borrower's loan balance. Following an assessment of value for money for this particular case, DfE has recognised £14,655,000 as a waived claim. The error has been fixed to prevent further new cases arising.

A2 Special payments

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
Total number of cases	25	1,542	18	1,222
	£000	£000	£000	£000
Total value	4,825	4,998	2,900	3,200

A2.1 Special payments over £300,000

	Special payments £000
Legal settlement	3,000
REAch2 Academy Trust	414

Legal settlement

During the year the Group settled a dispute, out of court, with a third party. The value of the settlement was £3 million.

REAch2 Academy Trust

The special payment was made to support the conversion of Springfield Primary School into the REAch2 Academy Trust. The payment supported the sponsor in recruiting additional staff for school improvement activities such as curriculum restructure. Birmingham City Council supported the school's conversion by providing funds for deficit removal, capital improvements and staff reorganisation.

Group volumes

The high volume of Group disclosures includes 1,515 cases (2017-18: 1,203 cases) from SLC, but with a total value of just £118,000 (2017-18: £91,000).

A3 Student loans written off in year

	2018-19		2017-18	
	Department and agencies £m	Group £m	Department and agencies £m	Group £m
Due to:				
Death	21.1	21.1	24.2	24.2
Age	10.0	10.0	10.7	10.7
Disability	1.2	1.2	1.8	1.8
Because of bankruptcy, on completion of individual voluntary arrangement, and other	0.3	0.3	–	–
Access to Higher Education	25.0	25.0	20.3	20.3
	57.6	**57.6**	**57.0**	**57.0**

A4 Remote contingent liabilities

In addition to contingent liabilities reported within the meaning of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) (see note 23 to the accounts), the Group also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the accounting standard's definition of contingent liability.

A4.1 Quantifiable

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 2018 £m	Increase in year £m	Crystallised in year £m	Expired in year £m	31 March 2019 £m	Amount reported[1] £m
Property-based						
Academy trust rental support	21.0	–	–	(5.0)	16.0	–
Planning risk	1.1	–	–	–	1.1	–
Asset management costs	0.3	–	–	–	0.3	–
Other						
PFI contracts in the academy sector	8,500.0	750.0	–	–	9,250.0	8,500.0
USS guarantor	5.0	–	–	–	5.0	–
Academy closure costs	2.0	–	–	–	2.0	–
Free school Principal designates	1.6	0.6	–	(1.3)	0.9	–
Conditions of grant aid	0.4	–	–	(0.4)	–	–
	8,531.4	**750.6**	**–**	**(6.7)**	**9,275.3**	**8,500.0**

Note: (1) Amount reported to Parliament by departmental minute

Property-based

Academy trust rental support

The Group has entered into agreements with some landlords of academy trusts to support landlords in the event of under-performance of their academy trust tenants. The agreements create obligations on the Group to identified landlords to pay monies over if the academy trust operating from the site fails to perform under its lease. The agreements were entered into to support the smooth opening of various academies and free schools.

Planning risk

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

The purchase price is to be index linked using RPI from completion of purchase to the date of the overage payment to establish the overage due.

Asset management costs

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

Other

Academy-sector PFI contracts

The contingent liability arises from support DfE may provide local authorities for their Private Finance Initiative (PFI) arrangements. These contingent liabilities are the result of the Group, acting as an agent to the Secretary of State, agreeing to provide an indemnity to local authorities for potential costs on buildings they own but manage through existing PFI arrangements. The properties are used by academies.

This type of indemnity is considered low risk and is only a feature of the academy programme in very specific circumstances.

Universities Superannuation Scheme guarantor

DfE acts as guarantor for OfS's obligations to the Universities Superannuation Scheme (USS). HEFCE's status as a scheme employer transferred to OfS as part of the property and staff transfer in 2018. This was a condition of OfS's admission to the USS as a scheme employer, and allowed staff transferring from HEFCE to continue to participate as employees of OfS.

In the event of a future transfer or winding up of OfS, DfE will guarantee that employer pension liabilities will continue to be met either by a successor body, or by DfE, in the event that no other body assumes the OfS's functions. DfE will act as guarantor following the OfS's admission to the USS, for the handful of staff transferring in from HEFCE who are currently on the USS scheme.

Academy closure costs

To provide an indemnity of up to £2 million to protect Inspiration Trust (regarding Great Yarmouth High School) against potential closure costs of the academy in the event that the separate charitable foundation which owns the site withdraws consent for the academy to operate from the current site.

Free schools for Principal designates

The Group underwrites the salaries of Principal designates, or other key essential teaching staff, of new free schools, UTCs or studio schools before they open and receive operational grant funding.

A4.2 Unquantifiable

Junior ISA account

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

To be eligible for the JISA, a child must be looked after for at least one year. 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, DfE will be required to settle the initial payment of £200 on the claimant.

Student loan sales

Each sale of student loans necessitated separate but similar warranties and indemnities to secure interest and obtain value for money from investors into the securitisation transactions. Each suite of obligations is separate from other sales, and there is no risk of cross-over, a failure for one sale does not automatically trigger failures for other sales.

These contingent liabilities are in respect of:

- A warranty to provide investors compensation for policy changes which reduce cash flows to investors. This is because the terms of the loans remain within government control, and there is nothing investors can do to influence this. The liability will exist for the life of the securitisation transaction, and it will expect to expire by 2056 for the December 2017 loan sale, and 2058 for the December 2018 loan sale. The likelihood of crystallisation is low.
- The need to repurchase all of the student loans as a remedy for investors if:
  - collection of repayments for the sold loans through the UK tax system by HMRC ceased
  - RPI used to calculate the interest rate of the loans was abolished without a substitute being put in place
  - there was a problem with the collection of loan repayments that could not be remedied for three consecutive annual payment dates
  - there is government policy that is implemented relating to forgiveness of student loan repayments for borrowers who are, or become, teachers pursuant to which any securitised student loan is (in whole or in part) cancelled, reduced in balance or written-off

The likelihood of any of these scenarios materialising is very low.

- An indemnity given to investors to cover potential losses if a 'servicing event' is triggered and is incurable, or cannot be cured within a reasonable time. Investors are not able to change the servicer (unlike for a typical commercial transaction) and therefore an indemnity is their only recourse in the event that the servicing is not in line with the contractually agreed standard. The liability is expected to be live for the life of each securitisation transaction, i.e. up to around 30 years, and will reduce over time.
- Indemnities given to the joint lead managers if they (or their employees, directors or affiliates) suffer any loss as a result of misrepresentation, misleading statement or omissions or breach of duty by government. All of the liabilities are expected to be live for the life of each securitisation transaction, i.e. up to around 30 years.
- Indemnities have also been provided to certain other parties connected to each securitisation transaction to cover any loss from DfE (acting as Master Servicer) failing in its performance of certain duties. These include acting with negligence, fraud, wilful default, infringement of intellectual property rights, failing to provide a remedial plan or a cure within a certain timeframe.

Cost allocation and charges

As a public sector information holder, the Group was compliant with HMT's issued guidance on cost allocation and charging for information services in 2018-19.

Government guarantee

The government is working to agree an EU Exit deal which works for the whole of the UK and an important part of this process is giving certainty to businesses and citizens. Leaving the EU with a deal remains the government's top priority. In the event that the UK leaves the EU without a deal, the UK will leave the EU Budget meaning UK organisations would no longer receive future funding for projects under EU programmes. The Chancellor of the Exchequer has announced that the UK government will guarantee EU projects agreed before we leave the EU, to provide more certainty for UK organisations over the course of EU Exit.

In the event of a no deal and the triggering of the Government Guarantee, DfE will be liable to make Government Guarantee financed payments to current recipients of Erasmus+ and European Social Fund funding, following an assessment process.

Coal Authority

To carry out ground investigation for a permanent site for Coseley Tech Primary.

Canal & Rivers Trust

The permanent site for Khalsa Academy Wolverhampton will be delivered subject to entering an unlimited indemnity with Canal & Rivers Trust to allow for the drainage connection.

A5 Gifts

The total of all gifts and hospitality that have been paid out this year are as follows:

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
Total number of cases	3	120	3	3
	£m	£m	£m	£m
Total value	1.6	1.6	15.5	15.5

A5.1 Gifts over £300,000

Midland Studio School Hinckley

Following the closure of the studio school, the Group was unable to secure a replacement tenant for the site. Consequently, the Group surrendered the peppercorn lease back to the site's landlord. The market value of the peppercorn lease was recognised as a gift.

Robert Owen Academy, Hereford

Following closure of the academy the Group was able to secure a replacement tenant for the site of a new HE provider to maintain educational provision. The sub-lease is for 50-years at a peppercorn rental and an initial £1,000 premium. In accordance with MPM the Group has calculated the value of the gift as the difference between the RICS Red Book market value and the sublease's value.

Jonathan Slater
Accounting Officer
4 July 2019

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

Opinion on financial statements

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 2019 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2018. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. 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 Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2019 and of the Department's expenditure and Departmental Group's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of matter – uncertainties inherent in the valuation of student loans

Without qualifying my opinion, I draw attention to the disclosures made in notes 1.3.4, 1.3.5 and 13.3.5 to the financial statements concerning the uncertainties inherent in the valuation of student loans. As set out in these notes, given the long-term nature for the recovery of loans, the number and volatility of the assumptions underpinning their valuation, a considerable degree of uncertainty remains over the recoverable amounts of the loans issued. Significant changes to the valuation could occur as a result of subsequent information and events which are different from the current assumptions adopted by the Department.

Qualified Opinion on regularity

In my opinion, except for the excess described in the basis for qualified opinion paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2019 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.

More details of the reasons for my qualified audit opinion are set out in my report on pages 113 to 114.

Basis for Qualified opinion on regularity

Parliament authorised a Resource Annually Managed Expenditure limit for the Departmental Group of negative £1.341bn. Against this limit, the Departmental Group incurred actual outturn of negative £1.030bn breaching the authorised limit by £311m as shown in the Statement of Parliamentary Supply.

Basis of opinions

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

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Department for Education's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Department for Education's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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.

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Gareth Davies
Comptroller and Auditor General
17 July 2019

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

Introduction

The Department for Education (the Department) is the government department responsible for children's services and education. Its responsibilities for education include accountability for the costs to Government of student loans.

The net expenditure of government departments is authorised by the annual Supply and Appropriation Acts of Parliament and their associated Supply Estimates. These Acts set a series of expenditure limits on each department's spending, and net cash requirement. Expenditure beyond any of these limits is considered a breach of a control total and results 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.

Parliament authorised a Resource Annually Managed Expenditure (RAME) limit of negative £1,341m for the Department in 2018-19. This negative expenditure limit means that the Department was required to recognise RAME income (predominantly effective interest on student loans) that exceeded related expenditure by at least £1,341m. However, the outturn against the RAME limit was negative £1,030m, and the authorised limit was therefore breached by £311m. I have therefore qualified my regularity opinion on the Department's financial statements in this respect.

Student loans interest

The Department accounts for student loans issued to students attending English Higher or Further Education institutions, the English student loan book. Student loans are a type of financial instrument, which have been accounted for since 1 April 2018 in accordance with International Financial Reporting Standard (IFRS) 9 Financial Instruments, as interpreted for the public sector by the Financial Reporting Manual (FReM). The FReM requires that financial instruments are discounted to a present value using a rate set by HM Treasury, specifically 0.7% above the RPI rate of inflation at the end of the year.

Effective interest is earned annually as the discounting is unwound, using the discount rate (RPI+0.7%). This is recognised as income for the Department and recognised against the RAME limit. Effective interest is distinct from the interest charged to borrowers each year, which is added to the outstanding loan balance and is accounted for against the separate Capital Annually Managed Expenditure (CAME) limit.

Government departments prepare and agree two Supply Estimates during the year, the Main Estimate in or around May each year and the Supplementary Estimate before the year-end in or around February each year. As such, departments must use forecast rates of inflation based on RPI in preparing their Estimates.

The Department prepares its Supply Estimates using the RPI forecasts produced by the Office for Budget Responsibility (OBR). At the time of the 2018-19 Supplementary Estimates, the OBR had a range of RPI forecasts relating to different economic scenarios. The Department expected, in forecasting student loans, that RPI would be between the OBR's central and 'pessimistic' forecast rates. The 'pessimistic' rate provides for a higher level of RPI than the central estimate.

RPI has differing effects on RAME and the other control totals. All else being equal, an increase in RPI reduces expenditure against the RAME control total, but increases expenditure against the other control totals (being Resource and Capital Departmental Expenditure Limits, and CAME). The Department and HM Treasury agree budgets that reflect the inherent uncertainty in forecasting RPI and student loans forecasts, with the need for taut fiscal control. Accordingly, the Department requested, and received approval for, expenditure limits that reflected its RPI assumptions. If RPI were outside the anticipated range the Department would be expected to breach RAME (if lower than the central OBR forecast) or the other control totals if higher than the pessimistic OBR forecast.

After Parliament agreed the Supplementary Estimate, RPI at 31 March 2019 was 0.65 percentage points lower than the OBR's central forecast position from December 2018, resulting in an equivalent decrease in the discount rate. This led to an unavoidable decrease in various expenditure and income streams derived from RPI, including student loans effective interest, resulting significant underspends against most control totals but in an increase to RAME causing a breach of that control total.

The Department acknowledges that its forecasts in 2018-19 did not provide adequate contingency within the Supplementary Estimate. It has committed to work with HM Treasury to ensure that future Supplementary Estimates provide adequate contingency, while retaining an appropriate level of fiscal rigour.

Gareth Davies
Comptroller and Auditor General
17 July 2019

National Audit Office
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Financial statements

Financial statements

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2019

		2018-19		2017-18	
		Department and agencies	Group	Department and agencies (Restated)	Group (Restated)
	Note	£m	£m	£m	£m
Income	3	(449)	(739)	(509)	(821)
Total income		**(449)**	**(739)**	**(509)**	**(821)**
Staff costs	4	354	551	338	535
Resource grants	5.1	61,000	60,633	59,972	59,771
Capital grants	5.2	4,903	5,066	4,020	4,182
Operating expenditure	6.1	596	773	533	670
Depreciation, impairment and other non-cash charges	6.2	35	63	13,118	13,129
Total operating expenditure		**66,888**	**67,086**	**77,981**	**78,287**
Net operating expenditure		66,439	66,347	77,472	77,466
Finance income	7	(3)	(24)	(2,521)	(2,543)
Finance expense		51	73	49	73
Other losses	8	5,492	5,493	864	864
Gain on transfer of function	9	(1)	(4)	–	–
Net expenditure for the year		**71,978**	**71,885**	**75,864**	**75,860**
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		–	–	–	(1)
Actuarial gain on defined benefit pension schemes		–	9	–	(18)
Total other comprehensive (income)/expenditure		**–**	**9**	**–**	**(19)**
Comprehensive net expenditure for the year		**71,978**	**71,894**	**75,864**	**75,841**

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

The notes on pages 124 to 185 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2019

		2019		2018	
		Department and agencies	Group	Department and agencies	Group
	Note	£m	£m	£m	£m
Non–current assets					
Property, plant and equipment	10	1,055	1,081	959	991
Intangible assets		62	153	42	146
Loans	13	65,544	66,102	58,775	59,357
Investments		102	113	1	13
Receivables	14	160	165	22	30
Total non–current assets		**66,923**	**67,614**	**59,799**	**60,537**
Current assets					
Assets held for sale		4	4	15	15
Inventories		–	1	–	1
Loans	13	2,476	2,511	2,502	2,533
Investments		–	32	–	29
Receivables	14	1,172	1,215	1,417	1,459
Cash and cash equivalents	15	1,185	1,291	612	694
Total current assets		**4,837**	**5,054**	**4,546**	**4,731**
Total assets		**71,760**	**72,668**	**64,345**	**65,268**
Current liabilities					
Payables	16	(3,092)	(3,269)	(2,100)	(2,298)
Provisions	18	(64)	(77)	(28)	(51)
Financial liabilities	19	(12)	(12)	(7)	(7)
Total current liabilities		**(3,168)**	**(3,358)**	**(2,135)**	**(2,356)**
Total assets less current liabilities		**68,592**	**69,310**	**62,210**	**62,912**
Non–current liabilities					
Payables	17	(1,168)	(1,711)	(828)	(1,424)
Provisions	18	(277)	(282)	(174)	(345)
Financial liabilities	19	(147)	(147)	(153)	(153)
Retirement benefit obligations	21	–	(31)	–	(25)
Total non–current liabilities		**(1,592)**	**(2,171)**	**(1,155)**	**(1,947)**
Assets less liabilities		**67,000**	**67,139**	**61,055**	**60,965**
Taxpayers' equity					
General Fund		66,995	67,052	61,050	60,904
Revaluation Reserve		5	7	5	7
Charitable Fund		–	80	–	54
Total taxpayers' equity		**67,000**	**67,139**	**61,055**	**60,965**

Jonathan Slater
Accounting Officer
4 July 2019

The notes on pages 124 to 185 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2019

		2018-19		2017-18	
		Department and agencies	Group	Department and agencies	Group
	Note	£m	£m	£m	£m
Cash flows from operating activities					
Net operating cost	SoCNE	(71,978)	(71,885)	(75,864)	(75,860)
Adjustments for non-cash transactions		5,500	5,522	11,465	11,304
Transfers of AuC to ATs	10	251	251	(195)	(195)
Decrease in receivables	14	107	109	(396)	(199)
Increase in payables	16, 17	1,332	1,258	737	807
less movements in payables relating to items not passing through net operating costs	14	(584)	(568)	(294)	(374)
Use of provisions	18	(90)	(90)	(50)	(75)
Utilisation of other financial liabilities	19	(17)	(17)	(13)	(13)
Finance income	7	(3)	(24)	–	(22)
Finance expense		51	73	49	73
Net cash outflow from operating activities		**(65,431)**	**(65,371)**	**(64,561)**	**(64,554)**
Cash flows from investing activities					
Finance income	7	3	24	–	22
Purchase of:					
property, plant and equipment	10	(363)	(364)	(317)	(320)
intangible assets		(35)	(66)	(9)	(58)
investments		(102)	(109)	–	(42)
assets held for sale		–	–	(14)	(14)
Proceeds on disposal of:					
property, plant and equipment		4	–	1	1
intangible assets		1	–	–	–
investments		–	5	–	102
student loan book		2,036	2,036	1,715	1,715
Loans:					
PF2 loan assets repaid/ (draw down)		–	14	–	(68)
student loans		(14,711)	(14,711)	(12,922)	(12,922)
academy trusts		(48)	(48)	(1)	(1)
FE sector		(47)	(47)	(76)	(76)
other loans		–	6	–	–
Net cash outflow from investing activities		**(13,262)**	**(13,260)**	**(11,623)**	**(11,661)**

	Note	2018-19 Department and agencies £m	2018-19 Group £m	2017-18 Department and agencies £m	2017-18 Group £m
Cash flows from financing activities					
Finance expense		(51)	(73)	(49)	(73)
Consolidated Fund supply	DA SoCTE	81,254	81,254	77,887	77,887
(Decrease)/increase in receipts due to the Consolidated Fund	17	7	7	(1)	(1)
Draw down from the Contingency Fund		–	–	–	–
Repaid to the Contingency Fund		–	–	–	–
PF2 loan liabilities (repaid)/drawn down	17	–	(16)	–	59
Capital element of finance lease		(10)	(10)	75	75
Net cash inflow from financing activities		**81,200**	**81,162**	**77,912**	**77,947**
Net increase in cash and cash equivalents before adjustment for receipts and payments to the Consolidated Fund		**2,507**	**2,531**	**1,728**	**1,732**
Payments of amounts due to the Consolidated Fund		(1,934)	(1,934)	(1,715)	(1,715)
Net increase in cash and cash equivalents after adjustment for receipts and payments to the Consolidated Fund		**573**	**597**	**13**	**17**
Cash and cash equivalents at the beginning of the year net of overdrafts	15	**612**	**694**	**599**	**677**
Cash and cash equivalents at the end of the year net of overdrafts	15	**1,185**	**1,291**	**612**	**694**

The notes on pages 124 to 185 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

	Note	General Fund £m	Revaluation Reserve £m	Charitable Fund £m	Taxpayers' Equity £m
Balance as at 31 March 2017		**60,959**	**19**	**125**	**61,103**
Net Parliamentary funding					
– drawn down		77,887	–	–	77,887
– deemed		322	–	–	322
Supply payable adjustment		(591)	–	–	(591)
CFERS payable to the Consolidated Fund	S4	(1,715)	–	–	(1,715)
Comprehensive expenditure for the year		(75,806)	1	(36)	(75,841)
Non–cash adjustments					
Auditor's remuneration	6.3	1	–	–	1
Movement in reserves					
Transfer between reserves		13	(13)	–	–
Other general fund movement		(166)	–	(35)	(201)
Balance as at 31 March 2018		**60,904**	**7**	**54**	**60,965**
Cumulative transition adjustments on adoption of:					
IFRS 9 & IFRS 15		(561)	–	–	(561)
Revised opening balances as at 1 April 2018		**60,343**	**7**	**54**	**60,404**
Net Parliamentary funding					
– drawn down		81,254	–	–	81,254
– deemed		591	–	–	591
Supply payable adjustment		(1,178)	–	–	(1,178)
CFERS payable to the Consolidated Fund	S4	(1,941)	–	–	(1,941)
Comprehensive expenditure for the year		(71,920)	–	26	(71,894)
Non–cash adjustments					
Auditor's remuneration	6.3	1	–	–	1
Movement in reserves					
Transfer between reserves		–	–	–	–
Other general fund movement		(98)	–	–	(98)
Balance as at 31 March 2019		**67,052**	**7**	**80**	**67,139**

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

The Revaluation Reserve reflects the unrealised element of the cumulative balance of the revaluation adjustments to property, plant and equipment (see note 10) and intangible assets.

The Charitable Fund represents total assets less liabilities related to the Group's training boards less unrealised revaluation adjustments to property, plant and equipment (see note 10) and intangible assets.

The notes on pages 124 to 185 form part of these accounts.

Department and Agencies Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

	Note	General Fund £m	Revaluation Reserve £m	Taxpayers' Equity £m
Balance as at 31 March 2017		**60,964**	**18**	**60,982**
Net Parliamentary funding				
– drawn down		77,887	–	77,887
– deemed		322	–	322
Supply payable adjustment		(591)	–	(591)
CFERS payable to the Consolidated Fund	S4	(1,715)	–	(1,715)
Comprehensive expenditure for the year		(75,864)	–	(75,864)
Non-cash adjustments				
Auditor's remuneration	6.3	1	–	1
Movement in reserves				
Transfer between reserves		13	(13)	–
Other general fund movement		33	–	33
Balance as at 31 March 2018		**61,050**	**5**	**61,055**
Cumulative transition adjustments on adoption of:				
IFRS 9 & IFRS 15		(561)	–	(561)
Revised opening balances as at 1 April 2018		**60,489**	**5**	**60,494**
Net Parliamentary funding				
– drawn down		81,254	–	81,254
– deemed		591	–	591
Supply payable adjustment		(1,178)	–	(1,178)
CFERS payable to the Consolidated Fund	S4	(1,941)	–	(1,941)
Comprehensive expenditure for the year		(71,978)	–	(71,978)
Non-cash adjustments				
Auditor's remuneration	6.3	1	–	1
Movement in reserves				
Transfer between reserves		–	–	–
Other general fund movement		(243)	–	(243)
Balance as at 31 March 2019		**66,995**	**5**	**67,000**

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 (see note 10) and intangible assets.

The notes on pages 124 to 185 form part of these accounts.

Notes to the accounts

1. Accounting policies

These accounts have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM) issued by 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 2018. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Group for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Group for 2018-19 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, FReM also requires the Group to prepare an additional primary statement. The SoPS, and supporting notes, show outturn against Supply Estimate in terms of the Group's net resource requirement and the net cash requirement.

1.1 Accounting convention

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

1.2 Going concern

This ARA 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 DfE for the foreseeable future.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis.

Management has specifically made such judgements on:

1.3.1 Valuation of land and buildings

The Group holds land and buildings at cost or valuation, which requires the application of estimates and judgements. See note 1.15 for more details about the property, plant and equipment accounting policy.

The Group re-values land and buildings at least every five 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 (ONS) 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 small portfolio of school assets remaining after separation of the academy sector into SARA from 2015/16 as a large majority of schools, and of potential new sites for schools, are in residential areas. However, this represents a key judgement and uncertainty in valuation of assets.

1.3.2 Accounting for capital expenditure and assets under construction

The structure of the Group and the scale of its capital programme means that accounting for capital expenditure is inherently complex for the Group and involves judgement over the identification of costs to be capitalised as PPE assets.

Capitalisation of expenditure is reviewed as part of regular monthly controls and the year-end process in determining the appropriate direct costs to capitalise for each project in accordance with the requirements of IAS 16. Assets are initially recognised at cost.

1.3.3 Inherited staff liabilities

There is uncertainty surrounding the Department's inherited staff liabilities as the value of the provision is derived from an actuarial valuation of the underlying population, and is updated periodically to include movements in mortality and discount rates (see note 18 for further details).

1.3.4 Student loans measurement

Previously, the Group measured student loans in accordance with IAS 39 Financial Instruments: Recognition and Measurement, classified as loans and receivables and carried at amortised cost. With the implementation of IFRS 9, from 1 April 2018, student loans will be carried at fair value through profit or loss (FVTPL).

Student loans have characteristics of both financial instruments and insurance contracts. DfE has judged that the loans have and exhibit properties that give rise to them being financial instruments, and so DfE accounts for these as financial instruments in accordance with IFRS 9. The key test in determining which classification the student loans falls into under IFRS 9 is the solely payments of principal and interest (SPPI) test.

With reference to IFRS 9, DfE has reviewed the repayment terms of student loans. It is evident that the cash flows are dependent on the income of the borrower and student loans are written off when certain events occur, such as death or inability to work. Therefore, DfE has judged that the cash flows are not simply payments of principal and interest and thus student loans have been classified as FVTPL.

When student loans are issued they are initially recognised at fair value. However, there is a difference between the amount advanced to students (transaction value) and the initial fair value of the loan due to the implied sector subsidy within student loans and actual repayment performance. DfE has determined that its valuation technique uses data from unobservable markets (see note 13.3.5). Therefore, the financial instruments are considered to be a Level 3 classification as defined in IFRS 13 Fair Value Measurement (IFRS 13). In accordance with IFRS 9's treatment of Level 3 financial assets the difference between transaction value and initial fair value is deferred. The difference is deferred until it is considered that there has been a change in factor that market participants would consider in pricing the student loan asset; when the difference is expensed as part of the fair value movement.

Due to current government policy in place for student loans, there is an inherent assumption over the level of repayments expected to be received when issuing new loans. DfE has assessed that market participants would recognise these inherent assumptions within the same year the loans have been issued. Therefore, the initial difference in fair value deferred is subsequently recognised as an in-year remeasurement to the fair value. Net fair value gains and losses are recognised within net operating expenditure.

The FReM requires that where future cash flows are discounted to measure fair value, the Group should use the higher of the rate intrinsic to the financial instrument or HMT's current discount rate. The discount rate used to discount expected cash flows to calculate the fair value of student loans is the intrinsic rate of the loan for Master's loans, and HMT's standard cross-government discount rate of RPI+0.7% for the remainder of the loan books, as required by the FReM's interpretation of IFRS 9.

The discount rate provided by HMT is based on an analysis of real yields on UK index linked Gilts and is specifically appropriate to central government. The fair value calculation also takes into account an estimate of the value of student loans issued which will not be repaid because of policy reasons, such as death, disability, age of the student or loan or other policies. A valuation technique is used to estimate the present value of future cash flows and an estimate of irrecoverable amounts because of policy decisions. More information about the measurement techniques used to determine the carrying value of student loans is provided in note 13.3.

Use of the mandated FReM discount rate to calculate the fair value of the student loans leads to a significantly higher carrying value for the loans compared to the sale price obtained from recent loan sales and from the retention value that is calculated using the different mandated HMT Green Book discount rate used for assessing value for money of such sales. This is in part because the discount rate applied to expected future cash flows, as described above, is not designed to take into account matters which external market participants would take into account when pricing the value of the student loans. However, with reference to future sales a market participant's internal pricing discount rate may not take into consideration the different characteristics within the different types of loans and cohorts of the remainder of the student loan book. While it would provide more current information, it does not accurately reflect all assumptions and policy decisions for the remaining loan book. In addition, if the current HMT requirements continue to apply in respect of the use of specified discount rates, there is likely to be further significant differences realised between carrying value and sale proceeds for loan disposals in future.

1.3.5 Student loans modelling risk

The value of loans issued is calculated using forecasting models which use data on the demographics of higher and further education students in order to predict their likely lifetime earnings, and from this their loan repayments. There are different models for borrowers taking different loan types, Pre-2012 and Post-2012 loans (Undergraduate Loans, Advanced Learner Loans and Master's Loans). The models depend on a complex set of assumptions, and particularly on borrowers' earnings. The models are long term in nature, but use the latest OBR short and long term forecasts for RPI, base rates and earnings growth. The valuation of the student loan books is uncertain as they are highly dependent on macroeconomic circumstances and graduate earnings over the next 30-35 years, as well as a number of other complex assumptions, for around five million borrowers. There is little historic repayment data available for Post-2012 loans.

The assumptions used in the repayment models are formally reviewed each year and the amounts provided reflect the estimate as at 31 March 2019. Note 13.3 provides quantitative disclosures on the impact of assumption variations and more detailed narrative over the different assumptions used.

1.3.6 EU Exit impact on student loan valuations

With the EU Exit set for the end of October 2019, there are extreme levels of uncertainty as to the impact any exit scenario will have on macroeconomic data, and on DfE's student loan book. DfE has previously based assumptions over macroeconomic data on the published OBR forecasts. As the current forecasts have been prepared assuming an orderly exit from the EU, we have assessed it appropriate to continue to value the student loan book under the current basis of assumptions in place.

1.3.7 Revenue recognition through performance obligations

IFRS 15 Revenue from Contracts with Customers (IFRS 15) requires revenue to be recognised when the reporting entity has completed performance obligations stipulated in its contracts with customers.

One area of potential judgement associated with adoption of IFRS 15 has been removed through FReM's adaptation to IFRS 15. The adaptation brings into scope for IFRS 15 all revenue received by departments other than tax surrenderable to the Consolidated Fund or covered by other standards. Consequently, revenue recognised by the Department, other than that recognised under other standards such as IAS 17, IAS 20 or IFRS 4 Insurance Contracts (IFRS 4) is within the scope of IFRS 15.

Management has applied judgement in two main areas:

- to identify performance obligations across IFRS 15 income streams
- to assess how the obligations have been satisfied; at a point in time or across a period of time

Management reviewed the income streams separately and in each case identified what the obligations were and how they were satisfied.

Differences were identified in two areas: levy income and capital contributions. Levy income was judged to be satisfied at a point in time, leading to immediate revenue recognition. This contrasts with the previous approach of deferring across the levy period. However, in the case of both levies the levy period is a financial year. Consequently, there is no significant impact on reported revenue.

For capital contributions, satisfaction was judged to occur over time as the customer, the schools' end users, consumed the benefit as it was provided due to their control over the construction asset. Revenue has been recognised over the construction phase with a small adjustment to revenue generating a contract liability as funds are received ahead of revenue recognition.

1.4 Basis of consolidation

These accounts present the consolidation of DfE, 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.

DfE receives the authority to consolidate its agencies and NDPBs under the Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) Order 2018. 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.

As permitted by IFRS 10 Consolidated Financial Statements, the results and the financial position of the following NDPBs have been consolidated as at 31 December 2018, which is within three months of the Group's year-end:

- Aggregator Vehicle PLC
- Engineering Construction Industry Training Board

Academies have been excluded from the consolidation since 2016-17 following their removal from DfE's accounting boundary into their own standalone ARA. DfE publishes the academy sector ARA separately.

1.4.1 Movement in Departmental bodies

There have been several movements of Departmental bodies or policy responsibility during the year. All but two of the changes were wholly within the Group; and so have limited impact on accounting or disclosures presented in this ARA.

Two movements both dated 1 April 2018, crossed the Group accounting boundary:

- the transfer of the Equalities and Human Rights Commission to the Department for International Development
- policy responsibility for scientific research moved to BEIS as part of the closure of HEFCE

Both of these transfers are accounted for under the transfer by merger accounting set out in FReM. However, only the transfer to BEIS is material and so requires restatement under FReM. See note 9 for more detail.

1.5 Adoption of FReM amendments

The main changes to 2018-19 FReM have been the adoption of IFRS 9 and IFRS 15, the impacts of which are discussed below.

1.5.1 Adoption of IFRS 9

IFRS 9 was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and has been endorsed by the EU. The standard has been incorporated into FReM and is effective for accounting periods commencing on or after 1 January 2018 with adaptations and interpretations for the public sector. It was adopted by the Group on 1 April 2018.

The quantitative impact of adopting IFRS 9 for loans is disclosed for separate financial asset portfolios in note 13.

IFRS 9 changes how financial instruments are classified and measured, and amends how impairment allowances are calculated for certain types of financial assets, moving to an expected credit loss model from an incurred loss model. As required by FReM, the Group has applied the change retrospectively but has not restated prior periods. We have recognised the difference between the previous carrying amount of the financial instrument and the revised carrying amount at 1 April 2018 in the General Fund's opening balance.

Student loans

DfE reviewed the terms of student loans. This review focused primarily on whether repayment terms met the test set in IFRS 9 as to whether payments are solely payments of principal and interest. Repayment cash flows are dependent on the income of the borrower and student loans may be cancelled, such as on death of a borrower or after a fixed period of time. This led to DfE concluding that the contractual cash flows are not solely payments of principal and interest. Therefore, the Group is required to hold student loans at FVTPL under the new standard. The fair value will be calculated in accordance with the requirements of IFRS 9, IFRS 13 and FReM.

Other financial assets/liabilities

The Group holds or issues financial instruments other than student loans, such as listed investments, loans to other educational sectors, receivables, payables and financial guarantees. However, the scale of non-student loan financial instruments are immaterial on their own classification. In addition, the terms of these financial instruments are such as to limit valuation changes through moving to IFRS 9. The Group considers any impact away from student loans to be immaterial and so additional disclosures have not been made.

Asset impairment

One significant change between IAS 39 and IFRS 9 is the movement of impairment models from an incurred loss basis to an expected loss basis for non-FVTPL financial assets. FVTPL financial assets do not suffer impairment allowances, the impact of future underperformance is included in the year end fair value calculation.

The outcome of this change may lead to reduced asset values through earlier and larger impairment recognition compared to the previous accounting treatment.

1.5.2 Adoption of IFRS 15

The quantitive impact of adopting IFRS 15 is shown in note 3.

IFRS 15 was issued to standardise revenue recognition and replaces two standards (IAS 18 Revenue and IAS 11 Construction Contracts) and related SIC and IFRIC interpretations.

IFRS 15 requires reporting entities to recognise revenue from contracts with customers when control over the goods or services transacted through the contract has moved to the customer; which is evidenced through satisfaction of performance obligations. Practically, revenue recognition has been switched from a reporting entity's perspective (unearned income and earned income) to that of their customers – satisfaction of contractual terms.

Where income is received prior to satisfaction of performance obligations it is deferred until satisfaction is complete.

1.6 Early adoption

The Group has not early adopted any accounting standards in 2018-19.

1.7 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	Change & Impact
IFRS 16 Leases	Annual periods beginning on or after 1 January 2020	2020-21	**Change**: The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching financing liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised. **Impact on Group:** The main effect of the adoption of IFRS 16 will be for lessees; which will result in a number of former operating leases being brought on-balance sheet. However, the Group does not anticipate that this change will have a material impact. The effect on lessor accounting for the new standard is limited in scale, and remains largely unchanged. In addition, the Group does not have significant lessor activities. The Group is as yet unable to quantify the impact of adopting IFRS 16, more work will continue throughout 2019-20 in readiness for adoption on 1 April 2020.
IFRS 17 Insurance Contracts	Annual periods beginning on or after 1 January 2019	Unknown, the standard has not yet been endorsed by the EU	**Change:** The standard makes changes to how insurance contracts are accounted for and may widen the scope to include arrangements that may not have previously been viewed as insurance contracts. Changes may be more extensive for bodies that have not previously adopted the existing standard IFRS 4. However, prior to endorsement by the EU and adoption by FReM the final version for the standard applicable to the Group has still to be decided. Consequently, the Group is unable presently to scope the impact of adopting the new standard.

1.8 Segmental reporting

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

See note 2 for operational disclosures.

1.9 Income

The Group has adopted IFRS 15 from 1 April 2018, through the cumulative catch-up approach mandated by FReM. There has been no restatement of comparative revenue balances; which remain under IAS 20, IAS 18 and IFRS 4. The Group's 2017-18 ARA describes the accounting policies applicable to the comparative income balances included in this ARA.

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.

Income is stated net of recoverable VAT where applicable.

The Group receives the following income streams and accounts for them as follows:

1.9.1 Revenue from contracts (IFRS 15)

Revenue is recognised once the Group has completed performance obligations. The nature of the obligations differs between contract types.

Levy income

Levy income is collected from construction and engineering sector employers under statute by CITB and ECITB. The Chief Secretary to the Treasury has approved both bodies to retain this levy income to offset against their expenditure. Therefore, the Exchequer has no right of access to these funds.

Both levies apply to an annual period (being based on employers' annual pay bills), payment of the levies does not create additional rights to employers from the Group. Therefore, management judge the performance obligation required for revenue recognition is our assessment of sector employers' levy liabilities. In addition, satisfaction of performance obligations is judged to occur at a point in time rather than across a period. Consequently, levy income is not deferred or accrued across the levy year. Levy income is fully recognised immediately on raising of the annual assessments.

Where doubts arise over its collectability either through ageing, past experience, or other known factors, an impairment allowance is recognised in the accounts.

The Group does not recognise Apprenticship Levy income in the ARA. The levy is collected and accounted for by HMRC.

Sales of goods and services

The Group sell goods and services, such as tests and training. Performance obligations for these transactions are completion of training or despatch of goods. There is no significant timing difference between satisfaction of performance obligations and receipt of income. Revenue recognition is immediate.

Investment income

Income from investments is included in the SoCNE on an accruals basis. The performance obligation is judged to be the Group holding the financial asset on relevant distribution date.

Master servicer fee

The Group has retained the servicer function for the portfolios of student loans sold under the existing policy to sell student loans. Whilst both sold portfolios have separate servicer fee agreements, they are both similar in structure.

For both agreements the Group has identified two separate performance obligations:

- completion of the day-to-day servicing of loans; which stretches out for a further twelve months beyond each annual servicing period ending in 31 March
- payment of the loan repayments to each loan sale SPV in July the year after each servicing year ending in March

Management consider the first performance obligation to be satisfied on an on-going basis since the benefit of the actions are consumed by the customer as completed. Revenue arising from the normal servicing activities is deferred over each two year cycle. Management judge the second obligation to be settled at a point in time, when cash is moved, and so revenue for these activities is recognised in July when received.

1.9.2 Grant income (IAS 20)

The Group receives grant income from other government bodies (both UK and European) which are accounted for under IAS 20 through the non-deferral option. The income relates to programmes jointly funded by the Group and other departments or governments.

Included with grant Income is income received from the European Social Fund.

European Social Fund

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

1.9.3 Risk Protection Arrangement (IFRS 4)

The Group operates a self-insurance arrangement for the academy sector. Income is recognised for claim cover years. See note 1.23 for more information.

1.10 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.

1.11 Grant expenditure

1.11.1 Grant financing and Grant-in-Aid

Funding to DfE's agencies 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.

1.11.2 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 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.

1.11.3 Grant recoveries

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

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

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

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

1.12 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.

1.13 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. The 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 or losses from the scheme are recognised in reserves.

Where the Group makes contributions to defined contribution pension schemes (which do not have underlying assets and liabilities) and unfunded multi-employer defined benefit pension schemes (where DfE is unable to identify its share of underlying assets and liabilities), the Group recognises contributions payable in the SoCNE.

Further details of the pension schemes are available in note 21.

1.14 Early departure costs

DfE 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. DfE provides for the costs when the early departure programme has been announced and is binding on the Department.

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

1.15 Property, plant and equipment

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

Land and buildings are measured initially at cost and are restated to current value (depreciated replacement cost) using external professional valuations in accordance with IAS 16 every five years, and in the intervening years by use of appropriate indices supplied by the 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 assets under construction (AuC) at cost plus direct costs directly attributable to bringing the assets into working condition in line with IAS 16. Direct costs include all costs associated with purchasing the land and property and bringing the assets into use, and a fair proportion of the 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's SoFP. A large portion of the development sites funded by the Group are not recognised as AuC assets. Once an agreement is in place between the Group and the site's end user (predominantly an academy trust) control over the asset is judged to pass to the end user and so the asset is de-recognised. Additional funds to complete development are recognised as capital grants-in-kind.

In the atypical 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 presented separately.

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

1.16 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:

Property	Up to 60 years, or the lease term (whichever is shorter)
Other PPE	3-20 years

1.17 Intangible assets

Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. Intangible assets are initially valued at cost, then carried at fair value that is determined by reference to an active market where possible. Where there is no active market, we use depreciated replacement cost as a proxy fair value. 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	3-5 years
Non-software licences	3 years
Other	3-5 years

1.18 Revaluation and impairment of non-current assets

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

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

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

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

1.19 Deferred capital receipts

Funding received for the purpose of acquisition of property, plant and equipment and intangible assets, excluding the element relating to any capitalised dilapidation provision, is credited to the deferred capital receipts account and is released to the SoCNE by amounts equal to the associated depreciation and amortisation charge.

1.20 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.

1.21 Financial instruments

The Group applies IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation, and IFRS 9. 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.

1.21.1 Financial assets

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 FVTPL, directly attributable costs. The Group does not hold derivative financial instruments.

The subsequent measurement of financial assets depends on their classification into IFRS 9's three categories: amortised cost, FVTPL and fair value through other comprehensive income.

Amortised cost

Financial assets classified as amortised cost include:

- **Trade and other receivables** which have fixed or determinable payments that are not quoted on an active market. They do not carry any interest.
- **Loans** comprise loans within the Group and external to the Group. The loans are not traded on any active market.
- **Cash and cash equivalents** comprise cash in hand and on demand deposits.

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

The above asset types are subsequently recognised at amortised cost using the effective interest method. Carrying values are based on initial fair value adjusted for interest charges and repayments. Appropriate allowances for estimated irrecoverable amounts are recognised in the SoCNE based on expected losses for a particular asset, or group of assets. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated future recoverable amount.

Fair value through profit or loss

Financial assets at fair value through profit or loss include:

- **Student loans** have been classified to FVTPL because management consider the loans to fail the solely payments of principal and interest test due to the loans' terms and conditions.

  Student loans suffer a Day 1 fair value loss due to the difference between the initial fair value of new loans and their transaction price at issue. Day 1 fair value losses are deferred to SoFP since student loans are classified as Level 3 per IFRS 13's hierarchy. Deferred balances are then expensed as part of the loans' first year end fair value re-assessment.

More information about the measurement techniques used to determine the fair value of student loans is provided in note 13.3.

Sales of student loans are accounted for at settlement date.

- **Investments** the Group holds quoted investments which are recognised 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 profit and loss.

  As well as quoted investments the Group also holds a corporate paper issued by the body that acquired student loans sold in December 2018. The asset is held to fulfil regulatory requirements and is termed a retention note. The note is designated as FVTPL due to the underlying pool of financial assets (student loans) being designated as FVTPL.

The above asset types are subsequently measured at fair value, with annual movements in fair value being recognised in profit and loss. Fair value movements are recognised as gains or losses in a gains or losses note.

1.21.2 Financial liabilities

The adoption of IFRS 9 has not changed significantly the accounting for 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 and 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, excluding 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.

Financial guarantees

Financial guarantees are initially recognised at fair value on the date that the guarantee was given in accordance with IFRS 9. At each year end, they are subsequently re-measured at the higher of the amount determined in accordance with IAS 37, and the amount initially recognised, less when appropriate, cumulative amortisation.

1.22 Provisions

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

- a legal or constructive obligation exists that will result in the transfer of economic benefit
- the transfer is probable
- 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 Group applies HMT's discount rate to discount its provisions. HMT changed the required approach to discounting for 2018-19 onwards, and has moved away from requiring real rates to issuing departments with nominal rates, and separately inflation rates. The nominal rates are as follows:

- 0.76% for short term general provisions (0-5 years)
- 1.14% for medium term general provisions (between 5 and 10 years)
- 1.99% for long term general provisions (more than 10 years)
- 2.90% for early departure costs provisions

Inflation rates are set at 2.00% for the first two years, and 2.1% for later periods.

1.23 Risk protection arrangement

Academy trusts that join DfE's risk protection arrangement (RPA) pay an annual per pupil fee to DfE and are covered for risks in four broad categories:

- property damage and business interruption
- employers' liability
- third party liability
- UK travel

The risks covered arise from activities external to the Group and therefore remain after the Group's consolidation.

The Group has adopted IFRS 4 to account for the transfer of risk between the academy trusts and the Group. 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 DfE.

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

1.24 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. Remote contingent liabilities that are not required to be disclosed by IAS 37 are disclosed in the parliamentary accountability report and stated at the amounts reported to Parliament.

1.25 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.

1.26 Corporation tax

DfE, its agencies and most of its NDPBs are exempt from corporation tax. Three of the Group's NDPBs (SLC, Aggregator Vehicle PLC and LocatED) are subject to corporation tax on their reported profits.

1.27 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.

1.28 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 25 year period. The transaction is part of the wider Priority Schools Building Programme (PSBP) programme sponsored by DfE 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 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). 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 the Group.

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

2. Statement of operating costs by operating segment

The Group is structured to clearly align activity and expenditure against the government's Structural Reform Priorities for education. Information on operating activities, financial results, forecasts and plans is presented to and reviewed by the Leadership Team on this basis and 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.

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.

2.1 Segmental analysis

			2018-19			2017-18
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
	£m	£m	£m	(Restated) £m	(Restated) £m	(Restated) £m
Early Years & Schools Group	7,326	(404)	6,922	5,708	(75)	5,633
Education and Skills Funding Agency	56,858	(220)	56,638	56,129	(216)	55,913
Higher & Further Education Group	32,656	(8,971)	23,685	34,442	(4,073)	30,369
Operations Group	344	(54)	290	295	(48)	247
Social Care, Mobility & Disadvantage Group	372	(3)	369	264	(1)	263
	97,556	**(9,652)**	**87,904**	**96,838**	**(4,413)**	**92,425**

Following the intra-group re-organisation in April 2018 several of the operational groups were renamed to better reflect their new responsibilities:

- the Insight, Resources and Transformation Directorate was renamed Operations Group
- the Education Standards Directorate and Infrastructure and Funding Directorate (IFD) merged to become the Early Years & Schools Group
- ESFA was broken out from IFD to become its own reportable segment
- Capital Group's movement described in note 9, placed them in EYSG

Comparative information has been restated to reflect the changes and is presented on the same basis as current segmental information.

2.2 Reconciliation between operating segments and SoCNE

	2018-19			
	Net expenditure per segmental analysis £m	Reconciling items: Income & gains £m	Reconciling items: Expenditure £m	Net costs per SoCNE £m
Early Years & Schools Group	6,922	293	(331)	6,884
Education and Skills Funding Agency	56,638	19	(125)	56,532
Higher & Further Education Group	23,685	4,876	(20,650)	7,911
Operations Group	290	(1)	(89)	200
Social Care, Mobility and Disadvantage Group	369	–	(2)	367
	87,904	**5,187**	**(21,197)**	**71,894**

The reconciling expenditure items are primarily movements in loans. Operations Group includes loans in respect of PF2 (see note 13) with an increase in these at the year end. The Higher & Further Education Group segment includes the student loan book, with new loans issued and repayments during the year being a reconciling item (see note 13.3).

3. Income

3.1 Revenue analysis

	2018-19			2017-18
	Department and agencies	Group	Department and agencies	Group
	£m	£m	(Restated) £m	(Restated) £m
Income from contracts				
Levy income	–	212	–	229
Fees and charges	84	88	96	96
Sale of goods and services	–	70	–	72
Capital contributions	3	3	–	–
Other income	29	31	41	52
Grant income				
Joint programme income	84	84	84	84
European Union funding	197	198	202	202
Other income				
RPA income	48	48	40	40
Student grant recoveries	–	–	43	43
Rental income	4	5	3	3
	449	**739**	**509**	**821**

Joint programme income relates to income from Department of Health and Social Care (previously Department of Health) and the Ministry of Justice for jointly managed projects where the Group had recharged some of the expenditure for those programmes.

For more information on the transfer of function leading to the restatement please see note 9.

3.2 Adoption of IFRS 15

	Revenue recognised in 2018-19	Adjustment	Revenue recognised on 2017-18 basis
	£m	£m	£m
Income from contracts			
Levy income	212	–	212
Fees and charges	88	–	88
Sale of goods and services	70	–	70
Capital contributions	3	(3)	–
Other income	31	3	34
Grant income			
Joint programme income	84	–	84
European Union funding	198	–	198
Other income			
RPA income	48	–	48
Rental income	5	–	5
	739	**–**	**739**

The Group adopted IFRS 15 from 1 April 2018, through the FReM-mandated cumulative catch-up approach. Whilst adoption of IFRS 15 is fully retrospective there has been no restatement of prior year balances; all differences have been posted to the General Fund as an adjustment as at 1 April 2018 in line with the requirements of the FReM adaptation of IFRS 15.

Management completed a review of significant income streams to identify potential adjustments. FReM adapts IFRS 15 to scope in all income recognised that isn't recognised under other standards; which for the Group are IAS 20, IFRS 4 and IAS 17. Income streams have been grouped by performance obligation so that similar activities are reported together.

On transition on 1 April 2018 an adjustment of £3 million was made to the General Fund to reflect revenue that would have been recognised previously if adoption required restatement.

3.2.1 Levy income

Levy income is raised by the Group's training boards from employers in the construction and engineering sectors. Employers' levy charges are assessed by applying the statutory levy rate to employers' annual salary bills. Both levies are used by the training boards to fund training in their specific sectors. Employers who are assessed for either levy do not receive additional rights to training, training is open to all employers irrespective of levy charges.

The Group considers the assessment for levy to be the performance obligation required by IFRS 15 to support revenue recognition. The Group is not required to perform any other duties to employers to crystallise payment of levy assessments. Therefore, levy income is recognised in full immediately, with no deferral across the levy period.

3.2.2 Fees and charges

Fees and charges arise from the sale of training materials to third parties and the supply of health and safety tests. In both areas the Group assesses the completion of performance obligations to be the supply of either goods or tests (mostly on-line). Both areas have no significant delay between satisfaction of obligations and recovery of fees. Therefore, income is not deferred but recognised immediately.

3.2.3 Capital contributions

Under DfE's Priority Schools Building Programme the Group is investing into the school estate. The Group applies standard design specifications to projects to drive value for money and efficiency. However, local authorities are able to amend the standard design specifications at their cost. Once revised designs have been agreed and costed with local authorities the Group will raise a sales invoice to recover the additional funds.

The Group considers that the performance obligation is met during construction of the school buildings, the customer consumes the benefit as their asset is constructed. Consequently, income received from local authorities is deferred to the SoFP and revenue is recognised evenly over the construction period.

In a similar vein the Group receives income from school developments under planning condition applied through s106 of The Town and Country Planning Act 1990. Under specific planning terms developers may be obliged to settle sums on the Group or local authorities as a condition of receiving planning permission for larger development projects. Where the Group is a recipient management judge IFRS 15 to be applicable.

The terms underpinning s106 receipts are varied and may not rely on specific Group activities. The Group considers satisfaction of s106 obligations to occur when the last condition on the developer has been met. Revenue is deferred until the last condition on a developer has been met and revenue is recognised in whole at that point.

Where funds are received in advance of the performance obligation satisfaction (capital contributions) an IFRS 15 contract liability will be recognised. Where funds are received after satisfaction (s106 events) an IFRS 15 contract asset is recognised as revenue is recognised.

4. Staff costs

Disclosures relating to staff numbers and costs are detailed within the Remuneration and Staff Report.

5. Grant expenditure

The tables below have been re-presented from last year to align better to the Group's operational structure to enhance visibility to the Group's corporate objectives. There has been no re-calculation of grant values, the re-presentation has focused on how lower level balances have been aggregated into the revised caption headings below. The totals for resource and capital grants have remained unchanged other than to reflect the impact of the MOG transfers described in note 9.

5.1 Resource grants

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	(Restated) £m	£m
Schools				
National funding formula	34,104	34,104	33,218	33,218
High needs funding	5,618	5,618	5,331	5,331
Pupil premium	2,468	2,468	2,443	2,443
Universal free school meals	710	710	657	657
PFI grants	751	751	751	751
Education services grant	–	–	246	246
School improvement	582	582	543	543
Primary sport premium	324	324	256	256
Teacher supply	276	276	249	249
Teacher pay grant	188	188	–	–
Life skills, disadvantages and SEND	98	98	168	168
Other grants	31	31	23	23
Early years				
Entitlements	3,615	3,615	3,305	3,305
Other grants	14	14	11	11
Children's services				
Children in care	79	79	58	58
Children's social care	39	39	34	34
Other grants	58	58	65	65
Post-16 and skills				
Core funding	5,327	5,327	5,411	5,411
Adult education budget	1,462	1,462	1,469	1,469
Apprenticeships	1,730	1,698	1,582	1,544
HE maintenance grants	640	640	1,131	1,131
High needs (16-19)	656	656	619	619
Bursary funding	189	189	180	180
Teaching grant	57	1,309	–	1,513
Construction sector training	–	144	–	275
Other grants	47	39	57	61
Operations				
European Social Fund	198	198	202	202
Other grants	16	16	8	8
Grant in aid	**1,723**	**–**	**1,955**	**–**
	61,000	**60,633**	**59,972**	**59,771**

5.2 Capital grants

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	(Restated) £m
Schools				
Priority Schools Building Programme	515	515	471	471
Basic needs schools grants	1,228	1,228	1,501	1,501
PFI grant	4	4	78	78
Free schools	983	983	621	621
School capital improvement	22	22	21	21
School condition allocations	1,851	1,851	1,263	1,263
Life Skills, Disadvantage and SEND	162	162	–	–
National funding formula	–	–	2	2
Children's services				
Secure accommodation	7	7	15	15
Early years				
Entitlements	–	–	–	–
Other grants	(7)	(7)	(8)	(8)
Post-16 and skills				
Core funding	121	121	–	–
Apprenticeships	–	–	2	2
Other grants	20	183	42	204
Operations				
Other grants	(3)	(3)	12	12
	4,903	**5,066**	**4,020**	**4,182**

6. Operating expenditure

6.1 Operating expenditure

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Staff related costs	33	38	15	21
Consultancy and other professional fees	113	142	64	84
Building, maintenance and premises costs	22	30	24	69
IT and telecommunications costs	86	131	75	123
Rentals under operating leases:				
land and buildings	17	22	11	16
other operating leases	–	1	–	2
Travel and subsistence	14	23	12	19
PF2 service costs	5	5	3	3
Research and development costs	29	35	21	23
Programme expenditure	228	260	210	229
Advertising and publicity	20	26	21	25
Other expenditure	29	60	77	56
	596	**773**	**533**	**670**

6.2 Depreciation, impairment and other non-cash charges

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Depreciation	5	12	6	13
Amortisation:				
intangible assets	13	33	21	42
deferred capital grants	–	(34)	–	(26)
loans	–	–	4	4
Impairment:				
student loans	–	–	13,051	13,051
other loans	(4)	(4)	(2)	(2)
financial liabilities and guarantees	10	10	4	4
other	(36)	(35)	1	1
(Gain)/loss on disposal of PPE and intangible assets	(4)	21	–	–
Auditor's remuneration: audit fee	1	1	2	2
Provisions:				
provided in year	64	74	31	37
not required written back	(36)	(37)	(3)	(4)
change of discount rate	18	18	2	5
borrowing costs (unwinding of discounts)	4	4	1	2
	35	**63**	**13,118**	**13,129**

6.3 Audit fees

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£000	£000	£000	£000
Group audit:				
Non-cash	953	953	1,161	1,161
Cash – NAO	–	438	–	430
Cash – non-NAO	–	6	–	45
SARA audit – NAO:				
Non-cash	–	–	400	400
Cash	588	588	433	433

Non-cash audit fees for the department and agencies are included in note 6.2 above as Auditor's remuneration: audit fee. Cash audit fees for NDPB audit costs are included within Consultancy and other professional fees in note 6.1 above.

DfE is responsible for preparing SARA which is then audited by the NAO. As SARA is an amalgamation of operational academy trusts it does not bear central costs itself. Consequently, the NAO's fees for auditing SARA are recognised in the Group's ARA not SARA. SARA audit fees incurred in 2017-18 cover both the 2015/16 SARA and the 2016/17 SARA.

The NAO changed its approach to billing DfE for SARA audit fees from a department or agency approach (non-cash) for 2015/16's audit to an NDPB cash approach for 2016/17.

7. Finance income

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Student loans:				
capitalised interest	–	–	2,849	2,849
effective interest	–	–	(329)	(329)
Effective interest income				
FE sector loans	2	2	1	1
PF2 loan assets	–	21	–	21
Investment income	1	1	–	1
	3	**24**	**2,521**	**2,543**

8. Other (gains)/losses

	2018-19		2017-18	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Annual valuation movements				
student loans	4,283	4,283	–	–
other investments	1	2	–	–
On de-recognition				
sale of student loans	1,104	1,104	864	864
write-off of student loans	58	58	–	–
write-off of FE sector loans	46	46	–	–
	5,492	**5,493**	**864**	**864**

Following the adoption of IFRS 9 student loans have been classified as financial assets held at FVTPL, whereas previously they were held at amortised cost. This means that a net loss is recognised in the SoCNE which reflects the change in fair value of such loans inclusive of any interest charged to borrowers.

All financial assets presented above are required to be designated as FVTPL by IFRS 9, none were designated at initial recognition.

Annual valuation movements presented in this note relate to gains and loss recognised when remeasuring the fair value of financial assets classified as FVTPL. The student loan annual fair value movement above includes £238 million (2017-18: £nil) of unrealised losses.

More information on the student loan sale is provided in note 13.3.3.

9. Transfers of function

The following transfers of function have occurred in 2018-19; one of which is material to require restatement of 2017-18 reporting balances:

- In April 2018 DfE completed an internal re-organisation involving itself and ESFA to better align responsibilities. Responsibilities for school estate programmes moved from ESFA to DfE whereas apprenticeships and technical education moved from DfE to ESFA. The transfer was accounted for through the transfer by absorption approach as required by FReM. However, the transfer occurred wholly within the department and agencies column so is not visible in this ARA.
- From 1 April 2018 the Group ceased its involvement in Research and Knowledge Exchange policy, following the launch of BEIS's new NDPB UK Research and Innovation. The transfer has been accounting under FReM's transfer by merger approach since it crosses departmental group accounting boundaries. The 2017-18 results have been restated to remove the grant income previously received from BEIS and grant expense. The tables below present the impact of the adjustment on the prior year results. There is no net impact on the Statement of Financial Position, taxpayers' equity remains unchanged.
- Following the closure of HEFCE in 31 March 2018 the inherited staff liabilities described in note 18 transferred to the Department rather than to OfS along with the rest of HEFCE's assets and liabilities. The transfer was accounted for a transfer by absorption.
- On 1 April 2018 the National College of Teaching and Leadership was repurposed into the Teaching Regulation Authority (TRA). The majority of NCTL's operations were transferred to the Department, with only one division, the Teacher Services Division, remaining within TRA. The transfer was accounted for as a transfer by absorption.

- From 1 April 2018 the Government Equalities Office and Equality and Human Rights Commission were transferred to the Home Office. However, a further machinery of government change saw both bodies transfer to the Department for International Development (DfID). The net assets of both transfers were immaterial so didn't require restatement under FReM's transfer by merger approach.

9.1 2017-18 Group Statement of Comprehensive Net Expenditure

	Previously stated	HEFCE MoG	Restated
	£m	£m	£m
Total income	**(2,834)**	**2,013**	**(821)**
Staff costs	535	–	535
Resource grants	59,771	–	59,771
Capital grants	6,195	(2,013)	4,182
Operating expenditure	670	–	670
Depreciation, impairments and other non-cash charges	13,129	–	13,129
Total operating expenditure	**80,300**	**(2,013)**	**78,287**
Net operating expenditure	**77,466**	**–**	**77,466**
Finance income and expenditure	(2,470)	–	(2,470)
Loss on sale of student loan book	864	–	864
Net expenditure for the year	**75,860**	**–**	**75,860**
Other comprehensive expenditure	**(19)**	**–**	**(19)**
Comprehensive net expenditure for the year	**75,841**	**–**	**75,841**

9.2 2017-18 Department and agencies Statement of Comprehensive Net Expenditure

	Previously reported	HEFCE MoG	Restated
	£m	£m	£m
Total income	**(2,522)**	**2,013**	**(509)**
Staff costs	338	–	338
Resource grants	61,985	(2,013)	59,972
Capital grants	4,020	–	4,020
Operating expenditure	533	–	533
Depreciation, impairments and other non-cash charges	13,118	–	13,118
Total operating expenditure	**79,994**	**(2,013)**	**77,981**
Net operating expenditure	**77,472**	**–**	**77,472**
Finance income and expenditure	(2,472)	–	(2,472)
Loss on sale of student loan book	864	–	864
Net expenditure for the year	**75,864**	**–**	**75,864**
Other comprehensive expenditure	**–**	**–**	**–**
Comprehensive net expenditure for the year	**75,864**	**–**	**75,864**

10. Property, plant and equipment

	2019				2018			
	Property £m	Other PPE £m	AuC £m	Total £m	Property £m	Other PPE £m	AuC £m	Total £m
Cost or valuation								
1 April	130	119	851	1,100	86	113	389	588
Additions	1	8	355	364	13	4	303	320
Impairment	–	–	–	–	–	(1)	–	(1)
Disposals	(1)	(15)	–	(16)	–	(2)	(1)	(3)
Transfer of function	–	(6)	–	(6)	–	–	–	–
Reclassifications	(13)	1	(3)	(15)	(1)	4	(3)	–
Revaluations	–	–	–	–	–	1	–	1
Transfers regarding ATs:								
transfer in	–	–	34	34	32	–	212	244
transfer out	(12)	–	(285)	(285)	–	–	(49)	(49)
At 31 March	**117**	**107**	**952**	**1,176**	**130**	**119**	**851**	**1,100**
Depreciation								
1 April	(15)	(94)	–	(109)	(14)	(85)	–	(99)
Charged in year	(3)	(9)	–	(12)	(2)	(11)	–	(13)
Disposals	4	15	–	19	1	2	–	3
Transfer of function	–	4	–	4	–	–	–	–
Impairment	–	–	–	–	–	1	–	1
Reclassifications	3	–	–	3	–	–	–	–
Revaluations	–	–	–	–	–	(1)	–	(1)
At 31 March	**(11)**	**(84)**	**–**	**(95)**	**(15)**	**(94)**	**–**	**(109)**
Carrying value as at 31 March	**106**	**23**	**952**	**1,081**	**115**	**25**	**851**	**991**
Of the total:								
Department and agencies	90	14	951	1,055	97	13	849	959
NDPBs	16	9	1	26	18	12	2	32
	106	**23**	**952**	**1,081**	**115**	**25**	**851**	**991**

The Property asset class includes both freehold sites as well as leasehold improvements on leased sites recognised as operating leases. AuC represent school building projects under the free school programme. Where the Group does not yet have documentary agreements in place with the academy trust end users, management judges the sites to be the Group's as we control the assets. Once the Group has an occupation agreement in place with the academy trust, who will operate the free school from the site when operational, the Group de-recognises the AuC asset as a disposal. If after de-recognition the free school project changes (site selection and/or academy trust), project sites will be re-recognised as a transfer in from ATs as the Group regains control over the sites.

AuC also includes costs incurred in developing the Group's new London office Old Admiralty Buildings; which is being repurposed as part of a government-wide programme to fully utilise the government estate – the Government Estate Strategy.

The Group operates from multiple sites, all but two of which are leased. The two owned properties are St Paul's Place, Sheffield and Bircham Newton, King's Lynn. The Group has assessed all of its property leases as operating leases and rental costs are accounted for as such. The asset class leasehold improvements relates to site improvements found on these leased properties. The Group surveyors revalue land and buildings in accordance with the Royal Institute of Charted Surveyors' Appraisal and Valuation Manual, the most recent revaluations occurred:

- St Paul's Place, March 2016 by DTZ McCombe Pierce LLP
- Bircham Newton, March 2018 by Savills

11. Financial instruments

11.1 Financial assets by category

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
IFRS 9 asset classifications				
Fair value through profit or loss				
Student loans	67,852	67,852	–	–
Investments	102	145	–	–
Amortised cost				
Other loans	168	761	–	–
Receivables	415	447	–	–
Cash at bank	1,185	1,291	–	–
IAS 39 asset classification				
Available for sale investments				
Cash and cash equivalents	–	–	612	694
Investments	–	–	1	42
Loans and receivables				
Loans	–	–	61,277	61,890
Receivables	–	–	1,439	1,489
	69,722	**70,496**	**63,329**	**64,115**

Other than the retention note, all the investments presented above are listed securities with values taken from public information as at the year end. Therefore, we consider these to be Level 1 fair values as required by IFRS 13. Student loans and the retention note (whose underlying pool of financial assets is composed of student loans) are valued using non-observable market inputs and so DfE considers these to be Level 3 as per IFRS 13.

11.2 Financial liabilities by category

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Amortised cost				
Payables – excluding loans	2,494	2,516	2,281	2,484
PF2 imputed lease liability	637	637	647	647
PF2 loan liabilities	–	575	–	591
Financial liabilities and other guarantees	159	159	160	160
	3,290	**3,887**	**3,088**	**3,882**

11.3 Adoption of IFRS 9 – transition

	1 April 2018 IFRS 9		31 March 2018 IAS 39	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Financial assets				
Student loans	60,624	60,624	61,147	61,147
Other loans	95	708	130	743
Investments	1	42	1	42
Receivables	1,439	1,489	1,439	1,489
Cash and cash equivalents	612	694	612	694
	62,771	**63,557**	**63,329**	**64,115**
Financial liabilities				
Payables - excluding loans	2,281	2,484	2,281	2,484
PF2 imputed lease liability	647	647	647	647
PF2 loan liabilities	–	591	–	591
Financial liabilities and other guarantees	160	160	160	160
	3,088	**3,882**	**3,088**	**3,882**

The table above presents movement in carrying values of financial instruments held as at 31 March 2018 before and after the adoption of IFRS 9 on 1 April 2018.

11.4 Fair value disclosures

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Fair values				
Level 1				
Investments	1	44	1	42
Level 2				
None	–	–	–	–
Level 3				
Student loans	67,852	67,852	–	–
Retention note	101	101	–	–
	67,954	**67,997**	**1**	**42**

This section provides information on the determination of fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the nature of the inputs used in determining fair value, financial instruments are classified into three levels as prescribed by accounting standards.

Quoted market price (Level 1): The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Valuation techniques with significant non-observable inputs (Level 3): If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for student loans and the retention note.

There were no transfers between the different levels of the fair value hierarchy.

12. Financial risk

12.1 Financial risk management

As the cash requirements of the Group are met through the Estimate process, the Group is not exposed to the degree of financial risk faced by similar sized business entities. Consequently, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body.

The Group has limited powers to borrow or invest surplus funds and, except for the Group's PF2 transaction, 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. To support the PF2 transaction, the Group both took out and issued loans to allow funds to flow down to the construction firms building the PF2 schools.

Liquidity risk

The Group's net revenue resource and capital requirements are financed by resources voted annually by Parliament. The funding requirements of the Group's PF2 transaction required to support the school construction are aligned to the planned drawdowns from the external investors to manage liquidity risk.

The Group is therefore not exposed to significant residual liquidity risk.

Interest-rate risk

The Group's financial instruments carry nil, variable or fixed rates of interest.

The Group's variable rate financial assets are predominantly its student loans which have an interest rate cap set at RPI or the Bank of England base rate plus 1%.

The interest rate on Pre-2012 loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in the base rate and RPI. The probability of DfE recovering the face value of loans issued is increased when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation for these loans. The impact of the interest rate risk for student loans issued under the Pre-2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if England experiences base rates that are lower than RPI the future cash flows will be impaired further. Additional information about student loans is provided in note 13.3.

The Group's inbound and outbound PF2 financial instruments have fixed interest rates that are broadly aligned and were set within the context of the PF2 transaction as a whole.

Consequently, DfE does not consider it is exposed to significant residual 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 loans originated by the Group (predominantly PF2 and student loans) and the funding of education providers.

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

The Group's student loans retain credit risk since, as per government policy, no mitigating checks on potential borrowers are performed prior to loan origination. More information pertaining to student loan risk profile is provided in note 13.3.

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 non-student loan assets, there is no active market and there is no intention to sell. Therefore, the Group does 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.

DfE considers that the use of third party professional managers mitigates against significant residual market risk.

Other market risk

The other main risks resulting from a downward movement in the economy relate to the potential increase in borrowers' unemployment impacting on their ability to repay student loans. Student loans are also impacted due to the potential resultant negative impact on graduate earnings growth, which lengthens the time period before loans are in repayment and extends the repayment period. This may impact the carrying value in the accounts. It can also lead to an increase in write offs as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

12.2 PF2 risk

The Group has entered into agreements for five regional batches of schools with construction consortia. These schemes are PFI arrangements, with the financing for each of the batches raised by Aggregator Vehicle PLC.

In summary, the transactions involved are:

- investor 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 AT as relevant
- adopting the Group's AuC accounting policy the school assets are not recognised as assets, the value of construction is recognised as a capital grant-in-kind
- the Group recognises an imputed lease liability in respect of unitary charges payable to the consortia to cover the construction value of the schools

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 accounts:

Balance	Note	Counterparty
SoFP		
PF2 loan assets	13.4	Receivable from regional batch consortia
PF2 senior debt	16 & 17	Loan financing
PF2 subordinated debt	16 & 17	Loan financing
PF2 lease liability	16 & 17	Payable to regional batch consortia
SoCNE		
Loan interest income	7	Receivable from regional batch consortia
Loan interest expense		Private sector investors
PF2 service costs	6.1	Payable to regional batch consortia
PF2 finance costs		Payable to regional batch consortia

13. Loans

13.1 Current loans

		2019		2018	
		Department and agencies	Group	Department and agencies	Group
	Note	£m	£m	£m	£m
Student loans	13.3	2,440	2,440	2,470	2,470
Loans to FE sector	13.4	25	25	30	30
Loans to Academy Trusts	13.4	11	11	2	2
PF2 loan assets	13.4	–	26	–	21
Other loans		–	9	–	10
		2,476	**2,511**	**2,502**	**2,533**

13.2 Non-current loans

		2019		2018	
		Department and agencies	Group	Department and agencies	Group
	Note	£m	£m	£m	£m
Student loans	13.3	65,412	65,412	58,677	58,677
Loans to FE sector	13.4	71	71	94	94
Loans to Academy Trusts	13.4	61	61	4	4
PF2 loan assets	13.4	–	548	–	567
Other loans		–	10	–	15
		65,544	**66,102**	**58,775**	**59,357**

13.3 Student loans in higher and further education

Loans for students in higher and further education are originated and recognised by DfE.

13.3.1 Features of student loans

The descriptions below cover both years presented here, the adoption of IFRS 9 has no impact on the terms and conditions of the Group's financial assets.

The different loans schemes are detailed in the table below, for simplicity these have been categorised into: the Pre-2012 and Post-2012 schemes in the following tables. The Group has categorised these in this way mainly because of key differences in the loan characteristics. Post-2012 student loans are available to students at different levels of study: further education (advanced learner loans) and higher education (undergraduate, master's and doctoral) courses.

	Pre-2012 loans scheme	Post-2012 loans scheme
Nature of repayments	Income contingent and generally through the tax system	
Students	Starters in higher education between academic years 1998/99 and 2011/12	**Undergraduate loans** – starters on higher education courses from 2012/13 onwards. **Advanced learner loans** – starters on eligible Level 3 and 4 courses aged 24 or over from academic year 2013/14 onwards. From 2016/17 this has been extended to cover Level 3 to Level 6 for those aged 19 or over. **Master's loans** – starters on masters courses from 2016/17 onwards. **Doctoral loans** – doctoral courses of between 3-8 years in duration.
Value of tuition fee loan (2018/19 rates)	£3,465 (full-time starters from academic year 2006/07)	**Undergraduate loans** – up to £9,250 (full-time) per academic year. **Advanced learner loans** – set at various levels, capped in regulations, subject to size of qualification and sector subject area. **Master's loans** – up to £10,609 per academic year as a contribution to course and living costs. **Doctoral loans** – up to £25,000 per academic year for doctoral courses of between 3-8 years in duration in 2018/19 increasing to £27,500 for new starters in 2019/20 onwards.
Interest rate applicable for 2018/19	Borrowers are charged the lower of RPI or Bank of England base rate plus 1%. If the latter applies, then the base rate cap is in operation. The interest rate is currently 1.8% (2017/18: 1.5%).	**Undergraduate loans and advanced learner loans** – borrowers in study and until the April after leaving their course are charged RPI plus 3%. The interest rate is currently 6.3% (2017/18: 6.1%). From the April after leaving their course, borrowers are charged a variable rate of interest between RPI and RPI plus 3%, depending on their income. **Master's loans** – RPI plus 3% throughout the period of the loan. Rate is currently 6.3% (2017/18: 6.1%). **Doctoral loans** – borrowers are charged interest at RPI plus 3%.

	Pre-2012 loans scheme	Post-2012 loans scheme
Repayment threshold	2017-18: £17,775 2018-19: £18,330	**Undergraduate loans and advanced learner loans** – £21,000 frozen until March 2018. £25,000 from April 2018, increasing annually in line with average earnings. **Master's loans** – frozen at £21,000 **Doctoral loans** – £21,000
Repayment rate	9% above repayment threshold	**Undergraduate loans and advanced learner loans** – 9% above repayment threshold.
		Master's loans – 6% above repayment threshold (in addition to 9% for any Advanced Learner Loans and Undergraduate Loans). **Doctoral loans** – 9% above repayment threshold (in addition to 9% for any Advanced Learner Loans and Undergraduate Loans).

13.3.2 Carrying values

			2019			2018
	Pre-2012 loans	Post-2012 loans	Total	Pre-2012 loans	Post-2012 loans	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April	26,453	34,694	61,147	29,731	31,609	61,340
IFRS 9 transition cumulative adjustment	(185)	(338)	(523)	–	–	–
Revised balance as at 1 April	**26,268**	**34,356**	**60,624**	**29,731**	**31,609**	**61,340**
Additions	7	16,438	16,445	15	15,198	15,213
Repayments	(1,274)	(460)	(1,734)	(1,853)	(438)	(2,291)
De-recognition due to loan sale	(3,142)	–	(3,142)	(2,584)	–	(2,584)
Capitalised interest	–	–	–	457	2,392	2,849
Effective interest	–	–	–	879	(1,208)	(329)
Write offs	(23)	(35)	(58)	(28)	(29)	(57)
Impairment	–	–	–	(164)	(12,830)	(12,994)
Fair value movement	916	(5,199)	(4,283)	–	–	–
Balance as at 31 March	**22,752**	**45,100**	**67,852**	**26,453**	**34,694**	**61,147**

In adopting IFRS 9 as at 1 April 2018, the classification and measurement of student loans has changed. During 2017-18, student loans were held at amortised cost as required by IAS 39. Interest income was recognised using the effective interest method and impairment recognised annually as expected cashflows were revised.

Under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, DfE has used a discounted cash flow model (see below) and this includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the statement of comprehensive net expenditure. IFRS 9 has been adopted following the cumulative catch-up method as at 1 April 2018. The opening balances of student loans have been revalued to FVTPL and the cumulative difference to the previous 1 April 2018 amortised cost balances has been recognised as a movement to the General Fund.

The remeasurement of fair value balance for the 2018-19 financial year is made up of the following:

Description	Value £m
Deferral of the difference in fair value and amount advanced to students on new loans	
Due to the classification of student loans as FVTPL under IFRS 9, and assessment that the financial assets are a Level 3 IFRS 13 classification of financial instruments, the difference between the amount advanced to students and estimated fair value at initial recognition is deferred and recognised as an in-year remeasurement fair value. These fair value gains and losses are recognised within net operating expenditure. For further detail on the IFRS 9 assessment of the deferral see note 1.3.4.	**(7,420)**
Changes made to student loan valuation model	
Annual updates to the student loan valuation models are made to improve methodology and forecast outputs of the models. These are broken down in note 13.3.5.	**(620)**
Interest	
Interest charged on borrower balances	**2,067**
Operational costs	
In accordance with IFRS 9 operational costs of servicing the loan books have been included in the fair value calculation.	**139**
Other fair value movements	
Other fair value movements	**1,551**
	4,283

13.3.3 Sales of part of the student loan book

In December 2018, the government completed the second sale of part of DfE's Pre-2012 English student loan book, as *announced by Ministers*.[30] The sale included loans issued by English local authorities under the previous (Pre-2012) system, specifically those with a statutory repayment date that falls between 2007 and 2009 (2017-18: 2002 and 2006 statutory repayment dates). The carrying value of loans sold was £3.1 billion (2017-18: £2.6 billion) under the revised FVTPL approach, leading to a loss on disposal of £1.1 billion (2017-18: £0.9 billion), this loss has been recorded in the SoCNE. The remaining loan book continues to be accounted for under fair value per IFRS 9.

The loss on sale recognised is the difference between the loans' carrying value and the gross sales proceeds received, and can be principally attributed to the discount rate (RPI+0.7%) that DfE is required to apply to model future expected cashflows to arrive at the accounting carrying values, under both the current FVTPL and the prior year amortised cost approaches. This rate applied in the valuation model is prescribed in the FReM, applies across government, and cannot reflect the return expectations of non-government investors. The second largest factor that the loss can be ascribed to is the different cashflow expectations of investors versus those of DfE. Other considerations are illiquidity, complexity and novelty, which are all expected to reduce if further transactions are undertaken.

As with all government asset sales, in making the decision to sell, value for money is a key assessment. Therefore, to arrive at retention values DfE applied HMT's Green Book and supplementary guidance Value for money and the valuation of public sector assets. Discount rates applied in Green Book assessments differ from the FReM rate applied for the carrying value calculation; and are expected to differ to rates used by potential investors. In addition, and specific to whether the sale of student loans provided value for the taxpayer, a further framework comprising three tests was applied: an efficient market, efficient pricing and the sale to exceed the government retention value. Further details on the *assessment of value for money*[31] have been published.

30 https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-12-06/HCWS317

31 http://data.parliament.uk/DepositedPapers/Files/DEP2017-0778/ICR_Student_Loan_sale_report_to_Parliament.pdf

Throughout the process, government's decision on whether to proceed remained subject to market conditions and a final value for money assessment. The transaction achieved a net sale proceeds value of £2.0 billion (2017-18: £1.7 billion) after sale costs of £2.1 million, which was above the retention value calculated by government.

The position of all borrowers, including those whose loans have been sold, will not change as a result of the sale. The sale does not and cannot in any way alter the mechanisms and terms of repayment: sold loans will continue to be serviced by HMRC and the Group on the same basis as equivalent unsold loans. Purchasers have no right to change any of the current loan arrangements or to contact borrowers directly. Those whose loans were sold were notified in writing by the Group within three months of the sale, for information only. No action will be required. Government has no plans to change, or to consider changing, the terms of Pre-2012 loans.

13.3.4 Face value of student loans

The face value is made up of the opening face value, plus additions and capitalised interest, and less write offs and repayments. Face value excludes fair values and previously excluded impairment and effective interest of loans under the previous IAS 39 valuation approach.

The table below provides a reconciliation between the carrying value and the face value of student loans issued:

	Pre-2012 loans		Post-2012 loans		Total
	£m	£m	£m	£m	£m
Opening carrying value of loan book as at 1 April 2018		26,453		34,694	61,147
IFRS 9 transition cumulative adjustment		(185)		(338)	(523)
Revised opening fair value of loans as at 1 April 2018		**26,268**		**34,356**	**60,624**
Add back opening fair value adjustment		12,562		28,743	41,305
Opening face value as at 1 April 2018		38,830		63,099	101,929
New loans issued	7		16,438		16,445
Disposal through loan sale	(3,880)		–		(3,880)
Interest charged	545		3,500		4,045
Write-offs	(23)		(35)		(58)
Repayments	(1,274)		(460)		(1,734)
		(4,625)		19,443	14,818
Face value of loan book as at 31 March 2019		**34,205**		**82,542**	**116,747**
Less: closing fair value adjustment		(11,453)		(37,442)	(48,895)
Fair value of loan book as at 31 March 2019		**22,752**		**45,100**	**67,852**

13.3.5 Risk

Forecasting models

The value of new loans is calculated using a forecasting model, which uses data on the demographics of higher and further education students in order to predict their likely repayments of loans. There are also models for borrowers taking different loan types – Pre-2012 and Post-2012 loans (undergraduate, advanced learner, doctoral and master's). The models depend on a complex set of assumptions, and particularly on borrowers' earnings. The models are long term in nature and depend on a complex set of assumptions, particularly, they rely on the latest OBR long-term and short-term forecasts for RPI, Bank of England base rate and earnings growth. The valuation of the student loan books is uncertain as they are highly dependent on macroeconomic circumstances and graduate earnings over the next 30-35 years, as well as a number of other complex assumptions, for around five million borrowers. There is little historic repayment data available for Post-2012 loans as these loans were first eligible for repayment in 2016-17. Further information on the *undergraduate model assumptions*[32] is provided on DfE's website.

The assumptions used in the repayment models are formally reviewed each year and the amounts provided reflect the estimate as at 31 March 2019.

Assurance over the carrying fair value

Each year the fair value carrying value of undergraduate loans is compared with the latest outputs from the student loan repayment model, which is re-run using current assumptions. If there is a significant difference, a review is undertaken to determine the reasons for the variance. The carrying value would only be adjusted if there was sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value.

Changes in assumptions and modelling

During 2018-19, changes in assumptions and modelling led to the following movements in fair value for student loans:

- Revised short term forecasts for base rates, RPI and earnings growth were published in the OBR's Economic and Fiscal Outlooks in March 2018 and March 2019. These together with other modelling improvements led to a decrease in the value of Pre-2012 loans of £0.8 billion (2017-18: £0.3 billion decrease) and a decrease in the value of Post-2012 loans of £0.2 billion (2017-18: £0.7 billion decrease). Modelling improvements included refreshing the model for the current year and incorporating improved forecast data, along with new Group data.
- Policy changes announced in 2018, freezing the tuition fee cap for the 2019/20 academic year at £9,250, decreasing the initial transaction to fair value movement for Post-2012 loans by 11%.
- The impact of removing the sold student loans led to a decrease in the remeasurement recognised on the Pre-2012 loans of £0.3 billion.

Since the implementation of IFRS 9 from 1 April 2018, the Group has reclassified their student loans from amortised cost under IAS 39 to FVTPL under IFRS 9.

32 https://www.gov.uk/government/statistics/student-loan-forecasts-england-2017-to-2018

In line with the IFRS 9 rules, the following significant changes have been made to the assumptions and modelling for student loans:

- it has been adjusted to produce carrying values for the student loans based on financial years, as opposed to the previous basis of academic year. This included:
  - adjusting balances brought into the model to reflect values at the start of 2018-19
  - adjusting the timing of outlay to assign payments for an academic year to the correct financial year.
- The calculated difference between the transaction value and the initial fair value of the loans due to the assumed sector subsidy within student loans were previously recognised immediately. However, due to the unobservable inputs used within the valuation of student loans, per IFRS 9 requirements these differences have now been deferred and recognised as an in-year remeasurement.

Impact of changes in assumptions and modelling on loan fair value

	Pre-2012 loans	Post-2012 loans	Total
	£m	£m	£m
Remeasurements to existing loans arising from changes to:			
modelling improvements	(98)	172	74
revised OBR forecasts	(658)	(351)	(1,009)
policy changes	–	(3)	(3)
loan sale	318	–	318
Total loan remeasurement	**(438)**	**(182)**	**(620)**

Assumptions used to calculate the student loan fair value at 31 March 2019

Key macro-economic assumptions that affect the value of the student loan books are earnings growth, RPI inflation and, for Pre-2012 loans, the Bank of England base rate. The tables below indicate the sensitivity of the valuation of future cash flows to these assumptions. Other assumptions, for example, that future graduate earnings will mimic the available data on historical graduate earnings, cannot be easily varied.

The sections below show the changes required in earnings growth, RPI inflation and Bank of England base rate assumptions to create an increase/decrease in the carrying value of each loan book of 1%.

A 1% shift in the carrying value is a relevant deviation to consider as it is larger than the magnitude of the inherent random variation present in the forecasting model. The assumptions could change by a larger amount, causing the carrying value to change by more than 1%. There are no earnings growth forecasts specifically for graduates, so the macro-economic assumptions include both graduates and non-graduates.

Figures are split into Pre-2012 and Post-2012 loan books, as the impact of these assumptions differ between the books. The carrying values at 31 March 2019 were:

- £22.8 billion for the Pre-2012 undergraduate loan book
- £42.1 billion for the Post-2012 undergraduate full-time loan book
- £0.9 billion for the Post-2012 part-time undergraduate loan book
- £1.6 billion for the postgraduate master’s loan book
- £0.06 billion for the postgraduate doctoral loan book
- £0.4 billion for the advanced learner loan book

The total carrying value for Post-2012 loans at 31 March 2019 was £45.1 billion.

The sensitivity analysis shows the relative changes in for a 1% and 2% change in the applied discount rate, and the underlying assumptions (RPI, earnings, Bank of England base rate) which results in a 1% change in the carrying amount of the undergraduate loan books. The changes in the tables below are value changes or relative percentage changes based on the underlying assumptions. For example, an increase in the carrying value of Pre-2012 loans by 1% (or £230 million) would require a 3.0% decrease in RPI.

Discount rate

With the implementation of IFRS 9 from 1 April 2018, we have assessed whether the discount rate currently used to value student loans is appropriate. In accordance with IFRS 9 the Group will be accounting for the student loan book as FVTPL. Therefore, there may be an expectation that the Group will be applying a market discount rate as per IFRS 13. Per IFRS 13, the fair value considers the most advantageous market for an orderly transaction to take place.

However, the rate used in these accounts is prescribed by the FReM interpretation of IFRS 9, and is therefore the rate as promulgated in the HMT PES paper and based on internal government borrowing costs. It is also different to the discount rate HMT require to be used to calculate a retention value for the purposes of assessing value for money in the event of a disposal of a tranche of student loans.

However, it should be noted that there may be a difference in the long term recovered value of loans from the fair value assessment for required accounting treatment and that this is recognised in the public finances through the RAB process. The RAB process is the process by which there is an assessment of the calculation of a net present value (NPV) of the future repayments and the estimated cost to government of borrowing to support the student finance system based on future loan write-offs and interest subsidies in net present value terms. The RAB Charge is the difference between the loan issued and the NPV of the repayments and this is taken into account in the assessment of government budget forecasting purposes on an annual basis. The table below shows the relative change in carrying value (including operational costs) for a 1% and 2% change in the discount rate for each loan book.

	Pre-2012 undergraduate loans	Post-2012 undergraduate loans
	£m	£m
Increase by 1%	(1,619)	(6,000)
Decrease by 1%	1,833	7,285
Increase by 2%	(3,055)	(10,974)
Decrease by 2%	3,917	16,189

RPI

An increase in RPI leads to a higher discount rate, which will lower the carrying value of both Pre- and Post-2012 loans. A higher RPI will increase interest in the following year for Post-2012 loans. It will also increase it for Pre-2012 loans, unless RPI is higher than the base rate +1%, in which case RPI does not determine the interest rate. When the repayment threshold for Pre-2012 loans increases in line with RPI each year, a higher RPI results in lower repayments. The OBR forecast for March 2019 RPI for 2018-19 is 2.72% raising to 3.0% over the long term (2017-18: 4.0%, falling to 3.0% over the long term). The table below shows the relative percentage changes in RPI that would cause a 1% shift in the carrying value (including operational costs) of each loan book.

	Pre-2012 undergraduate loans 1% change = £230 million	Post-2012 undergraduate loans 1% change = £451 million
Increase by 1%	(3.0%)	(4.1%)
Decrease by 1%	3.2%	4.1%

Earnings growth

Higher earnings growth will increase repayments for both Pre- and Post-2012 loans. The Post-2012 interest rate following graduation is linked to a borrower's earnings, so higher earnings will also increase Post-2012 interest. The OBR forecast for 2018-19 average earnings growth is 3.2% rising to 4.3% over the long term (2017-18: 2.8% rising to 4.2% in the long term). The table below shows the relative percentage changes in earnings growth that would cause a 1% shift in the carrying value (including operational costs) of each loan book.

	Pre-2012 undergraduate loans 1% change = £230 million	Post-2012 undergraduate loans 1% change = £451 million
Increase by 1%	3.7%	2.7%
Decrease by 1%	(3.5%)	(2.7%)

Bank of England base rate

A higher base rate will increase interest for Pre-2012 loans, unless RPI is higher than the base rate +1%, in which case the loan interest rate is determined by RPI. The OBR forecast for the Bank of England base rate in 2018-19 is 0.74% (2017-18: 0.4%), rising to between 4.7% and 4.8% in the long term. The table below shows the relative percentage changes in the Bank of England base rate that would cause a 1% shift in the carrying value of each loan book. Note that these figures are larger than the earnings growth and RPI changes, because the base rate is not forecast to impact the Pre-2012 interest rate in the long term. A large short term impact is needed to cause a 1% shift in the carrying value (including operational costs).

	Pre-2012 undergraduate loans 1% change = £230 million	Post-2012 undergraduate loans 1% change = £451 million
Increase by 1%	22.3%	No impact
Decrease by 1%	(18.7%)	No impact

Historical data over the last five years, from 2013-14 to 2017-18 shows the extent of change to earnings growth, RPI rates and base rates:

- The HMT discount rate is used to calculate the remeasurements on student loans. It is the long term cost of government borrowing. This changes infrequently, with the last change occurring during the 2005-06 and 2015-16.
- ONS outturn figures for the financial year average of earnings growth have varied between a low of 1.3% in 2014-15 and a high of 2.5% in 2015-16.
- ONS outturn figures for March RPI have varied between a low of 0.9% in 2014-15 and a high of 3.3% in 2017-18.
- The Bank of England base rate has varied between 0.25% and 0.5% throughout this time. For 2018-19 this rate currently stands at 0.75%.

Another important assumption is the discount rate used to calculate fair values of student loans. This is the long term cost of government borrowing, which is set by HMT. This changes infrequently, with the last changes occurring during 2005-06 and 2015-16.

13.4 Other loans

13.4.1 2019

	FE sector	Academy trusts	PF2	Other
	£m	£m	£m	£m
Opening balance 1 April 2018	124	6	588	25
Cumulative adjustment on adopting IFRS 9 on 1 April 2018	(35)	–	–	–
Amended opening balances	**89**	**6**	**588**	**25**
New lending	60	62	–	7
Effective interest	2	–	21	–
Repayments	(13)	(14)	(35)	(13)
Reclassification	–	18	–	–
Written off	(46)	–	–	–
Impairment movement in year	4	–	–	–
Amortised cost balance as at 31 March 2019	**96**	**72**	**574**	**19**
Gross value	127	72	574	19
Closing impairment allowance	(31)	–	–	–
	96	**72**	**574**	**19**
Disclosed as:				
Current loans	25	11	26	9
Non-current loans	71	61	548	10
	96	**72**	**574**	**19**

13.4.2 2018

	FE sector	Academy trusts	PF2	Other
	£m	£m	£m	£m
Opening balance 1 April 2017	50	5	520	40
New lending	81	3	47	–
Effective interest	3	–	21	–
Repayments	(5)	(2)	–	(15)
Written off	(5)	–	–	–
Amortised cost balance as at 31 March 2018	**124**	**6**	**588**	**25**
Disclosed as:				
Current loans	30	2	21	10
Non-current loans	94	4	567	15
	124	**6**	**588**	**25**

13.4.3 Adoption of IFRS 9

The Group has assessed all the loans described above and concluded that in all cases the loans should be designated as amortised cost under IFRS 9. All the above loan types are judged to have passed the SPPI test since repayments are wholly principal and interest. The Group has no plans to sell the loans and has the ability and intent to hold them to collect out repayments. Consequently, amortised cost is the correct designation.

Loan impairment has moved from an incurred basis model to an expected loss model, which accelerates recognition of potential impairment. The change to an incurred loss model has not been material. Loan books (academy trusts, PF2 and other) are either immature, and don't exhibit significant levels of impairment, or the Group is able to enforce performance through grant funding.

FE sector loans do have significant levels of impairment but the majority of the impairment allowance existed under the previous IAS 39 approach.

13.4.4 FE sector loans

Loans to FE sector represent both Exceptional Financial Support and Restructuring Facility loans provided to FE colleges in order to safeguard learner provision. These loans may be provided to FE colleges over a number of years based on the individual merits of each case.

During the year there have been conversions from Exceptional Financial Support to Restructuring Facility loans, some of which resulted in the write off of balances which are reported in our losses and special payments statement.

13.4.5 Loans to academy trusts

Loans issued to academy trusts comprise the following 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 to allow academy trusts to address estate condition issues. There are three separate pools of loans here:
  - Condition Improvement Fund (CIF) loans to improve school buildings in smaller trusts
  - MAT loans; improvement loans similar to CIF but for larger academy trusts
  - SALIX loans, to support energy efficiency improvements in academies.
- 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 2019 there was only one outstanding loan (2017-18: one), and all balances are scheduled for repayment by 2025.

13.4.6 PF2 loan assets

These are 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 3.56% (2017-18: 3.56%).

13.4.7 Other loans

Other loans comprise legacy loans to learning providers across several sectors to support specific projects the providers. None of the loans are interest bearing.

14. Receivables

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Amounts falling due within one year				
Trade receivables	218	246	198	192
VAT receivable	–	–	9	4
Other receivables	43	43	66	99
Prepayments and accrued income	911	925	1,144	1,163
Deferred tax asset	–	1	–	1
	1,172	**1,215**	**1,417**	**1,459**
Amounts falling due after one year				
Trade receivables	1	1	16	21
Other receivables	153	157	–	–
Prepayments and accrued income	6	7	6	9
	160	**165**	**22**	**30**

15. Cash and cash equivalents

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Balance at 1 April	612	694	599	677
Net change in cash and cash equivalent balances	573	597	13	17
Balance at 31 March	**1,185**	**1,291**	**612**	**694**
The following balances are held as cash at bank and in hand:				
Government Banking Service	1,146	1,178	583	607
Commercial banks	3	77	–	58
Cash held by solicitors on behalf of Group	36	36	29	29
Balance at 31 March	**1,185**	**1,291**	**612**	**694**

15.1 Reconciliation of liabilities arising from financing activities

			Non-cash changes			
	2018	Cash flows	Acquisition	Fair value changes	Other changes	2019
	£m	£m	£m	£m	£m	£m
Supply	591	587	–	–	–	1,178
Long term borrowing	–	–	–	–	–	–
PF2 lease liabilities	647	(10)	–	–	–	637
PF2 liabilities	591	(16)	–	–	–	575
Total liabilities from financing activities	**1,829**	**561**	**–**	**–**	**–**	**2,390**

16. Current payables

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Tax and social security payables	8	11	7	12
VAT payables	23	29	–	–
Trade payables	94	103	93	110
Other payables	624	648	419	448
Accruals and deferred income	1,088	1,202	924	1,050
IFRS 15 contract liabilities	3	3	–	–
Amounts issued from the Consolidation Fund for Supply but not spent at year end	1,178	1,178	591	591
PF2 imputed lease liability	67	67	66	66
PF2 loan liabilities	–	21	–	21
Consolidated Fund extra receipts due to be paid to the Consolidated Fund: received	7	7	–	–
	3,092	**3,269**	**2,100**	**2,298**

17. Non-current payables

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
PF2 imputed lease liability	570	570	581	581
PF2 loan liabilities	–	554	–	570
Other payables	598	587	247	273
	1,168	**1,711**	**828**	**1,424**

PF2 senior debt relates to five bank notes and five bond subscriptions. The borrowing facilities are for a total value of £563.3 million (2017-18: £563.3 million) and as at 31 December 2018 £535.3 million (2017-18: £549.6 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 £4.2 million (2017-18: £2.7 million) of accrued interest and an unamortised effective interest adjustment of £6.7 million (2017-18: £7.2 million) 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 3.56% (2017-18: 3.56%).

The PF2 subordinated debt has been provided by a party related to the Aggregator Vehicle PLC. As at the year end £803,000 (2018: £560,000) interest has been accrued.

18. Provisions for liabilities and charges

18.1 Analysis

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Balance at 1 April	202	396	202	411
Provided in year	56	68	51	59
Transfer in during year	188	–	–	–
Not required written back	(37)	(37)	(4)	(4)
Provision utilised in year	(90)	(90)	(50)	(75)
Borrowing costs (unwinding of discount)	4	4	1	–
Discount rate change	18	18	2	5
Balance of provision at 31 March	**341**	**359**	**202**	**396**
Presented as:				
Current provisions	64	76	28	51
Non-current provisions	277	283	174	345
	341	**359**	**202**	**396**

As described in note 9, following the closure of HEFCE in 31 March 2018 the inherited staff liabilities below transferred to DfE rather than to OfS along with the rest of HEFCE's assets and liabilities.

18.2 Analysis of expected timing of discounted flows

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Not later than one year	64	77	28	51
Later than one year but not later than five years	144	148	87	177
Later than five years	133	134	87	168
	341	**359**	**202**	**396**

18.3 Analysis by provision type – Group

						2019
	Retirement comp'n	Inherited staff liabilities	RPA	AUC	Other	Total
	£m	£m	£m	£m	£m	£m
1 April 2018	155	187	15	16	23	396
Provided in year	14	–	47	–	7	68
Not required written back	(1)	(34)	–	–	(2)	(37)
Provision utilised in year	(12)	(23)	(35)	(14)	(6)	(90)
Borrowing costs (unwinding of discount)	–	5	(1)	–	–	4
Discount rate change	(2)	22	(2)	–	–	18
At 31 March 2019	**154**	**157**	**24**	**2**	**22**	**359**

Individual provisions of less than £10 million have been aggregated on the basis of materiality.

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 (Training Commission and other 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.

Inherited staff liabilities

These are certain staff related commitments of HEIs that were previously local authority maintained. These liabilities were transferred from local authorities to HEIs on incorporation and the Education Reform Act 1988 gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse institutions and local authorities for such liabilities. Upon its formation HEFCE assumed the PCFC's main responsibilities and provided funding for reimbursements as follows:

- early retirement or redundancy compensation payments
- protection of salary
- pension increases under the Local Government Superannuation Scheme for former non-teaching staff of institutions formerly funded by the PCFC

Following the closure of HEFCE on 1 April 2018 DfE has taken on the liabilities. The closing provision estimate is based on data of all pension scheme members and uses various assumptions. However, the provision valuation approach does not constitute a full actuarial valuation, and so may differ from such a third party assessment. An analytical review is undertaken annually in order to verify the reasonableness of the provision. The provision value is an estimate based upon projected payments, mortality rates and other actuarial-style assumptions. Current assumptions mean that payments are expected to continue until at least 2041. The provision is discounted using HMT's nominal general provision rates disclosed in the accounting policy.

Risk Protection Arrangement

The RPA for ATs 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 20 for further details.

Other provisions

Provisions of less than £10 million are presented as other provisions.

Other provisions include:

- a potential breach of warranties made to investors for student loans sold that would not have been, had all information been available at the sale date. These loans will be repurchased by DfE from the SPV in July each year
- provisions for costs of properties occupied by the Group
- provisions for additional costs on contracts for the construction of new free schools
- provisions for the cost of academy closures

Details of other provisions held by the agencies and NDPBs can be found in their individual ARAs.

19. Financial liabilities and other guarantees

19.1 Analysis

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Balance at 1 April	160	160	172	172
Movement in year	12	12	(6)	(6)
Utilisation in year	(17)	(17)	(13)	(13)
Effective interest charge	4	4	7	7
Balance at 31 March	**159**	**159**	**160**	**160**
Presented as:				
Current liabilities	12	12	7	7
Non-current liabilities	147	147	153	153
	159	**159**	**160**	**160**

19.2 Analysis by type – Group

			2019			2018
	PCDL financial guarantee	Student loan debt sale subsidy	Total	PCDL financial guarantee	Student loan debt sale subsidy	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April	23	137	160	29	143	172
Movement in year	6	6	12	(4)	(2)	(6)
Utilisation in year	(4)	(13)	(17)	(2)	(11)	(13)
Unwinding of discount	–	4	4	–	7	7
Balance at 31 March	**25**	**134**	**159**	**23**	**137**	**160**

PCDL financial guarantee

The Professional and Career Development Loans programme operates by providing loans to learners to enable them to complete a course of study. High street banks provide the loans to learners at a rate of interest below what might ordinarily be offered to them in such circumstances. The Group has a liability for the cost of default on such loans and for the interest costs of the loans while the learners are in learning. Most of the liability is for the default on the loans that is classified as a financial guarantee.

Student loan debt sale subsidy

The student loan debt sale subsidy is classified within other financial liabilities and is measured at amortised cost.

The student debt sale subsidy is the additional cost to DfE arising from the government subsidising the purchaser of the debts beyond the cost that the government would have incurred had the debts remained in the public sector. This liability arose from loan sales in 1998 and 1999. The subsidy will continue until all the loans are extinguished which is expected to be no earlier than 2028, which is the 30-year duration of the first debt sale agreement.

The annual debt sale subsidy payments are calculated according to a formula set out in the debt sale contracts signed in 1998 and 1999. The subsidy consists of two elements. The interest subsidy element of the payment is calculated as LIBOR plus margin less RPI. Margin is calculated as a percentage of the portfolio with different rates for each contract. The key risk is therefore that the gap between LIBOR and RPI increases. The other key element relates to compensation payable for loan repayments which are deferred or written off, under the terms of the original loan contracts with borrowers.

20. Risk protection arrangement

The RPA (a replacement for commercial insurance for the academy trusts) allows the Group to comply better with *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:

- AT losses:
  - Property damage and business interruption
  - UK travel
- Non-AT claimants:
  - Employers' liability
  - Third party liability

Claim costs are borne by DfE from existing resources; no reserves fund or portfolio of investment assets is built up to cover future claims. RPA membership is restricted to ATs and covers losses incurred at the academy site on academy business. Consequently, the risks associated with the RPA are limited to the academy schools sector within England.

No risk is ceded to re-insurance parties.

20.1 Reported balances

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Statement of Comprehensive Net Expenditure				
Membership income (presented in note 3)	48	48	40	40
Expected losses for the year (presented in note 18, as provisions, provided in year)	47	47	26	26
Operational costs (presented in note 6.1, in professional fees)	–	–	1	1
Statement of Financial Position				
Unsettled claims (presented in note 16, in other payables)	38	38	28	28
Closing RPA provision (presented in note 18)	24	24	15	15

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

20.2 Assumptions

The Group has insufficient internal data upon which to model realistically DfE's expected losses, because of the relative immaturity of RPA. To resolve this, the Group has relied on the Government Actuary's Department (GAD) to perform two formal provision reviews of RPA at August 2018 and as at March 2018.

The claim provisions for each class, provided by GAD, are calculated on a 'best estimate basis' which means that they do not contain any explicit margins for either prudence or optimism.

As the RPA has become more established, the claims activity to date has become more statistically credible for estimating future claims experience. It has therefore been reasonable to begin taking more account of actual experience and placing less reliance on the initial sector claims history survey conducted in 2015.

20.3 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. DfE takes on the insurance risk from ATs.

The Group mitigates insurance risk by improving risk management practice in its academies through 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

The Group is not exposed to market risk in relation to the RPA.

The RPA is similar to a group-wide scheme whereby insurance risk is retained within a reporting group. However, the 2016/17 separation of financial reporting of the Group and the academy sector into their own ARA has removed RPA members from this reporting group. Notwithstanding the separation, DfE is still responsible to Parliament for the academy sector and so management still consider the RPA to be in effect a 'group-scheme'. RPA claims are settled from existing funds of the Group and no asset portfolio designed to support future payments is being created. 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

The Group does not consider itself to be exposed to significant credit risk.

The Group recovers membership fees from grant payments made to member ATs. In addition, the Group does not cede insurance risk to a re-insurance provider.

Liquidity risk

The Group is exposed to liquidity risk.

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 Group 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.

21. Retirement benefit obligations

21.1 Student Loans Company Limited

SLC operates the SLC Limited Retirement and Death Benefits Scheme for all permanent staff, which is a defined benefits scheme that provides benefits based on final pensionable salary. The scheme deficit as at 31 March 2019 was £31.1 million (2018: deficit of £23.2 million). Further details of the pension scheme can be found in *SLC's ARA*.[33]

22. Capital and other commitments

22.1 Capital commitments

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

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Programmes:				
Free schools	4,665	4,665	2,631	2,631
PSPB	509	509	195	195
National Colleges	–	–	8	8
Secure accommodation	10	10	–	–
Exceptional capital	15	15	–	–
SSICB	27	27	–	–
Property, plant and equipment	36	38	81	83
Intangible assets	1	2	–	2
	5,263	**5,266**	**2,915**	**2,919**

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 £36 million (2018: £81 million) commitment presented above within the Department and agencies column relates to the project to reconfigure the Old Admiralty Building (OAB). In 2018-19 DfE made the decision to pull out of the decision to occupy OAB. During 2019-20 DfE expects to pass responsibility for the site to the Office of Government Property (OGP) for ongoing management. The reduction of the commitment balance represents a reassessment of what works the Group retains responsibility for before passing across to OGP. DfE has signed a new lease for Sanctuary Buildings for 15 years.

33 https://www.gov.uk/government/collections/slcs-annual-reports-and-accounts

22.2 Commitments under operating leases

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

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Land and buildings				
Not later than one year	21	28	20	27
Later than one year and not later than five years	75	92	39	60
Later than five years	136	136	14	16
	232	**256**	**73**	**103**
Expected receipts from sub-leases	(14)	(14)	(7)	(8)
	218	**242**	**66**	**95**
Other				
Not later than one year	–	–	–	–
Later than one year and not later than five years	–	1	–	1
Later than five years	–	–	–	–
	–	**1**	**–**	**1**

22.3 Obligations under PFI contracts (on balance sheet)

Total future minimum payments under on-balance sheet PFI and other service concession arrangements are given in the table below for each of the following periods:

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Not later than one year	67	67	66	66
Later than one year and not later than five years	272	272	270	270
Later than five years	1,336	1,336	1,404	1,404
	1,675	**1,675**	**1,740**	**1,740**

Under the terms of the PF2 agreement (the Group's only PFI transaction), the Group 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.

22.4 Other financial commitments

The Group has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements), for the previous student loan debt sale and marking key stage tests. The payments to which the Group are committed are as follows.

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Non-cancellable contracts				
Not later than one year	54	54	40	40
Later than one year and not later than five years	63	63	49	49
Later than five years	62	62	80	80
	179	**179**	**169**	**169**

No commitments are included here in respect of student loans, as loan repayments only become due when student attendance is confirmed at the start of each term.

22.5 Education grant funding commitments

Education grant funding commitments include: those held by ESFA for private finance initiative grants to local authorities and voluntary-aided schools; and ESFA and ECITB with training providers.

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Not later than one year	1,248	1,703	1,182	1,659
Later than one year and not later than five years	3,009	4,461	3,008	3,011
Later than five years	7,497	7,497	8,250	8,250
	11,754	**13,661**	**12,440**	**12,920**

22.6 Apprenticeship Levy funding

Income from the Apprenticeship Levy is accounted for by HMRC, and as such, no levy income is shown in the Group's ARA. Grants paid by the Group to apprenticeship training providers are funded through the Supply Estimates process and are accounted for in line with our grant expense accounting policy (see note 1.11). The Group has commitments to apprenticeship training providers for English apprentices who are already enrolled on training courses as at the year-end. The Group's commitments cover the reminder of the courses but will only crystallise when the apprenticeship training has taken place.

	2019		2018	
	Department and agencies	Group	Department and agencies	Group
	£m	£m	£m	£m
Not later than one year	837	837	455	455
Later than one year and not later than five years	641	641	277	277
Later than five years	4	4	2	2
	1,482	**1,482**	**734**	**734**

22.7 Other educational grants

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

23. Contingent liabilities

23.1 IAS 37 contingent liabilities

23.1.1 Quantifiable

The Group holds the following quantifiable contingent liability as described by IAS 37.

Guarantee to the Local Government Pension Scheme

A guarantee to Local Government Pension Scheme funds to meet pension deficits if an AT closes. Decreased to £11.9 million in the year (2018: £12 million) in line with annual estimates of AT deficits, and has been reported to Parliament by departmental minutes.

23.1.2 Unquantifiable

The Group has identified the following unquantifiable contingent liabilities.

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 practise to negotiate with PSBP contractors and partially meet 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 directly 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 a liability for the Group. These are considered by the Group to be remote and unquantifiable as they relate to breach of contractual conditions.

Overage clauses

As a result of entering into contracts for academy and free school site purchases, the Group is subject to a number of overage clauses. These are considered remote as they relate to changes in contractual arrangements.

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.

24. Related party transactions

DfE is the parent of the agencies and sponsor of the NDPBs shown in note 25. These bodies are regarded as related parties with which DfE has had various material transactions during the year. These are mainly financing to the agencies and payments for grants-in-aid to the NDPBs. All such transactions have been eliminated during the preparation of these consolidated accounts.

Relationships with academy trusts, and their academies, are classified as related parties only at the AT level which is the corporate body. Therefore, only Departmental Board members who are trustees of ATs are classified as being a related party. DfE considers governors of local governing bodies for individual academies are insufficiently influential at the AT-level, not being trustees, to be classified as related parties.

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 BEIS and local authorities. DfE also makes pension contributions into public sector pension schemes.

As well as the disclosures in the Remuneration and Staff Report, the following relationships are also considered as related parties and have therefore been disclosed in line with IAS 24. Transactions are classified as related party transactions if they occurred during the period the board member named held office.

Disclosures are split between those individuals who were board members as at the year-end below, and those whose term as a board member ended during the year.

The following are related party disclosures for those board members in post at year end.

- Nick Gibb's husband is:
  - a non-executive governor at CityLit
  - a director of Brandcap Group Limited
  - the Chief Executive Officer of Populus Limited
- Lord Agnew is:
  - a trustee of The Public Interest Foundation, as is his partner
  - was a trustee until 31 August 2018 of Inspiration Trust, a multi-academy trust that operates Charles Darwin Primary School, Cobholm Primary Academy, Cromer Academy, East Point Academy, Great Yarmouth Charter Academy, Great Yarmouth Primary Academy, Hethersett Academy, The Hewett Academy, Norwich, Jane Austen College, Norwich Primary Academy, Sir Isaac Newton Sixth Form, Stradbroke Primary Academy and The Thetford Academy
- Chris Skidmore was, from 5 December 2018, a minister with responsibilities in BEIS
- Nadhim Zahawi's spouse is a director of Zahawi and Zahawi Limited, Wantage Limited and Brierley Hill Limited
- Richard Pennycook:
  - was a director of The Hut Group Limited to December 2018
  - is chair of the board of directors for Fenwick Limited, Howdens Joinery PLC and the British Retail Consortium
- Ian Ferguson:
  - is a director Metaswitch Networks Limited
  - his partner is chief executive of Edmonton Academy Trust and head teacher of the trust's academy, Edmonton County School
- Baroness Ruby McGregor-Smith is:
  - trustee of Cumberland Lodge
  - council member of the University of Bath
- Toby Peyton-Jones is a trustee of The Edge Foundation
- Irene Lucas is:
  - chair, and family members are directors and joint owners of Hays Travel Limited
  - along with family members trustees of Hays Travel Foundation
  - a director of Irene Lucas Consulting Limited
- Jonathan Slater's wife is chair of the education governing body for The National Centre for Young People with Epilepsy, and a member of the Committee on Standards in Public Life
- Mike Green is a trustee of Transformation Trust (from 21 March 2019) and board member for the Northern Estates Programme. Mike is also a Governor at Nottingham College
- Emran Mian is a trustee of Maslaha
- Paul Kett is (from 11 October 2018) a director of Skills Force Training Limited, Skills Force Development and Skills Force Development (Scotland)
- Andrew McCully is a trustee of:
  - Skill Force International, to October 2018
  - Palatine Estate Charity
  - The Stoke Newington Relief in Need
  - Parochial Church Council of the Ecclesiastical Parish of St Mary's, Stoke Newington

Related party disclosures for those board members who were no longer board members as at the year-end are given below. The date individuals ceased to be a board member, and so cease to be included in related party disclosures, is also given below.

- Sam Gyimah was, until 30 November 2018, a minister with responsibilities in BEIS
- Howard Orme was a non-executive director of Intergrated Debt Services Limited

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

	2018-19		2017-18	
	Net payments/ (receipts)	Receivable/ (payable)	Net payments/ (receipts)	Receivable/ (payable)
	£000	£000	(Restated) £000	£000
Government bodies				
Department for Business, Energy and Industrial Strategy	59,492	(1,693)	(1,320,926)	–
Ministry of Justice	–	–	(766)	(497)
Academy trusts				
Inspiration Trust	15,285	–	37,957	(36)
Edmonton Academy Trust	11,528	–	10,653	–
Other education sector bodies				
University of Bath	16,092	6	33,294	(7)
CityLit	7,965	(23)	–	–
Non-government bodies				
Populus Limited	271	(19)	284	(108)
Find a Future trading as UK World Skills	–	–	346	–
The National Center of Young People with Epilepsy	1,532	–	–	–
Transformation Trust	9,532	(39)	–	–
Hays Travel Limited	948	–	–	–
Prior year related parties				
Future Academies	–	–	20,476	–
University of Hertfordshire	–	–	–	–
Page Group Plc	–	–	303	–
Integrated Debt Services Ltd	–	–	1,546	211
Foreign and Commonwealth Office	–	–	(89)	–
The Midland Academies Trust	–	–	16,592	–
Hertswood Academy	–	–	7,531	–
Harefield Academy Trust	–	–	4,760	–
The Mellor Educational Trust	–	–	12,536	–
Coventry University	–	–	26,975	(12)
North Warwickshire and Hinckley College	–	–	14,125	–
TBAP Foundation	–	–	187	–

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

Transactions disclosed above for academy trusts include all transactions which occurred with their relevant academies.

25. Entities within the Group boundary

25.1 Closing position

The entities within the boundary during 2018-19 comprise Supply financed agencies and those entities listed in the Designation and Amendment Orders presented to Parliament.

They are:

Executive Agency:

- Education and Skills Funding Agency (ESFA)
- Teaching Regulation Agency (TRA)
  repurposed from the National College of Teaching and Leadership (NCTL) on 1 April 2018
- Standards and Testing Agency (STA)

Executive NDPB:

- The Construction Industry Training Board (CITB)
- Engineering Construction Industry Training Board (ECITB)
- Film Industry Training Board (FITB)
- Institute for Apprenticeships and Technical Education (IFATE)
  (renamed from the Institute for Apprentices from 31 January 2019)
- Located Property Limited (LocatED)
- Office of the Children's Commissioner (OCC)
- Office for Students (OfS)
- Student Loans Company Limited (SLC)
- Social Work England (SWE)

Advisory NDPB:

- School Teachers' Review Body (STRB)
- Social Mobility Commission

Other:

- Aggregator Vehicle PLC
- Office of the Schools Adjudicator

The ARAs of all of the above can be found on GOV.UK website other than Student Loans Company Limited, Aggregator Vehicle PLC and Located Property Limited, which are available on Companies House.

25.2 Movements in the year

The following bodies left the Group during the year as indicated:

- Equalities and Human Rights Commission moved to DfID on 1 April 2018
- Office for Fair Access and Higher Education Funding Council for England closed and transferred the majority of their activities to the Office for Students (OfS) on 1 April 2018

26. Events after the reporting period

26.1 EU Exit

The expected date for the UK's departure from the EU was changed from 12 April 2019 to the end of October 2019 after the end of the reporting period. Significant uncertainty remains regarding the impact any exit scenario will have, and so we continue to monitor the issue accordingly.

26.2 Authorisation

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

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Annexes

Annex A – Sustainability performance

Better regulation

Much of DfE's regulation aims to safeguard children and ensure they have a good education, and that there are enforceable standards. The Small Business, Enterprise and Employment Act 2015 and the Enterprise Act 2016 help the government (and therefore DfE) to reduce the overall burden of regulation on the business, voluntary and community sectors. The main educational stakeholders affected by this legislation are: privately funded nurseries; childminders; privately funded independent schools; residential holiday schemes for disabled children; Higher Education Institutes (HEIs); and FE colleges.

Business Impact Target (BIT)

The government has committed to reducing the impact of regulatory burdens on business by £9 billion during this Parliament. The *Better Regulation Annual Report 2017 to 2018*[34] reported that DfE did not introduce any qualifying regulatory provisions between 9 June 2017 and 20 June 2018 that contributed to the BIT. The BIT annual report 2018 to 2019 will report that DfE introduced the Office for Students to regulate the higher education sector with a new regulatory framework; which contributed £68 million (de-regulation) to the BIT.

Regulatory provisions introduced

Impact assessments

Regulatory impact assessments are required before DfE makes changes to regulatory measures and additionally, in some cases, before it consults on making the proposed changes. DfE asked the Regulatory Policy Committee to give opinions on two impact assessments during the year. Both were rated as 'fit for purpose' at first submission.

Post implementation reviews

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. DfE had no regulations requiring review in this reporting period.

Alternatives to regulation

DfE wants to ensure that all regulations are fair and effective. Complying with regulation costs businesses time and money, and red tape can make running businesses unnecessarily difficult. Following the 2012 Analytical Review commissioned by Michael Gove, then the Secretary of State, DfE developed five policy tests as a framework for improving policymaking, and five delivery tests designed to flesh out the key delivery issues that should be considered. 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 us to consider alternative approaches, tools and methods.

Behavioural insights can help us understand why people make seemingly sub-optimal decisions. DfE's Behavioural Insights Unit helps to embed behavioural science into DfE's policy-making process. Its aims are to support DfE to use behavioural insights to tackle policy challenges; help commission high quality behavioural research; and build DfE's knowledge and ability to apply behavioural insights.

34 https://www.gov.uk/government/publications/better-regulation-annual-report-2017-to-2018

Sustainability

In 2018-19 DfE met or exceeded the *Greening Government Commitments (GGC)*[35] targets for greenhouse gas (GHG) reduction, paper use, waste arising and recycling rates as well as reducing associated financial costs. The new greenhouse gas emissions target is a 56% reduction by 2019-20.

Definition

Sustainability recognises that the three 'pillars' of the economy, society and the environment are interconnected. It is a long-term, integrated approach, to achieving quality of life improvements while respecting the need to live within environmental limits. DfE subscribes to a number of targets including the mandatory *GGC*[36] for reducing energy, water, paper and other resource use, reducing travel and managing waste.

Scope

The data below shows DfE's present position for 2018-19 against a 2009-10 baseline (unless otherwise stated). Environmental data is estimated based on a 12 month period from January 2018 to December 2018. DfE reports on all its agencies, and NDPBs including OfS, ESFA and SLC.

We are unable to report data from locations where landlords do not provide data. 2017-18 non-financial indicators have been restated to include actual environmental performance for the 2017-18 financial year.[37] Financial indicators relate to the financial year 2018-19 and are based on invoices or data from external suppliers.

Governance and data validation

The Ministry of Justice (MoJ) Estates Directorate is responsible for managing DfE's property portfolio. However, overall responsibility for sustainability remains with DfE's executive team.

Internal data validation checks are carried out by the MoJ's Sustainability Team and its data contractors and external validation audits of GGC data are carried out on Defra's behalf by the Building Research Establishment.

In order to report the greenhouse gas emissions associated with our activities, we have converted our 'activity' data such as distance travelled, litres of fuel used or tonnes of waste disposed into carbon emissions. GHG conversion factors used in this report can be found in the *Government environmental impact reporting requirements for business*.[38]

35 https://www.gov.uk/government/publications/greening-government-commitments-2016-to-2020
36 https://www.gov.uk/government/collections/greening-government-commitments
37 In accordance with annual reporting conventions across other UK Government departments, the Department's non-financial indicators are compiled using data from the final quarter of the previous reporting year plus the first three quarters of the current reporting year.
38 https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting

Summary of GGC performance

Overall GGC Performance

Requirement	Target (baseline)	2018-19	2017-18	2016-17	Achievement against target
Reduce GHG emissions	56%	56%	53%	48%	
Reduce domestic business flights	30%	26%	29%	14%	
Continue to reduce overall waste	n/a	72%	77%	71%	
Landfill waste to be less than 10%	10%	7%	19%	13%	
Increase recycling	n/a	83%	63%	72%	
Reduce paper use by 50%	50%	80%	82%	72%	
Continue to reduce total estate water consumption	n/a	31%	38%	38%	

DfE recorded a 56% reduction in its overall greenhouse gas for 2018-19 compared to 2009-10, meeting the GGC requirement. DfE is working with its facilities management providers to improve its waste data, reduce waste to landfill and increase recycling rates. During 2018-19 water usage increased compared to the previous year due to higher than average usage at one large site and the need for estimation of data where actual figures were not able to be obtained. DfE has achieved over £2 million savings from energy bills since 2009-10, due to investment in energy efficiency projects and estate rationalisation.

Greenhouse gas emissions

DfE has reduced its total in-scope gross greenhouse gas (GHG) emissions by 56% since the 2009-10 baseline year. This has been achieved largely through improved building management (primarily relating to heating and cooling), estate rationalisation and co-location, and adopting more resource efficient behaviours.

		2018-19	2017-18*	2016-17	2015-16	2009-10 baseline
Non-financial indicators (tCO_2e)	Total Gross Scope 1 (Direct) GHG emissions**	2,248	2,021	2,443	2,279	3,971
	Total Gross Scope 2 (Energy indirect) emissions	6,268	6,806	8,216	9,755	17,465
	Total Gross Scope 3 (Official business travel) emissions	3,245	3,520	3,112	4,881	5,099
	Total emissions – Scope 1, 2 & 3	**11,761**	**12,347**	**13,771**	**16,915**	**26,535**
Non-financial indicators (MWh)	Electricity: non-renewable	20,278	17,803	16,710	20,957	34,270
	Electricity: renewable	155	283	2,865	13	–
	Gas	11,928	7,644	8,643	11,724	21,511
	Gas oil	–	2,047	2,884	–	–
	Steam	702	749	737	308	2,334
	Diesel	15	13	–	–	–
	Total energy	**33,077**	**28,526**	**31,839**	**33,002**	**58,115**
Financial indicators (£000)	Expenditure on energy	1,425	1,665	2,391	1,584	3,594
	CRC expenditure	85	73	109	151	N/A
	Expenditure on official business travel	657	15,081	11,588	9,042	10,163
	Expenditure on domestic air travel	30	24	149	40	21
	Total expenditure on energy and business travel	**2,197**	**16,843**	**14,237**	**10,817**	**13,778**

* Data for 2016-17 onwards includes OfS (HEFCE), ESFA and SLC but figures for previous years are exclusive of these bodies.
** Definitions for Scope 1-3 emissions can be found at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69282/pb13309-ghg-guidance-0909011.pdf

The increase on electricity and gas consumption across 2017-18 to 2018-19 is mostly due to an increase in the Group's estate.

In 2018 DfE agreed a revised GHG reduction target of 56% to cover the reporting period 2018-20. This is an improvement from the previous 2016-20 target which stood at a 45% reduction and builds on previous success in this area.

Travel

	2018-19	2017-18	2016-17	2015-16	2009-10 baseline
Domestic air travel					
Number of flights	1,332	1,270	1,550	1,027	1,794

2017-18 non-financial indicators have been restated to include actual environmental performance for the financial year. The number of domestic flights has reduced by 26% against DfE's 2009-10 baseline and improved from 2017-18 performance. The SLC, included in reporting from 2016-17, flies domestically for operational reasons and to save overall costs.

Waste minimisation and management

Waste			2018-19	2017-18	2016-17	2015-16	2009-10 baseline
Non-financial indicators (tonnes)	Hazardous waste		–	–	–	8	51
	Non-hazardous waste	Landfill	65	154	139	129	585
		Reused/ recycled	750	490	708	747	2,680
		Composted	18	7	15	17	–
	ICT waste	Reused	–	–	–	4	–
		Recycled	17	–	9	33	34
	Incinerated with energy from waste		95	141	116	194	132
	Total waste		**945**	**792**	**987**	**1,132**	**3,482**
Financial indicators (£000)	Reams of paper		34,374	31,146	48,379	46,808	169,806
	Total disposal cost		91	95	93	180	149
	Paper procured		38	31	79	64	107

Financial data for 2016-17 onwards includes OfS (HEFCE), ESFA and SLC but figures for previous years are exclusive of these bodies. 2017-18 non-financial indicators have been restated to include actual environmental performance for the financial year.

Waste has been reduced by 72% since 2009-10, and 7% of waste is currently sent to landfill. DfE works closely with its facilities management provider to actively manage all aspects of DfE's office waste including provision of recycling facilities, data analysis and improving staff awareness.

Paper use has been cut largely due to better print facilities (including 'print on collection' settings).

Water consumption

Water		2018-19	2017-18	2016-17	2015-16	2009-10 baseline
Non-financial indicators (m^3)	Total water consumption	81,555	73,170	67,939	60,987	117,600
Financial indicators* (£000)	Total water supply costs	110	92	118	91	122

* Financial data for 2016-17 onwards includes HEFCE, SFA and SLC but figures for previous years are exclusive of these bodies.

Since 2009-10, DfE has reduced water use by 31% through leak reduction 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. In 2018-19 water usage increased compared to the previous year due to higher than average usage at one large site and the need for estimation of data where actual figures were not able to be obtained.

Other sustainability commitments

DfE is committed to procuring sustainably and reports against a number of transparency commitments as part of the GGC framework. Progress is summarised below.

Consumer single use plastics

DfE is committed to removing consumer (avoidable) single use plastics from its office estate by 2020 in line with the Government's pledge in the 25-year Environmental Plan. Considerable success has already been achieved at DfE's main office building and HQ, Sanctuary Buildings, where we have removed plastic cutlery and crockery, using only re-usable metal cutlery and china; take away containers are now compostable; plastic straws have been removed and wooden stirrers have been introduced; plastic coffee cups and drinking cups available at tea points have been replaced with compostable alternatives and single-use condiment sachets and milk jugs have been replaced by larger sauce/milk bottles that provide a larger number of servings and reduce overall plastic use.

DfE has also introduced similar initiatives at other sites directly managed by Ministry of Justice on their behalf. Over the coming year DfE plans to work more closely with arm's length bodies and reach out to landlords and their caterers, where facilities are indirectly managed, to make stakeholders aware of the elimination scheme and encourage their participation.

Biodiversity

DfE's estate comprises mainly of buildings with little outside space and limited opportunity to enhance the natural environment.

Sustainable procurement

We have an in-house procurement team who ensure sustainability clauses are embedded within DfE's facilities management and ICT contracts. New contracts require that suppliers meet the Government Buying Standards. New procurement staff are provided with training on sustainable procurement.

Procurement of food and catering services

Food provided in catering outlets is local and in season, where possible. DfE buys food from farming systems that minimise harm to the environment, such as produce certified by LEAF, the Soil Association or Marine Stewardship Council. Fairly traded and ethically sourced products are also available. The amount of foods of animal origin eaten is being reduced, as livestock farming is one of the most significant contributors to climate change, and caterers ensure that meat, dairy products and eggs purchased are produced to high environmental and animal welfare standards. The amount of palm oil used is also being reduced.

Climate change adaptation

Climate resilient designs are incorporated in retrofit projects and new builds. In addition, robust business continuity plans are in place to manage occurrences of extreme weather events.

Sustainable construction

DfE is committed to achieving BREEAM excellent/very good, for new builds or major refurbishment in line with the Government Buying Standards. The major refurbishment of Old Admiralty Building, which continued throughout 2018-19, is on track to meet the 'very good' standard.

Rural proofing

Defra's rural proofing impact assessment is an integral part of the DfE's approach to developing regulation.

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. For example, the national funding formula includes a sparsity factor that targets funding to small and remote schools, which we know often play a crucial role in the communities they serve.

Governance

DfE undertakes a stringent monitoring regime in relation to GGC 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.

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 GIAA, reported to the Accounting Officer via DfE's finance function.

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 GGC returns. These external validation audits are carried out on Defra's behalf by Carbon Smart, who has praised DfE's good practice in data management.

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.

Annex B – Departmental statistics

Fire, health and safety

DfE is committed to ensuring the health, safety and wellbeing of staff, contractors and all others who could be affected by its activities. It fully accepts its responsibilities under the Health and Safety at Work etc. Act 1974.

We recognise that effective management of fire, health and safety makes a significant contribution to our overall business performance and strategic aims, as well as a positive impact on the wellbeing of staff. DfE acknowledges that positive, proportionate health and safety risk management prevents harm and enables efficient delivery of services across DfE.

Category	2018-19	2017-18	2016-17
Total number of employee accidents/incidents	11	22	42
Total number of non-employee/ member of public/detainees accidents/incidents	–	7	3
Total number of near misses	1	–	–
Total number of reporting of injuries, deaths and dangerous occurrences regulations	–	–	–

DfE's accident and incident data illustrates a reduction in the total number of reported accidents and incidents overall in comparison to last year's data.

Personal data security

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

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

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

Protected personal data related incidents formally notified to the Information Commissioner's Office in 2018-19 are summarised in the table below:

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
December 2018	Loss of paper documents from outside secured government premises	A funding providers' subcontractor sent 397 learner files (securely tracked) by courier for archiving but the parcel was lost in transit.	397	ICO notified and content, no further action required
Further action on information risk	Thorough investigation carried out by courier. No evidence of theft/crime. A full archiving log retained of records transferred. Clerical documentation was also stored electronically so there are copies of all documentation lost. There is no evidence of the physical files ever being recovered.			
March 2019	Unauthorised disclosure	Letters with sensitive information about an investigation into potential gross misconduct sent to an incorrect email address. Personal data in letter included health data.	1	ICO notified and content, no further action required
Further action on information risk	Data subject informed and apology issued. Incorrect recipient contacted and apology made. Incorrect recipient confirmed deletion of both emails without reading.			

Note: Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Protected personal data related incidents reported in 2018-19 are summarised in the table overleaf. Incidents which do not fall within the criteria for reporting to the Information Commissioner's Office, but are recorded centrally within DfE, 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	None
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	1
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	None
IV	Unauthorised disclosure	1
V	Other	None

The information contained in the table above only relates to personal data security for DfE and its agencies. DfE's NDPBs will report personal data related incidents in their own statutory ARAs.

Departmental correspondence

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. DfE has set itself the more challenging target of replying to 95% of treat official correspondence within 15 working days and ministerial correspondence within 18 working days. Freedom of information requests have a deadline of 20 working days as governed by the Information Commissioner's Office.

Between 2015-18, the Group reported against both correspondence types with a 15-day target and included correspondence for the Government Equalities Office, then part of the Group.

Treat official correspondence	2018-19
Internal 15-day deadline	
Number	23,037
Deadline met	92%
20-day deadline	
Deadline met	96%

Ministerial correspondence	2018-19
Internal 18-day deadline	
Number	8,584
Deadline met	92.7%
20-day deadline	
Deadline met	95.3%

Freedom of Information requests	2018-19	2017-18	2016-17
20-day deadline			
Number	2,825	2,501	2,478
Deadline met	85%	87%	83%

Communications, publicity and advertising

In 2018-19, DfE continued to deliver highly effective communications activity in support of Ministerial priorities and the wider government communications plan.

In May 2018, we published a communications strategy – for the first time in almost 10 years. The strategy; set the broader context for DfE's communications; built on the existing internal communications strategy to engage it's people and support its leaders to embed our purpose and vision; emphasised the importance of insight and evaluation in taking a more strategic approach; and set out the communications priorities for 2018-19.

The work of DfE is crucial to the success of Britain in the future and it continues to make a major contribution to the Government's four priority communications themes. In 2018-19 these were: stronger, fairer economy; a more caring society; a truly global Britain and Northern Ireland; and a strong and new relationship with Europe.

Our core activities support the entire department by helping to protect our reputation, communicating with our staff and providing a high-quality service to the public, parliament and media.

Every policy is important and all DfE's work is valuable, however, to make sure that our resources align with Ministerial, government and department priorities and to focus where communications can have the greatest impact, we categorised communications priorities into gold, silver and bronze. Our three gold communications priorities for 2018-19 were:

- the attractiveness of teaching: to increase the number of teachers joining or returning and reduce the numbers leaving the profession
- academic standards: to raise awareness of improving outcomes for children and the numbers of good school places
- technical education: to support delivery of reforms to technical education, such as apprenticeships and T Levels

High-profile, insight-led campaigns have included:

- 'Fire it Up', a new campaign to change attitudes towards apprenticeships and stimulate both supply and demand from people of all ages
- 'Every Lesson Shapes a Life' – our new teacher recruitment campaign

Most communications continue to be delivered in-house at no additional cost, or at low cost by supporting and co-ordinating partners' activity. Where paid-for campaigns were essential (such as those listed above), we have worked with Cabinet Office colleagues to reduce costs and secure approval through the professional assurance process.

Communications Group had the following staff and spend on centrally commissioned activity (not including campaigns funded by business areas). This spend falls within budget.

	2018-19	2017-18	2016-17
No. of staff	78.6	64.2	64.5
Spend on activity (£000)	£646	£790	£754

Payments policy

Under the Public Contract Regulations 2015, DfE 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 DfE. In addition, it is practice for DfE to pay all correctly submitted invoices within five calendar days.

The department and agency *prompt payment data can be found online*.[39]

Complaints policy

DfE's complaint policy and guidance on *how to make a complaint can be found online*.[40]

Guidance[41] on how to complain about a maintained school, academy or free school and how DfE will consider your complaint is also published.

39 https://www.gov.uk/government/publications/prompt-payment-data-for-dfe
40 https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure
41 https://www.gov.uk/complain-about-school

Complaints to the Parliamentary Ombudsman

	Dept	ESFA	TRA
Enquiries received	290	8	4
Complaints assessed	45	2	2
Complaints resolved through intervention	–	–	–
Complaints accepted for investigation	11	1	–
Investigations upheld or partly upheld	3	–	–
Investigations not upheld	10	–	–
Investigations resolved without a finding	–	–	–
Investigations discontinued	2	–	–
Number of recommendations	–	–	–
Number of recommendations complied with	–	–	–

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 MP.

The table above shows the complaints about the Group in 2018-19. 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.

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.

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

The Leadership Team discussed the effectiveness of DfE's whistleblowing arrangements in October 2018's Leadership Team meeting. Since April 2014, DfE has recorded 23 cases of whistleblowing and six in the previous 12-months. A nominated officer investigated all whistleblowing cases in accordance with DfE's whistleblowing arrangements.

The outcome of the Leadership Team discussion was that DfE continues to adopt some good practice in terms of whistleblowing and remains committed to supporting whistleblowing. Evidence of this includes:

- DfE has implemented the full suite of whistleblowing policies and procedures introduced by the Cabinet Office (Civil Service Employee Policy)
- the number of DfE's SCS who act as Nominated Officers to support whistleblowers was increased from two to five
- an independent, external and confidential whistleblowing helpline continues to operate after being launched in February 2016
- DfE's Whistleblowing Policy was reviewed in December 2018 to support employees, managers and Nominated Officers to better navigate and implement the policy

There continues to be a tendency for individuals to report cases anonymously which does not allow for a full investigation in some cases. DfE has reviewed all cases received during the previous 12 months to assess whether its policy and culture encourages employees and managers to speak up about whistleblowing. An external review of bullying, harassment and discrimination in the Civil Service highlighted barriers to employees reporting cases of bullying, harassment and whistleblowing. DfE is committed to creating an open culture where employees can raise concerns, complaints and whistleblowing in a number of ways:

- DfE has adopted a 'no wrong door' approach to handling concerns, complaints and whistleblowing, which involved establishing additional points of contact and clear signposting arrangements to ensure employees know how and where to access support
- we have taken part in a cross Civil Service campaign to raise awareness of whistleblowing which included news articles and posters
- we delivered a session to Nominated Officers to provide further understanding of the process of whistleblowing under the Civil Service Code and the investigation process

Sponsorship agreements over £5,000

There were no sponsorship agreements in the year (2017-18: none).

Annex C – Data tables

The Core Tables represent expenditure for resource and capital, set for each year in the Spending Review process (amended to incorporate transfers of functions to other government departments as they have arisen). These tables are not reported on the same basis as the financial statements disclosures, with differing categories and headings based on DfE's Estimates allocation of activities and budgeting not financial reporting terms. The Core Tables are produced automatically from the HMT system (Online System for Central Accounting and Reporting (OSCAR)) which is used by all central government departments to record their spending and plans. At 31 March 2019, OSCAR reflects the position agreed at Budget 2018. This won't match the outturn in previous years' financial statements and some spending may also appear on different lines, this may frequently result in restatement of the previous years' Core Table figures.

Table 1: Total Departmental Group spending

Summary

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Resource DEL	62,202	62,471	68,280	73,333	67,900	68,523
Resource AME	(1,137)	(8,197)	(1,841)	(1,589)	(1,029)	(3,587)
Total resource	**61,065**	**54,274**	**66,439**	**71,744**	**66,871**	**64,936**
Capital DEL	4,763	5,069	5,732	4,908	5,402	4,973
Capital AME	10,563	11,642	13,073	15,771	15,631	21,558
Total capital	**15,326**	**16,711**	**18,805**	**20,679**	**21,033**	**26,531**
	76,391	70,985	85,244	92,423	87,904	91,467
Less depreciation	(1,994)	3,551	(8,735)	(11,386)	(6,453)	(4,293)
Total Departmental spending	**74,397**	**74,536**	**76,509**	**81,037**	**81,451**	**87,174**
Of which:						
Total DEL	65,577	63,948	65,277	66,856	66,850	69,207
Total AME	8,820	10,588	11,232	14,181	14,601	17,967

Total Departmental Group spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource DEL budget and capital DEL budget less depreciation, and total AME is the sum of resource AME budget and capital AME budget less depreciation in AME.

Resource spending

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Resource DEL						
Activities to Support all Functions	264	254	262	350	348	342
Early Years and Schools (Department)	–	–	–	–	–	1,660
School Infrastructure and Funding of Education (Department)	103	140	537	179	214	–
Early Years and Schools (ALB) (net)	–	–	–	–	–	3
School Infrastructure and Funding of Education (ALB) (net)	–	5	1	22	(17)	–
Education Standards, Curriculum and Qualifications (Department)	136	137	4,271	4,236	4,438	–
Social Care, Mobility and Disadvantage (Department)	360	316	328	192	321	390
Social Care, Mobility and Disadvantage (ALB) (net)	22	(1)	20	21	4	13
Standards and Testing Agency	43	50	50	53	61	53
Teaching Regulation Agency	–	–	–	–	6	8
National College for Teaching and Leadership	313	404	401	398	–	–
Education and Skills Funding Agency (ESFA)	–	–	–	3,271	3,404	2,653
Education Funding Agency (EFA)	6,031	4,907	89	–	–	–
Skills Funding Agency (SFA)	3,760	2,448	3,250	–	–	–
Grants to LA Schools via ESFA	30,833	31,134	30,353	30,027	29,642	30,165
Grants to Academies via ESFA	14,750	15,406	16,739	18,661	20,705	22,062
Higher Education	3,199	5,418	10,104	13,934	7,132	4,748
Further Education	168	124	179	242	107	4,843
Higher Education (ALB) (net)	2,183	1,711	1,680	1,739	1,522	1,562
Further Education (ALB) (net)	37	18	16	8	13	21
Total Resource DEL	**62,202**	**62,471**	**68,280**	**73,333**	**67,900**	**68,523**
Of which:						
Staff costs	434	419	390	362	490	480
Purchase of goods and services	588	575	666	593	641	997
Income from sales of goods and services	(11)	(5)	(77)	(162)	(138)	(2)
Current grants to local government (net)	33,360	32,375	30,579	30,456	30,098	30,950
Current grants to persons and non-profit bodies (net)	12,062	9,849	10,694	11,982	9,582	10,257
Current grants abroad (net)	(248)	(204)	(31)	(202)	(197)	(250)
Subsidies to private sector companies	10	12	–	–	–	–
Subsidies to public corporations	3	–	6	–	2	–
Rentals	20	16	172	22	21	14
Depreciation	1,388	3,592	8,735	11,385	6,452	4,289

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Take up of provisions	–	–	–	–	84	–
Changes in pension scheme liabilities	–	–	–	–	–	–
Other resource	14,596	15,842	17,146	18,897	20,865	21,788
Resource AME						
Activities to Support all Functions (Department)	(5)	–	21	(10)	(8)	(10)
Activities to Support all Functions (ALB)	–	–	–	–	–	–
Executive Agencies	(6)	(3)	1	(5)	6	–
Higher Education	(1,100)	(8,140)	(1,882)	(1,621)	(1,031)	(3,606)
Further Education	(8)	(26)	12	(13)	(12)	–
Higher Education (ALB) (net)	(29)	(30)	(33)	(14)	2	(1)
Further Education (ALB) (net)	11	2	40	74	14	30
Total Resource AME	**(1,137)**	**(8,197)**	**(1,841)**	**(1,589)**	**(1,029)**	**(3,587)**
Of which:						
Staff costs	59	75	–	64	58	121
Purchase of goods and services	94	198	104	74	87	–
Income from sales of goods and services	(101)	(119)	–	(110)	(244)	(83)
Current grants to persons and non-profit bodies (net)	25	–	–	284	144	212
Subsidies to private sector companies	137	157	–	–	–	–
Rentals	1	1	–	2	2	–
Depreciation	606	(7,143)	–	1	1	4
Take up of provisions	(18)	79	39	25	35	54
Release of provisions	(71)	(76)	(58)	(44)	(64)	(99)
Change in pension scheme liabilities	5	–	–	(15)	–	–
Unwinding of the discount rate on pension scheme liabilities	1	6	–	–	8	–
Other resource	(1,875)	(1,375)	(1,926)	(1,870)	1,058	(3,796)
Total Resource Budget	**61,065**	**54,274**	**66,439**	**71,744**	**66,871**	**64,936**
Of which:						
Depreciation	1,994	(3,551)	8,735	11,386	6,453	4,293

Capital spending

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Capital DEL						
Activities to Support all Functions	9	4	30	42	86	29
Early Years and Schools (Department)	–	–	–	–	–	1,808
School Infrastructure and Funding of Education (Department)	(6)	–	–	2	1,494	–
Early Years and Schools (ALB) (net)	–	–	–	–	(4)	11
School Infrastructure and Funding of Education (ALB) (net)	–	164	356	68	–	–
Education Standards, Curriculum and Qualifications (Department)	–	–	–	–	6	–
Social Care, Mobility and Disadvantage (Department)	–	–	(13)	–	7	12
Social Care, Mobility and Disadvantage (ALB) (net)	–	1	1	1	2	2
Standards and Testing Agency	–	–	–	2	2	2
Education and Skills Funding Agency (ESFA)	–	–	–	1,478	190	24
Education Funding Agency (EFA)	1,265	850	1,999	–	–	–
Skills Funding Agency (SFA)	321	57	51	–	–	–
Grants to LA Schools via ESFA	1,727	3,080	2,468	2,320	2,301	1,825
Grants to Academies via ESFA	1,241	560	612	763	1,023	977
Higher Education	1	–	12	18	120	15
Further Education	12	35	23	–	8	112
Higher Education (ALB) (net)	193	318	193	214	167	156
Further Education (ALB) (net)	–	–	–	–	–	–
Total Capital DEL	**4,763**	**5,069**	**5,732**	**4,908**	**5,402**	**4,973**
Of which:						
Purchase of goods and services	5	4	–	1	12	414
Capital support for local government (net)	2,639	1,936	2,471	2,345	3,421	1,746
Capital grants to persons & non–profit bodies (net)	577	332	–	385	1,577	(214)
Capital grants to private sector companies (net)	21	214	2,725	2,060	105	852
Purchase of assets	189	49	563	116	472	111
Income from sales of assets	–	–	–	(1)	–	–
Net lending to the private sector and abroad	(1)	–	–	–	27	20
Other capital	1,333	2,534	(27)	2	(212)	2,044

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Capital AME						
Higher Education AME	10,410	11,472	12,845	15,565	15,417	21,307
Further Education AME	151	171	229	205	212	250
Higher Education (ALB) (net) AME	–	(3)	(3)	–	–	–
Further Education (ALB) (net)	2	2	2	1	2	1
Total Capital AME	**10,563**	**11,642**	**13,073**	**15,771**	**15,631**	**21,558**
Of which:						
Capital grants to private sector companies (net)	–	–	–	–	–	–
Purchase of assets	2	2	2	–	–	1
Income from sales of assets	–	–	–	–	–	–
Net lending to the private sector and abroad	10,561	11,643	13,074	15,771	15,629	21,557
Other capital	–	(3)	(3)	–	2	–
	10,563	**11,642**	**13,073**	**15,771**	**15,631**	**21,558**
Total Capital budget	**15,326**	**16,711**	**18,805**	**20,679**	**21,033**	**26,531**

Depreciation in the table above also includes amortisation, impairment and revaluation. Pension schemes report under IAS 19, the pension figures include cash payments and contributions received, as well as certain non-cash items.

The ESFA became operational on 1 April 2017 following the merger of the EFA and the SFA. The ESFA budget is the aggregate of the two former bodies. As a result, outturn up to 2016-17 has been shown against the former agencies, while 2017-18 and 2018-19 outturn and plans for 2019-20 are shown against the new agency.

Following a structural change within the Department the former Schools Infrastructure and Funding Group, and the former Education Standards, Qualifications and Curriculum Group, have been replaced by a new estimate line Early Years & Schools Group. As a result, plans for the former estimate lines are now shown under its revised name.

Total Departmental staff costs within the table above differs from those published elsewhere in this ARA, because staff costs above include early departure costs and lump sum payments that have been presented elsewhere in the accountability report.

Total Departmental revenue and capital grant costs within the table above differs from those published elsewhere in the ARA due to differences in compilation methodology between these core tables and this ARA.

Total Departmental provisions within the table differ from those published elsewhere in this ARA, because the balances in the table include costs arising from an NDPB pension scheme, which have been disclosed elsewhere in this ARA.

Table 2: Administration costs

	2014-15 Outturn £m	2015-16 Outturn £m	2016-17 Outturn £m	2017-18 Outturn £m	2018-19 Outturn £m	2019-20 Plans £m
Resource DEL						
Activities to Support all Functions	240	226	253	320	329	307
Early Years and Schools (ALB) (net)	–	–	–	–	–	2
School Infrastructure and Funding of Education (ALB) (net)	–	(1)	2	2	(1)	–
Social Care, Mobility and Equalities (ALB) (net)	–	–	–	16	2	2
Children's Services and Departmental Strategy (ALB) (net)	18	17	15	–	–	–
Standards and Testing Agency	6	3	4	4	3	–
National College for Teaching and Leadership	18	13	12	15	–	–
Teaching Regulation Agency	–	–	–	–	–	3
Education and Skills Funding Agency (ESFA)	–	–	–	98	77	88
Education Funding Agency (EFA)	75	63	76	–	–	–
Skills Funding Agency (SFA)	101	88	63	–	–	–
Higher Education (ALB) (net)	79	72	69	68	74	60
Further Education (ALB) (net)	6	5	15	5	7	11
Total administration budget	**543**	**486**	**509**	**528**	**491**	**473**
Of which:						
Staff costs	340	314	317	362	337	302
Purchase of goods and services	157	145	273	157	141	157
Income from sales of goods and services	(4)	(5)	(20)	(21)	(51)	(2)
Rentals	16	14	3	20	19	11
Depreciation	41	30	32	35	25	46
Other resource	(7)	(12)	(96)	(25)	20	(41)

Annex D – 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
Agency	Executive agency
ALB	Arm's length body
AME	Annually Managed Expenditure
ARA	Annual report and accounts
ATs	Academy trusts: the charitable companies that operate all types of academy schools
BAME	Black, Asian and minority ethnic
CITB	Construction Industry Training Board
DEL/CDEL/RDEL	Departmental Expenditure Limit (capital/resource)
DfE	The core Department for Education, excluding executive agencies, non-departmental public bodies and academy trusts
Department and agencies	The core Department for Education, plus its executive agencies but excluding non-departmental public bodies
Departmental Group, the Group	The Departmental Group (the Group) encompassing the core DfE, executive agencies, non-departmental public bodies
ECITB	Engineering Construction Industry Training Board
ESFA	Education and Skills Funding Agency
EHRC	Equalities and Human Rights Commission
Estimate	Group funding, as approved by HM Treasury and subject to specific limits by category of spending
EYSG	Early Years and Schools Group, an operational group of DfE
FE	Further education
FITB	Film Industry Training Board
FReM	Financial Reporting Manual, issued by HM Treasury
GAD	Government Actuary's Department
GGC	Greening Government Commitments
GHG	Greenhouse gas
GIAA	Government Internal Audit Agency
HEFE	Higher and Further Education Group, an operational group of DfE
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HMT	HM Treasury
IFATE	Institute for Apprenticeships and Technical Education
LIBOR	London Interbank Offered Rate
NAO	National Audit Office
NDPB	Non-departmental public body

Abbreviation or term	Description
OCC	Office of the Children's Commissioner
OfS	Office for Students
ONS	Office for National Statistics
Operations Group	Operations Group, an operational group of DfE
PAC	Public Accounts Committee
PSBP	Priority School Building Programme, a programme to address the needs of the schools most in need of urgent repair
RPA	Risk Protection Arrangement
RPI	Retail Price Index
SARA	Sector annual report and accounts, the standalone annual report and accounts for the academy sector
SCMD	Social Care, Mobility and Disadvantage Group, an operational group of DfE
SCS	Senior Civil Servant
SEND	Special Educational Needs and Disability
SoCTE	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
SLC	Student Loans Company Limited
STA	Standards and Testing Agency
STEM	Science, Technology, Engineering and Mathematics
S&IG	Strategy and International Group, an operational group of DfE
TRA	Teaching Regulation Agency
2017-18 and 2018-19	Financial years, ending on 31 March
2017/18 and 2018/19	Academic years, ending on 31 August

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