



Education  
Funding  
Agency

# **Education Funding Agency**

**Annual report and accounts for the year  
ended 31 March 2017**

**An executive agency of the Department for  
Education**





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## Annual report and accounts for the year ended 31 March 2017

**An executive agency of the Department for Education**

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# Contents

Notes on terminology	6
<b>1. Performance report</b>	<b>7</b>
1.1 Overview	7
1.1.1 Chief Executive's perspective on performance	7
1.1.2 Statement of purpose and activities	9
1.1.3 Key issues and risks facing the agency	10
1.1.4 Performance summary	14
1.2 Performance analysis	15
1.2.1 Development and performance of the EFA	15
1.2.2 Programme assurance	26
1.2.3 Complaints to the Parliamentary Ombudsman	29
1.2.4 Social and community issues	30
1.2.5 Sustainability	30
<b>2. Accountability report</b>	<b>31</b>
2.1 Corporate governance report	31
2.1.1 The directors' report	31
2.1.2 Statement of the Accounting Officer's responsibilities	35
2.1.3 Governance Statement	36
2.2 Financial commentary	46
2.3 Remuneration and staff report	48
2.4 Parliamentary accountability and audit report	58
2.4.1 Parliamentary accountability disclosures	58
2.4.2 Remote contingent liabilities	61
2.4.3 The certificate of the Comptroller and Auditor General to the House of Commons	63
<b>3. Financial statements</b>	<b>66</b>
Statement of Comprehensive Net Expenditure	66
Statement of Financial Position	67
Statement of Cash Flows	69
Statement of Changes in Taxpayers' Equity	70
Notes to the accounts	71

## Notes on terminology

### The EFA

This annual report and accounts cover the Education Funding Agency (EFA) in its own right, reporting according to the expectations on it as an executive agency of the Department for Education.

Academies (through their academy trusts), are no longer consolidated into the EFA accounts and instead are included in a new sector report. The first Sector Annual Report and Accounts (SARA) covering the academic year 2015/16 is due to be published in October 2017.

### The department

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

### The agency

This refers to the Education Funding Agency for the period 1 April 2012 to 31 March 2017 and the Education and Skills Funding Agency for the period 1 April 2017 onwards.

### Financial versus academic year

The EFA financial year runs from 1 April to 31 March. In this document, we distinguish the financial year using a dash. For example, we write the financial year 1 April 2016 to 31 March 2017 as 2016-17.

The academic year covers the period 1 September to 31 August for schools and academies, and 1 August to 31 July for all other institutions. We refer to the 'academic year' with an oblique as 2016/17.

# 1. Performance report

## 1.1 Overview

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

### 1.1.1 Chief Executive's perspective on performance

The fifth year of the EFA has seen us continuing to operate at a time of significant change in the education sector. The number of academy trusts continues to rise, the funding landscape is changing, and we are centrally managing the delivery of hundreds of school and academy trust building projects across England.

In 2016-17, we have:

- made £55.7 billion of EFA grant payments; total payments of £56.8 billion (other payments are made by EFA on behalf of the National College of Teaching and Leadership (NCTL) and the Standards and Testing Agency (STA))
- funded and monitored an increasing number of academies; 5,552 at 31 March 2016 to 6,520 by 31 March 2017
- funded 3,310 providers of learning to young people aged 16 to 19. This includes school and academy sixth-forms, colleges and training providers and institutions providing education and training to young people up to age 25 with learning difficulties or disabilities. We also fund these organisations to provide bursaries to disadvantaged young people
- funded 152 local authorities for their maintained schools and for providing education to children and young people with high needs, and funded directly capital allocations to 3,500 voluntary-aided schools
- managed building and maintenance programmes for schools and sixth-form colleges
- responded to an average of 2,707 customer enquiries per month

We published 21 Financial Notices to Improve (FNtIs) as part of our responsibility for financial regulation and intervention in academies and sixth-form colleges.

We continued to buy sites and to refurbish and construct buildings to help deliver the government's manifesto commitment to open a further 500 free schools by 2020, opening 56 free schools, studio schools, local authority presumption schools and university technical colleges in 2016-17. We will continue to work closely with free school proposers and trusts and in 2016-17 DfE established our new body of property specialists, LocatED, to strengthen our commercial skills to buy sites for these new schools.

We also continued to deliver our £4.4 billion Priority School Building Programme, which is rebuilding and/or refurbishing school buildings in the very worst condition across the country. This covers 491 schools, and a further 46 are using private finance. There are 260 schools in the first phase, and the majority of these will be open by the end of 2017. As of 31 March 2017, 187 schools had been rebuilt or refurbished through the programme.

We ran the annual school capacity survey to get data on school places and forecast school numbers to help target funding for new school places and we ran bids for capital funds, including the annual Condition Improvement Fund and the Early Years Capital Fund. We have commenced the Condition Data Collection Programme which will provide a high-level assessment of the condition of all school buildings in England by autumn 2019.

We have helped deliver the government's response to the weakening financial health of the non-school post-16 sector, running 37 area reviews across England, which were completed at the end of March 2017. The area reviews' aim was to enable a transition towards fewer, larger, more resilient and efficient providers. We are now working across the sector to implement the recommendations from these reviews.

We have continued to develop our data analytics system to assess risk in all the organisations we fund for education and training, enabling us to target resources where they are needed.

The 2016-17 EFA accounts are the first under the new financial reporting framework for academies. Academies are no longer consolidated into the EFA accounts, and instead academies will be consolidated in a separate Sector Annual Report and Accounts (SARA). The first SARA will report on the academic year from 1 September 2015 to 31 August 2016 and is due to be published by the Department for Education at the end of October 2017. The new framework will provide a more holistic report of the academies sector by aligning reporting of financial results with educational performance, separate academies spending from that of the EFA and clearly show for the first time the resources academies receive and how they use them. It will make it easier for Parliament, parents and taxpayers to scrutinise and test information about academies funding and spending.

We worked closely with the Skills Funding Agency (SFA) throughout 2016-17 on apprenticeships, non-school post-16 provision and a shared service for finance, funding and assurance. In March 2017, the Secretary of State for Education announced the replacement of the EFA and SFA with the Education and Skills Funding Agency (ESFA). The ESFA became operational on 1 April 2017. The new agency will bring benefits to the individuals and organisations we support as well as to the taxpayer. It will enable a single, joined-up approach to funding and regulation to improve accountability.

The EFA will transfer all assets, liabilities and activities at book value to the newly created ESFA from April 2017. All functions will continue and EFA funding will be received by the ESFA. Therefore, it is appropriate to prepare these accounts on a going concern basis.

### **1.1.2 Statement of purpose and activities**

The department established the EFA in 2012 to strengthen the line of accountability to ministers. The EFA works with the department to implement funding policy and brings together capital and revenue delivery expertise in a single body. Our principal responsibilities are to:

- implement the new, fair national funding formula for schools
- allocate high needs funding to local authorities for special educational needs and alternative provision
- distribute the dedicated schools grants for the education of pupils up to age 16 in local authority maintained schools until the transition to a new funding formula is complete, recognising the decrease in volumes as the number of academies increases
- fund the education of pupils in academies
- fund provision of education and training for learners aged 16 to 19 years
- provide funding for the education of children and young people with high needs and who are supported by an education, health and care plan up to age 25
- support the delivery of capital programmes for local authority maintained schools, free schools, academy trusts and sixth-form colleges
- provide assurance on the proper use of the funds we distribute and intervene where public funds are at risk

The regularity of EFA expenditure is subject to NAO audit opinion.

The Chief Executive is responsible for the leadership and day-to-day management of the EFA. His responsibilities also include:

- securing the capacity and capability required to deliver the funding arrangements for the education and training of pupils and learners aged 3 to 19 efficiently and effectively
- ensuring the EFA has the financial and accounting systems that allow it to make payments accurately, efficiently and on time and secure proportionate assurance about the regularity, propriety and value for money of its programme spend
- developing operational policies and practices that support improved outcomes for children and young people and that deliver ministerial targets for the EFA

- advising the Secretary of State and the department's director general of the Infrastructure and Funding Directorate of the impact of policy proposals and decisions on the delivery of policy and of ministers' objectives
- reporting regularly on delivery performance, expenditure, risk management and forward planning

### 1.1.3 Key issues and risks facing the agency

#### **Securing sites for free schools**

The principal risks facing the EFA as it continued to ensure capital investment programmes were delivered efficiently and effectively, were managing the challenges of securing sites for free schools, and ensuring projects remained attractive in the market and offered good value for money.

High demand for land across both commercial and residential sectors means that securing sites for schools where they are needed and at an appropriate cost remained challenging. In 2016-17 the department established LocatED by incorporation under the Companies Act 2006. It is a company limited by shares and is wholly owned by the Secretary of State for whom it is remitted to undertake work. LocatED will increase our property expertise, recruiting more commercially experienced staff; providing the capacity and capability to secure sites through a wider range of commercial options and better engaging the wider market. From April 2017, LocatED became the main forum for commercial site acquisitions by progressing purchases within the terms agreed by LocatED's investment committee and the new Education and Skills Funding Agency (ESFA).

#### **Building programmes and construction market strategy**

The construction sector has been more buoyant than it was when we initiated the first phase of the Priority Schools Building Programme. The EFA ensured that the construction sector bid competitively for our projects at rates that provided value for money. We managed market risk through continuously reviewing opportunities for efficiencies in construction; grouping schools in batches which help generate market interest and through making use of a variety of procurement frameworks and approaches. In the ESFA, we continue to assess the wider property and construction sector outlook to ensure we can respond appropriately to emerging trends.

#### **Financial health of the sector**

##### **Providing support to academy trusts facing financial challenges**

Good financial health is crucial to delivering educational outcomes. To support academy trusts to manage their finances effectively, we have developed a clear framework for financial management and governance along with access to financial health and efficiency tools and resources to support them.

The agency publishes the Academies Financial Handbook to clearly set out the requirements and expectations for financial management and governance at all academy trusts.

To prevent an increasing number of trusts entering a cumulative deficit position, which could lead to disruption in educational provision, it is vital that the agency proactively helps them manage their finances and build capacity and provides support to academy trusts should financial challenges arise. Agency involvement helps to safeguard public funds. The agency assesses risk, and where academy trusts are experiencing financial difficulty the agency will work with them on a case-by-case basis to support them in improving the position whilst limiting the disruption to educational provision, and use financial data to build on the current interventions developing a more forward-looking preventative approach.

The March 2017 Public Accounts Committee and December 2016 National Audit Office reports on financial sustainability of schools looked at the efficiency challenge faced by schools, the work the DfE is doing to support schools to be more efficient and, the capacity and capability of schools to address the efficiency challenge. We are working with the sector on a programme of support to prevent financial failure. Building on the wide-ranging financial information we use to identify risk, we are developing new ways to work with trusts to prevent issues arising and to ensure trusts understand, monitor, and challenge how they manage their budgets. This preventative approach will help improve support for academy trusts as required.

### **National Funding Formula**

Ministers have been developing plans for a national funding formula to establish fair funding across all schools. There were two consultations during 2016-17. The stage 2 consultation sought views on the detailed design of the formula and closed on 22 March 2017. This built on an earlier consultation on the principles and structure of a national funding formula. At the time of finalising these accounts, decisions are awaited on the next steps. The ESFA has been closely involved in planning on the timetable and roll out of any changes, including how these might affect delivery of funding allocations in future years.

### **Post-16 (excluding academies) intervention work to increase college sector resilience and implementation of area review recommendations**

#### **i) Deliver on intervention cases alongside our wider work to increase college sector resilience**

In April 2016, we established a joint EFA/SFA intervention team with aligned functions and processes to ensure expert resource is directed quickly to where it is needed and to gain efficiency savings from a single leadership team.

We published a revised joint EFA/SFA early intervention strategy in December 2016 and improved our approach to early intervention. We identify colleges at risk of going into formal intervention at an early stage, through regular institutional risk monitoring of institutional failure based on data analytics. We then work with colleges to facilitate actions that focus on ensuring a return to sound financial health and resilience or an improvement in quality.

Our aim is to achieve a turnaround at a lower cost to the public purse than would be the case by waiting for financial failure. As part of this approach, we have improved the information we give to college governors by sending them regular dashboards that show key benchmarking information for their college.

## **ii) Implementation of area reviews**

In 2016-17 recommendations were published for the first 22 of 37 area reviews of further education (FE) sector colleges in England, covering 70 sixth-form colleges. These reviews recommended that 49 sixth-form colleges consider becoming an academy, eight to merge with a general FE college and 13 to remain as individual sixth-form colleges. One sixth-form college converted to academy status during the reporting year.

Colleges and local stakeholders are responsible for implementing the agreed recommendations. Progress is monitored by the funding agencies' joint intervention team. Where progress is slow or may be stalling, the intervention team provides support and challenge to colleges to help get the recommendation back on track; this may include seeking additional support from the Sixth-Form College Commissioner.

Where there is an area review recommendation for structural change, a transition grant, normally of £50,000, is available to support sixth-form colleges in meeting transitional costs and putting in place additional leadership capacity to drive the transition. In addition, funding is available through the restructuring facility where a sixth-form college is unable to fund substantial upfront costs associated with a recommended structural change, and to pay college VAT costs where these become eligible for recovery as a result of the change. During the reporting period the EFA awarded grants to 18 sixth-form colleges.

## **Managing multiple data systems and retaining staff with technical skills**

The principal risks as the agency continues to ensure its data services are delivered effectively are:

- managing the challenges associated with managing multiple IT platforms
- attracting and retaining suitably skilled resources

In 2016-17 the EFA continued to invest in a number of data projects delivering:

- enhanced data collection and management capability
- core business intelligence
- data, infrastructure and tools to support the EFA and SFA Risk Assessment Tool (RAT) and the development of new data collections and analysis

New IT infrastructure is being set up to support internal data analysis and publication. The first phase is being set up to support 60 internal developers, data analysts and data scientists and 1,000 department and agency users of published dashboards and reports. This new environment is scalable with the potential to add more services, users, processing power and tooling to meet future demand.

The agency is also actively recruiting more analytical and technical staff; providing the capacity and capability to deliver a wide range of data services. We are working with data colleagues in the department to develop the department's data strategy.

Attracting and retaining staff with the required analytical and technical skills remains a key priority and we will work with the department's digital, data and technology functions to continue to find ways of attracting and retaining candidates of the right calibre.

## 1.1.4 Performance summary

## Key achievements in 2016 to 2017

We issued  
**7,792**  
revenue  
allocations.  
**99.9%**  
were on time.



We made **129,302**  
BACS payments.  
**100%** were on time.  
EFA grant payments  
totalled **£55.7 billion**.  
Total BACS  
payments value  
**£56.8 billion**.



**1,333** Capital Condition  
Improvement Fund  
applications were approved.



**91%** of the  
financial  
returns  
from  
academies, sixth  
form colleges and  
local authorities  
were made on  
time.



The post-16  
area review  
programme  
successfully  
concluded  
with all 37 area  
reviews  
delivered  
on time.



We have  
**saved** an  
estimated  
**£4.16 million**  
through  
implementing  
automated and  
efficient  
processes  
over the past 2 years.



We responded to  
**32,338**  
enquiries.  
**77.6%** were within 3 days.



## 1.2 Performance analysis

### 1.2.1 Development and performance of the EFA

The scope and range of the EFA's operations has grown significantly since its inception on 1 April 2012. This is a result of the growth in the volume of academies requiring funding, financial management and governance oversight.

#### **Funding Agencies Shared Service Team (FAS<sup>2</sup>T)**

In September 2015, a project was initiated by Simon Parkes (Chief Financial Officer of the EFA) and endorsed by Peter Lauener as Chief Executive, to deliver a shared service for funding payments, accounting, data, assurance, digital and technology. The shared service would support the EFA, SFA, the Department for Education and the Department for Business, Innovation and Skills. The long term aim was also to expand its customer base, providing its services to other government departments and beyond.

The FAS<sup>2</sup>T implementation project ran for just over a year impacting circa 430 staff across the EFA and SFA.

The original objective of the FAS<sup>2</sup>T implementation project was to deliver a fully operational shared service by 1 April 2016 with the key benefits of realising efficiencies and effectiveness brought about by centralising effort across core functions operating in two different agencies. The project was also to ensure a seamless transition to a new way of working with no degradation of service.

Once the project was established and further high level planning undertaken, a Steering Board was set up to monitor and provide challenge to the process. The Steering Board was chaired by Simon Parkes with regular progress reporting to Peter Lauener.

FAS<sup>2</sup>T ceased to exist as an entity in January 2017 following Machinery of Government changes and senior staffing changes within the department, including the departure of FAS<sup>2</sup>T's Managing Director. The key elements and ambitions of FAS<sup>2</sup>T were incorporated within the Department for Education's core teams and agencies from mid-January 2017. Financial accounting, financial management, corporate and systems functions moved into the department, whilst provider risk and assurance, and data science functions remained as joint services within the EFA and SFA.

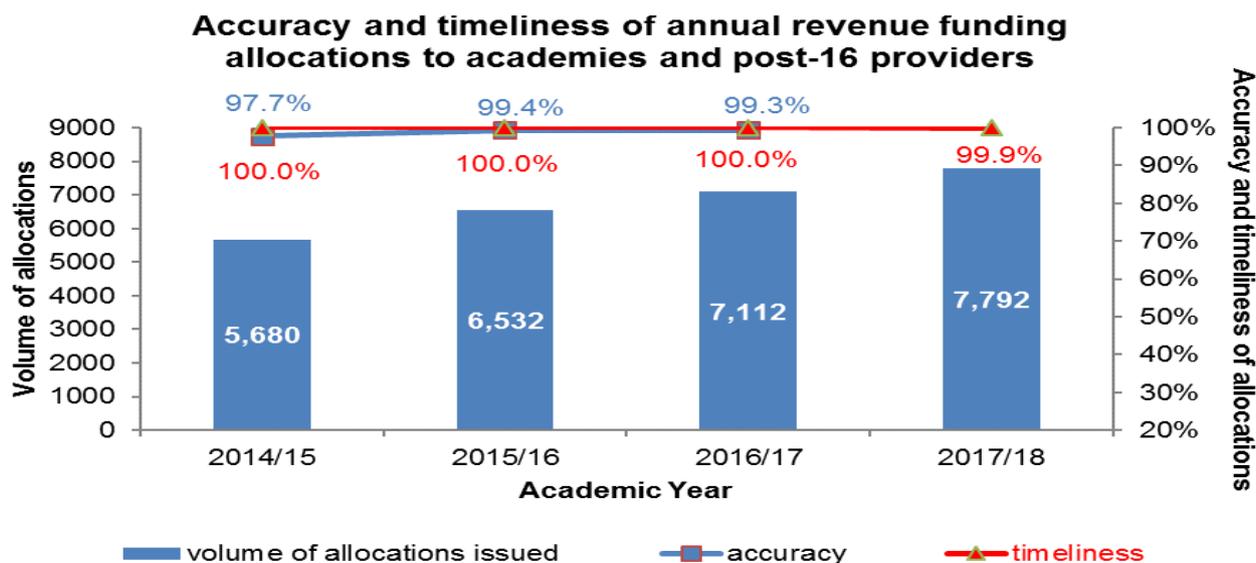
## Performance against the EFA's objectives

### Objective 1: Make accurate and timely revenue and capital funding allocations

#### Measures:

- proportion of allocations made accurately
- proportion of allocations made on time

We aim for 100% accuracy and timeliness of our allocations.



The allocations for the 2017/18 academic year were due to be sent out to providers during February and March 2017. Despite the substantial increase in the number of revenue allocations and moving to a new internal system, timeliness remained very high at 99.9%. The accuracy of these allocations will not be known until the summer.

#### Academies allocations

The EFA successfully issued 100% of 2017/18 allocations to 6,397 academies on time, with over 90% of allocations issued a month early.

#### Post-16 allocations

The EFA successfully issued 99.5% of the 1,395 post-16 allocations on time. Academy sixth-forms are included separately in the academy figures.

There was one post-16 institution where the allocation didn't go out which had been expected to do so. Nine others didn't go out due to requiring more data from the institution, and/or outstanding decisions on whether to continue funding. There were also six higher education institutions where allocations are based on Higher Education Statistics Agency (HESA) data that were delayed until April 2017.

Although accuracy will be fully assessed later in the year, indications are that all post-16 allocations have been made correctly.

### Capital allocations

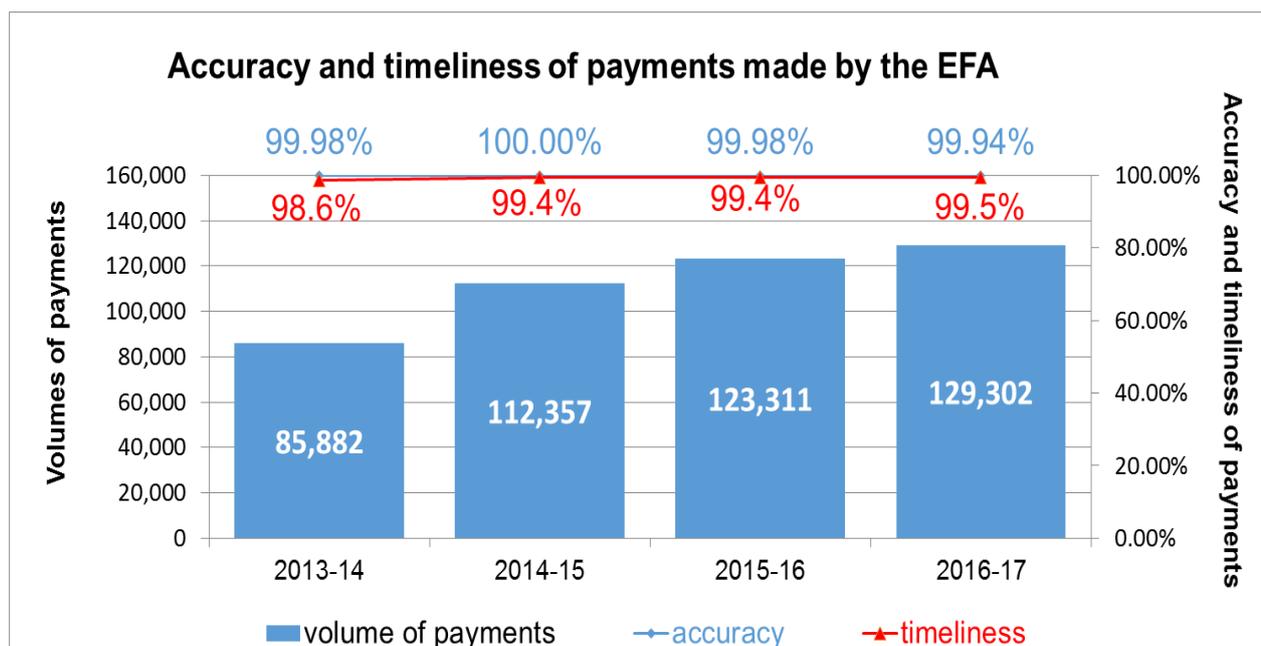
There were 3,522 applications for the Capital Condition Improvement Fund (3,382 Condition, 194 Expansion) with 1,333 of these projects being approved (taking into account 573 appeals, of which 56 were approved).

## **Objective 2: Make accurate and timely payments of £57 billion of revenue and capital funding**

### **Measures:**

- proportion of payments made accurately
- proportion of payments made on time

We aim for 100% accuracy and timeliness for all our payments.



During the financial year 129,302 BACS payments were made totalling £56.8 billion, of which 100% were on time and 99.96% accurate (2015-16 comparison: 123,311 BACS payments totalling £57.7 billion; 100% on time, 99.98% accurate). Of the total, £55.7 billion were EFA grant payments (2015-16 comparison: £56.6 billion).

These BACS figures include 1,254 payments made on behalf of the Standards and Testing Agency (STA) and 3,621 payments on behalf of the National College of Teaching and Leadership (NCTL) (2015-16 comparison: 3,302 STA, 3,929 NCTL).

51 inaccurate BACS payments were made:

- 46 for academy trust amounts paid to local authorities under instruction from STA
- 1 duplicate supplier payment
- 1 incorrect provider paid
- 1 academy paid too much
- 1 college paid too little
- 1 wrong academy paid

Capital reported that of 7,381 LA Co-ordinated Voluntary Aided Programme (LCVAP), Voluntary Aided (VA) PFI and Free School Capital payments, 91% were on time (668 were not made on time).

There were 26 other errors or overpayments recorded, and 77 late payments in quarter 2 due to payments not being approved in the payments system in time for automatic payment. Manual payments templates were used ensuring payments were still made full in September.

### **Objective 3: Ensure that capital programmes are delivered efficiently and effectively**

#### **Measures:**

- number of Priority School Building Programme (PSBP) projects completed
- number of free schools, university technical colleges and studio schools opened in the year.

The Priority School Building Programme (PSBP) is addressing the condition need of the 537 schools across the country most in need of urgent repair through two phases of work. Under the first phase of the programme, the needs of 214 schools are being addressed using capital funding and 46 schools using private finance funding. As of 31 March 2017, 187 schools were open in their new or refurbished buildings. The majority of schools in this first phase will be delivered by the end of 2017, two years earlier than originally planned. The PSBP is delivering projects at around a third of the cost of previous building programmes.

The second phase of the programme, PSBP2, was announced in February 2015. PSBP2 is a block-based programme, focused on addressing the condition need in specific buildings at 277 schools. The EFA conducted scoping studies of the successful school buildings in summer 2015. As of 31 March 2017 engagement has already started with more than 70% of schools and we expect to engage with the vast majority of the remaining schools in the second phase of the programme by the end of 2017.

The number of free schools, studio schools and university technical colleges continues to rise. A total of 56 free schools, university technical colleges, local authority presumption

schools and studio schools opened in 2016/17 and 430 schools of this type were open at 31 March 2017. As of 31 March 2017, there were a further 243 schools in the pre-opening stage.

The government's commitment to an additional 500 free schools by 2020 has increased our ability to recruit high calibre staff as they see long-term job prospects.

From the two-year targeted basic need programme that finished in September 2015, the EFA continues to monitor the construction elements of the 43 projects that are yet to be completed.

The Condition Data Collection Programme is the successor to the Property Data Survey and will collect data on the school estate, its condition and management. The data collected will enable funding to be better targeted and will develop our understanding of the school estate. The programme will run until Autumn 2019.

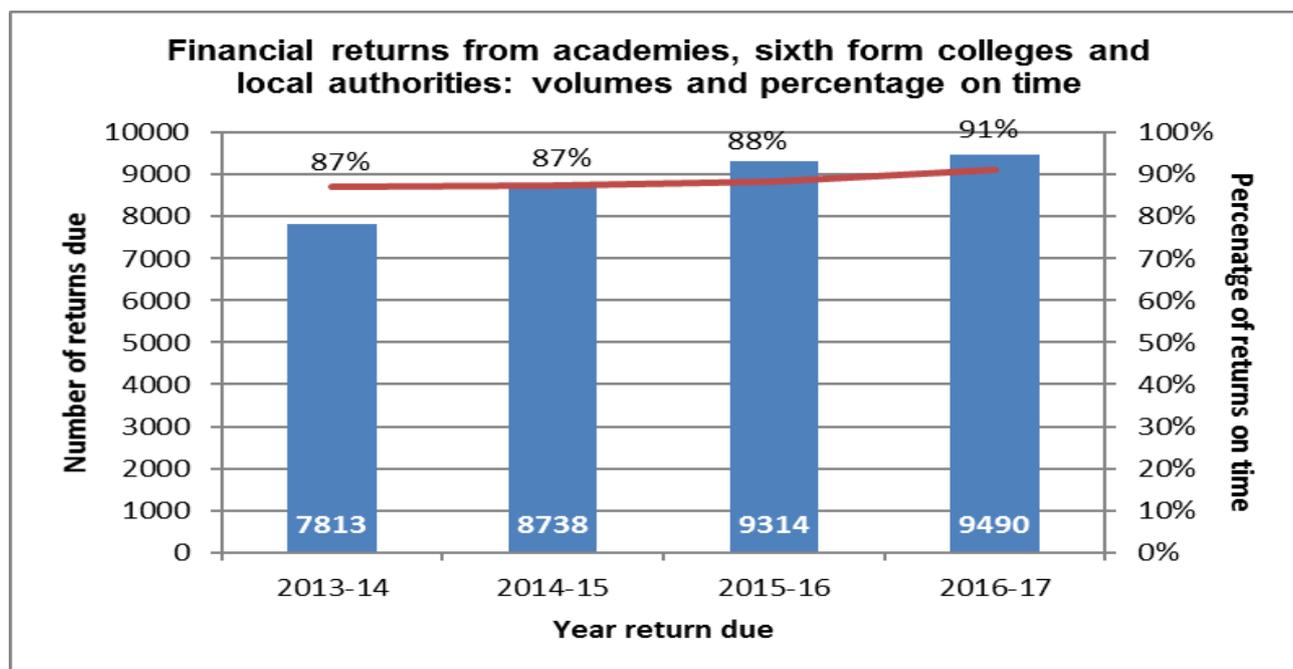
**Objective 4: Ensure the proper use of public funds through financial assurance undertaken by the EFA, or by others.**

**Measure:**

- Percentage of all financial returns from academies, sixth-form colleges and local authorities that are on time

We continue to develop our provider risk assessment tool. This tool analyses a range of data to identify institutions that are at risk of finance, financial governance or financial irregularity problems allowing us to more accurately focus our work on those institutions with higher risk. The tool enables us to provide assurance over the population of providers, and allows us to identify specific areas of concern for us to review in more detail. This underpins corporate intervention reporting to the EFA Accounting Officer and demonstrates how our work directly supports institutions, as well as our responsibilities to the government and the tax payer to ensure that we provide value for money.

We work with EFA-funded providers to support them in making timely financial returns, including the development of online forms to streamline how we receive and use data. For example, we have moved to an online system to receive academy financial management and governance data digitally.



Over the year, 91% of the financial returns from academies, sixth-form colleges and local authorities were on time (2015-16 comparison: 88%). This increase is despite a greater number of returns due.

- of 8,944 academy returns, 92% were on time (719 late)
- of 90 sixth-form colleges 92% were on time (7 late)
- of 456 LA grant returns 76% were on time (108 were late)

**Objective 5: Contribute to the financial health of the sector: supporting EFA funded providers to maintain financial health (and educational performance where applicable)**

**Measures:**

- a) Complete 37 area reviews by March 2017
- b) Of those colleges meeting the triggers for early intervention on financial health grounds, to reduce the proportions who subsequently meet the triggers for formal intervention on financial health grounds within 2 years of commencing the early intervention activity
- c) Reduce the average time spent in formal intervention for all colleges which have been in formal intervention for more than 24 months
- d) Undertake seven multi-academy trust reviews, by March 2017, as part of the EFA's planned assurance programme. To share key messages from those reviews with the sector to raise awareness of good practice and areas of concern
- e) For areas of concern identified from our review of academy trust financial statements we will follow identified concerns with the trust in accordance with the EFA's ladders of intervention framework, share key messages from these reviews with the auditors and the sector to raise awareness of good practice and areas of concern, and use the findings from our work to inform future policy or improvements to guidance
- f) Use data analytics to allow the EFA to assess the future financial position of academy trusts and identify trusts that may be at risk

The EFA considers that the vast majority of academy trusts and post-16 providers manage their business well and so there is no cause to intervene. However, the risk assessment and intervention work of the EFA's change programme, Fit for the Future, has improved our ability to identify potential issues, raise awareness and, where necessary, take appropriate action.

The agency sets clear governance and financial standards and requirements which most trusts meet to ensure sound financial management. The agency has a clear strategy for intervention to support trusts in mitigating the risk of getting into financial difficulty or experiencing governance issues.

Our approach to financial intervention recognises that some trusts need support and challenge whilst in other cases there may be serious mismanagement or irregularity. Each case is assessed on its merits within a set of expected norms derived from the Academies Financial Handbook and the funding agreement.

**a) Complete 37 area reviews by March 2017**

The post-16 area review programme successfully concluded on 31 March 2017 with all 37 area reviews delivered on time.

**b) Of those colleges meeting the triggers for early intervention on financial health grounds, to reduce the proportions who subsequently meet the triggers for formal intervention on financial health grounds within 2 years of commencing the early intervention activity**

This key performance indicator can't be measured until October 2017.

**c) Reduce the average time spent in formal intervention for all colleges which have been in formal intervention for more than 24 months**

The following table shows the number of intervention cases closed during the year and how many weeks those further education and sixth-form colleges spent in formal intervention.

Year period	Number of intervention cases closed	Average number of weeks spent in formal intervention	Of which	
			No of cases exceeding 24 months (104 weeks)	Exceeded 24 months (104 weeks) by average number of weeks
2015-16	23	82	5	89
2016-17	20	95	9	28

Although the total number of weeks spent in formal intervention for cases closed this year is on average higher than the previous year, the number of intervention cases closed during 2016-17 exceeding 24 months has reduced to 28 weeks over the threshold compared to 89 weeks in 2015-16.

**d) Undertake seven multi-academy trust (MAT) reviews, by March 2017, as part of the EFA's planned assurance programme. To share key messages from those reviews with the sector to raise awareness of good practice and areas of concern**

The seven multi-academy trust (MAT) reviews were completed as part of our planned assurance work. Key messages arising from the reviews regarding the importance of strong and effective governance and management arrangements and internal controls are shared with the sector, in the Chief Executive's letter to the sector and to academy auditors. Alongside our normal events programme, in September 2016 we held a workshop for academy trust auditors, which was attended by over 200 auditors representing 98 firms.

For a number of years, the agency has used a range of communication approaches to promote awareness and understanding of the assurance framework through a

series of online presentations and webinars. These have proven to be an efficient and effective way of enabling us to deliver key messages. As the number of trusts has grown, this approach allows us to engage more people at lower cost to both the agency and trusts.

**e) For areas of concern identified from our review of academy trust financial statements we will follow identified concerns with the trust in accordance with the EFA's ladders of intervention framework, share key messages from these reviews with the auditors and the sector to raise awareness of good practice and areas of concern, and use the findings from our work to inform future policy or improvements to guidance**

All planned reviews of academy financial statements have been completed in accordance with our risk assessment processes. The majority (98%) of audited financial statements received had no significant concerns raised by their auditors. Where issues of financial health, financial management or governance have been identified from our reviews these have been referred to colleagues in intervention and follow up action is being taken. The key messages arising for the review will be collated and reported through the Academy Finance and Assurance Working Groups and to the relevant academy trust board.

The joint EFA and SFA Provider Risk and Assurance team fed into the work undertaken by the department regarding multi-academy trusts which resulted in recommendations and guidance being prepared to improve multi-academy trust governance.

**f) Use data analytics to allow the EFA to assess the future financial position of academy trusts and identify trusts that may be at risk**

We continued to develop our provider risk assessment tool in 2016-17. This tool analyses a range of data to identify institutions that are at risk of finance, financial governance or financial irregularity problems allowing us to more accurately focus our work on institutions with higher risk. This underpins corporate intervention reporting to the EFA Accounting Officer and demonstrates the direct link between our work and institutions, as well as our responsibilities to the government and the tax payer to ensure that we provide value for money.

In addition to the risk assessment tool, we are developing analysis to look at the future financial position of academy trusts and how we can undertake preventative actions in collaboration with trusts to support better financial health.

**Objective 6: Provide a service for all our customers that is simple, clear, fast, and makes sure they can get what they need when they need it****Measure:**

- number of enquiries responded to within 3 days

The proportion of enquiries responded to within 3 days during 2016-17 was 77.6% of 32,338 enquiries (2015-16 comparison: 74.2% of 29,497 enquiries).

Although the number of enquiries this year has increased on last year, the number of enquiries per academy has reduced.

The enquiries and case management strand of Fit for the Future focused on actions to cut costs for customers. The enquiry service has focussed on improving performance by analysing customer feedback, working closer with specialist teams and system developments. The majority of the EFA teams involved in capital work are now using our customer relationship management system (CRM), aligning with other EFA teams already using the system to improve accuracy of reporting and ensure our customers receive a consistently high level of service.

The enquiry service collects monthly feedback from enquiring customers with an average response rate of 18%. Customers rate the level of service and the answer they received. Satisfaction rates have remained high throughout the year with level of service averaging at 86%. We have made improvements to our survey so that we are now able to segment feedback, which enables us to provide better customer insight. This feedback is used to drive changes to improve our customer service.

Since introduction of the automated online enquiry form in April 2016, CRM has received and automatically created 13,674 interactions. The form has an inbuilt triage system that automatically routes enquiries to the appropriate team. The quality and accuracy of enquiry responses has improved as the form prompts customers to provide the correct information the first time and to summarise their queries more succinctly. This has enabled us to provide a more efficient customer service.

The use of digital forms continues to provide savings to the EFA. Since the first form went live in April 2014, 50,917 digital forms have been submitted (as of 1 January 2017). This covers a range of returns made to EFA by our customers. The use of online forms to submit returns and information to the EFA has resulted in an estimated 16,900 fewer enquiries, which equates to £287,550 in non-cashable savings.

EFA Information Exchange offers a secure way for our customers to share information with the agency and vice versa. Document Exchange and the online returns sections enables customers to make on line transactions. Document Exchange has meant the quicker distribution of funding allocation packs during March 2017 to all academies open before January 2017.

## Benefits realised through the EFA corporate boards

It is estimated that £4.16 million savings have been made through implementing automated and efficient processes over the past 2 years to improve digital interactions with our customer base and improve accuracy of allocations, building on the automated rules-based allocation system.

We have made efficiency savings for our customers including reducing the number of email addresses used for enquiries from 343 in 2015 (87 in use at the beginning of 2016-17) to two.

The EFA has been measuring its staff wellbeing via the annual Civil Service people survey. The scores have improved across the three key areas which have been monitored since 2012: learning and development, leadership and management, and staff engagement. Results from the 2016 survey showed that the EFA had increased its 'leadership and management' score 17 percentage points since 2012, and is now two percentage points above Civil Service high performers.

## Forward look

With the replacement of the EFA and SFA with the Education and Skills Funding Agency from 1 April 2017, the remits, objectives and structures of both previous agencies will be combined.

The main challenges facing the new agency in 2017-18 and beyond are:

- effective implementation of the ESFA with one culture to support improved delivery of policy intent and service to customers
- ensuring our people have the skills and capability to meet the delivery priorities of the department
- delivering the required changes to the funding methodology to support the successful introduction of technical routes
- uncertainty in the UK construction sector, paired with rising construction and land costs and reduced market interest impacts the ability of the capital programme to deliver increasing number of school places
- ensuring we have the data, systems, capacity and support in place to deliver a range of services, including the allocation of funding and the Apprenticeships Service
- the potential deterioration of the financial health of the sector
- supporting the successful implementation of area review recommendations for sixth-form colleges

## 1.2.2 Programme assurance

This section explains how we ensure that academies and sixth-form colleges use the public funding we give to them properly.

### **Assurances on entitlement to, and proper use of, EFA funds**

The Provider Risk and Assurance (PRA) team is responsible for planning, co-ordinating and carrying out an annual programme of audit and other work, to provide assurance over the proper use of public funds that academies, sixth-form colleges, other providers and local authorities receive. The EFA Audit Committee scrutinises the outcomes of this work.

The approaches we use to obtain assurance depend on the risks associated with the organisations and funding streams. We carry out a programme of assurance and analysis work, ensuring that resources are used effectively and provide an appropriate level of assurance, whilst avoiding duplication. PRA also work with representatives of a range of providers, to refine the assurance frameworks that underpin much of the work; such as the academies accounts direction and the relevant financial handbooks. We also take into account other agency compliance activities, including contract and performance management and data analysis.

Over the year the EFA worked with the SFA and other funding bodies under the Joint Audit Code of Practice (renamed in March 2017 as the 'Post-16 Audit Code of Practice'). The code adopts the principle of 'one provider one assurance', so one funding body secures assurance on behalf of the other.

In 2016-17, PRA operated a 9-month planning cycle to align the assurance year with the EFA financial year. The assurance plan which ran from July 2016 to March 2017, was endorsed by the EFA Audit Committee and detailed the audit work that was to be undertaken by PRA; predominantly visits or desk-based reviews including the review of institutions' financial returns to us.

### **Academy Trusts**

For academy trusts submitting audited financial statements, we receive assurance on the regularity of transactions from the trust's independent reporting accountant's assurance report. We consider and analyse all the financial statements and use the results to identify a risk based sample, for which we then carry out a detailed focused review. The risk criteria are based upon a number of factors, including all audited financial statements where the independent auditors raised issues and high levels of related-party transactions. On this basis, we reviewed 577 statements. This provided assurance that trusts are substantially complying with requirements and that funds are used for the purposes intended.

For those new academy trusts, set up during the year and which under the Academies Accounts Direction are not required to submit financial statements to August 2016, we receive assurance from their Financial Management and Governance Self-assessment (FMGS) returns or alternative assurance returns. This form of assurance covers new academy trust, trusts joining an existing multi-academy trust (MAT) and new MATs. The type of FMGS approach is adapted for the particular circumstances of each new trust. For stand-alone new trusts, the FMGS covers a series of questions to ensure that appropriate control and financial management arrangements are in place to ensure the trust complies with the Academies Financial Handbook, for those joining an existing MAT we seek assurance in the form of a statement from the MAT's accounting officer confirming that the new academy will comply with the financial management and governance arrangements of the MAT. Trust accounting officers confirm the accuracy of the returns and trust boards approve them.

Our assurance programme includes visits to a sample of trusts to validate the arrangements within the trust and to check compliance with the academies financial handbook. We undertook a total of 57 FMGS return validations and 30 alternative assurance returns.

In addition, we undertook seven reviews of established MATs to provide assurance over financial management and governance at trusts comprising more than one academy.

PRA's review of FMGS returns, validation of returns has provided sufficient assurance that academy trusts are substantially compliant with the Academies Financial Handbook.

### **Sixth-form Colleges and Other Providers**

PRA carried out a number of funding audits at sixth-form colleges and other providers, where the focus of the work is to ensure that funding has been drawn down in accordance with the funding rules. Where we identify errors the funds are adjusted or recovered as appropriate. The audits are selected on a risk basis and we use information taken from our Risk Analysis Tool together with referrals from other agency teams to identify high risk providers.

Additionally, we review the financial health of colleges and other training organisations regularly during the year. For colleges we review twice a year, following the submission of the financial plans due 31 July and then again with the submission of the financial statements due 31 December. For other providers we review financial health following the receipt of their annual financial statements.

### **Local authorities**

We assure local authority capital grants by conducting an annual capital grant outturn exercise and by reviewing a sample of local authority financial statements to confirm that the auditors have not raised any issues relating to capital. The outturn exercise confirms what proportion of the capital grant paid to local authorities was spent within the

permitted spending period. We required the local authority's accounting officer to sign a spending return, confirming that the information provided is accurate and that the local authority has spent funds for the purposes intended. Where the local authority has not spent grant we then consider the specific circumstances of the grant and whether we should reclaim it. We request a similar assurance return for all other grants paid to local authorities such as dedicated school grant and pupil premium.

PRA delivered its 2016-17 assurance plan in full and was able to report substantial assurance across all areas. Matters arising have been reported with appropriate follow up action being taken. This has included:

- 1) Instances of non-compliance with EFA requirements or irregularity were identified through our review of academy financial statements and accounts returns. These include 47 trusts where we are seeking further information in respect of related party transactions where further work is necessary by the academy trusts to demonstrate compliance with our requirements.
- 2) There were cases of non-compliance or financial irregularity at academy trusts and sixth-form colleges identified through the review of financial statements, desk-based reviews, MAT reviews, fact-finding visits or investigations. The EFA continues to work with each provider in order to reach a satisfactory resolution.
- 3) As at 16 June 2017, there are 8 sets of outstanding academy and one set of sixth form college financial statements. Of the 8 academy trusts, 7 trusts have closed and their academies transferred to other multi-academy trusts. One academy trust remains open, but is delaying submission because of going concern issues. The ESFA is working closely with this trust. Of those trusts outstanding, we still expect to receive 4 sets of financial statement, including the trust still open. We do not expect to receive the remaining 4, as the companies have been dissolved or liquidated. The outstanding sixth form college is also delaying submission because of going concern issues. The ESFA is also working closely with this college and we still expect to receive financial statements.

## **Intervention**

### **Sixth-form colleges**

There were 93 designated sixth-form colleges at the start of the period and at 31 March 2017 there are 89 as a result of merger and academisation activities.

30 sixth-form colleges were in early intervention between 1 April 2016 and 31 March 2017.

Over the period we issued three Financial Notices to Improve (FNtIs) to sixth-form colleges and one notice for an inadequate Ofsted assessment. Improvement Notices require specific actions to be taken within agreed timescales, and progress is closely monitored.

Two FNtIs were lifted in the same period. No Inspection Notices were lifted in the same period. The Sixth-Form College Commissioner (SFCC) undertook two assessments (one inspection case and one financial health case). No SFCC cases from the previous period were deescalated to agency monitoring or came out of intervention. In area reviews waves one to three, there were 49 sixth-form colleges which had an area review recommendation to consider becoming an academy. Of these, one converted during the reporting year. In the same period, eight were recommended to merge with a general further education college and 13 were recommended to stand-alone.

## **Academies**

Intervention is always proportionate, assessed on its merits, risk-based and linked to non-compliance with the requirements set out in the Academies Financial Handbook and academies' funding agreements. When potential or actual financial concerns are identified, we have a robust intervention strategy to ensure the appropriate and proportionate action is taken swiftly.

The agency has a range of intervention actions ranging from corresponding with academy trusts, through to the termination of a trust's funding agreement in the most serious cases. The agency works closely with Regional Schools Commissioners to rebroker a trust where this is the best option. The approach depends on the issue and local circumstances. Where an academy trust requires additional support, the agency works with the trust to help it reach a stable and sustainable position.

Evidence indicates that financial management in the majority of academy trusts is good. In the academic year ended 31 August 2016, 98.5% of trusts received an unqualified opinion on their financial statements from their external auditor and 94.5% of trusts were in cumulative surplus.

Since 2012, we have published only 55 financial notices to improve, of which 14 have been lifted. 18 of these financial notices to improve were issued during 2016-17. We will continue to take this action wherever there is a need for serious improvement. We are reviewing ways of working with academy trusts to support them with their future financial planning and assist them in managing areas of financial concern at the earliest opportunity.

### **1.2.3 Complaints to the Parliamentary Ombudsman**

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

In 2016-17 the Ombudsman received four EFA-related complaints. Of these one was accepted for investigation (2015-16: zero cases accepted). Following the conclusion of the investigation this complaint was not upheld.

The EFA follows the department's complaints policy that can be found GOV.UK<sup>1</sup>. The target for responding to all complaints is 15 working days. The number and nature of complaints received is recorded centrally. In 2016-17 we received 61 cases (2015-16: 21 cases).

During 2016-17 the EFA undertook a review of its complaints process. Following the announcement of the replacement of the EFA and SFA, this review will be widened to incorporate processes across ESFA.

### 1.2.4 Social and community issues

Our EFA vision is as follows:

'The EFA will continue to support a system led by institutions to deliver the best for children and young people. It will be a nimble organisation, staffed by highly capable people, working with partners who are empowered and enabled to be self-sufficient, in order to deliver customer service which is efficient and effective.'

We are a customer-focussed organisation delivering high quality services through our skilled and effective people in an environment of continuous improvement, to support institutions to deliver the best services for children and young people.

The department encourages its employees to take up volunteering opportunities as well as supporting employees' continuing professional development. The department awards employees a minimum of three days of special leave for volunteering each year.

### 1.2.5 Sustainability

We adopt the department's policies on sustainability. We aim to manage our business in an environmentally sustainable way and the department's annual report and accounts describes our performance in this.



**Peter Lauener**  
**Chief Executive and accounting officer, EFA**  
13 July 2017

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<sup>1</sup> [Department for Education complaints procedure:   
https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure#how-to-make-a-complaint-about-the-department-for-education](https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure#how-to-make-a-complaint-about-the-department-for-education)

## 2. Accountability report

### 2.1 Corporate governance report

#### 2.1.1 The directors' report

##### Directors

During 2016-17, the directors of the EFA were:



**Peter Lauener**  
Chief Executive



**Mike Green**  
Director of Capital Group



**Julian Wood**  
Acting Capital Chief Operating Officer  
(From 1 January 2017)



**Peter Mucklow**  
Director of Young People's Group



**Sue Baldwin**  
Director of Academies and Maintained Schools Group  
(Until 19 August 2016)



**Mike Pettifer**  
Acting Director of Academies and Maintained Schools Group  
(From 22 August 2016)



**Simon Parkes**  
Chief Financial Officer  
(Until 28 February 2017)

The Chief Financial Officer, Simon Parkes, left the EFA on 28 February 2017. This role was subsequently under review during March in light of organisational developments (including the proposed merger of the EFA and SFA from 1 April, and the appointment of the department's Operational Finance Director from 1 March).

## Accountability structure of the EFA

Throughout the year, the accountability arrangements have changed to enable closer working with the SFA.

## Members of the EFA External Advisory Board

The Advisory Board ensures that the EFA has direct input from its customers in shaping and influencing its work. It provides a feedback mechanism for stakeholders and expert practitioners.

From January 2017, EFA operated this Board jointly with the SFA to ensure closer working between the two agencies on apprenticeships, non-school post-16 provision and a shared service for finance and funding. The EFA Advisory Board met 2 times in 2016-17, and the joint EFA and SFA Advisory Board met 2 times.

Member	Role	Meetings attended
Les Walton (Chair)	Chair of Northern Education Trust	4
Caroline Allen	Governor; Orchard Hill College	4
Jenny Bexon-Smith	Regional Schools Commissioner – East Midlands and Humber	1
Gareth Dawkins*	Executive Principal; Bradford Academy	2
Ian Ferguson	Employee Benefit Trust Chairman; Metaswitch	4
Felicity Greeves	Principal; The Blackpool Sixth-form College	4
Malcolm Trobe	Interim General Secretary; Association of School and College Leaders	4
Carl Ward	Chief Executive; City Learning Trust	2

\*NB: Gareth Dawkins sadly passed away summer 2016.

## Members of the EFA Audit Committee

During 2016-17, the EFA Audit Committee met 6 times. The membership and their attendance is listed below:

Member	Meetings Attended
Mark Sanders (Chair)	6
Stella Earnshaw (Member)	5
Brian Rigby (Member)	5

Member	Meetings Attended
Jon Gorringe (Member)	6
Suzanne Orr (Member)	5
Ian Hickman (New member in year)	3

Other attendees are: the EFA's Chief Executive, the EFA's Chief Financial Officer, representatives from the NAO and representatives from internal audit. Other members of the EFA's senior management also attended regularly to provide the information needed to allow the committee to discharge adequately its functions.

The Chief Financial Officer, Simon Parkes, left the EFA on 28 February 2017. There was one meeting of the EFA Audit Committee after this date, at which the department's Insight, Resources and Transformation Directorate attended to advise on finance issues. Membership in 2017-18 will be reviewed under a new, single funding agency.

## Other Information

### Pension liabilities

Most pension benefits to EFA staff are provided by the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded, multi-employer defined benefit scheme. We pay employers' contributions based on pensionable pay for members of the scheme.

We account for the benefits of the scheme in line with our policy in note one to the accounts. More information is available in section 2.3 'The Remuneration and Staff report'.

We are unable to identify our share of the underlying assets and liabilities of the PCSPS. Details are available in the resource accounts of the Cabinet Office; Civil Superannuation at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

### Related Parties

The SFA is a related party because Peter Lauener is Chief Executive of, and Simon Parkes (until 28 February 2017) and Peter Mucklow are directors in both organisations. Other related parties are disclosed within the notes to the financial statements.

### Auditor remuneration for non-audit work

The Comptroller and Auditor General appointed by statute audited these accounts and certificate and report appear on pages 63 to 65. The notional audit fee incurred for the year was £228,000 and relates to the statutory audit of EFA's accounts (2015-16 comparison: £395,000. However, this includes the audit fee for consolidation and the 2016-17 amount does not).

The National Audit Office (NAO), as the EFA's external auditor, provided no other services to the EFA during the year.

### **Public sector information**

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

### **Political donations**

We made no political donation during 2016-17 (2015-16 comparison: no donations).

### **Financial Instruments and financial risk management**

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

### **Important events after 31 March 2017**

There have been events between 1 April 2017 and the date the accounts were signed that have a material impact on the EFA:

In March 2017, the Secretary of State for Education announced the replacement of the EFA and SFA with the Education and Skills Funding Agency (ESFA). The ESFA was operational from 1 April 2017. The new agency will bring benefits to the individuals and organisations we support as well as to the taxpayer. It will enable a single, joined-up approach to funding and regulation to improve accountability.

### **Future developments**

We expect that we will have to continue to make efficiency savings as the number of academy trusts continue to grow.

Our capital programme will continue to increase in size as the number of free schools increases to meet the government's commitment. Our capital programme is continuing to build on our existing plans to maintain and improve the condition of the school estate by investing an additional £216 million to help rebuild and refurbish existing schools.

### **Research/development activities**

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

### **Employee sickness absences**

We include details of employee sickness absence in our 'Remuneration and Staff Report'.

## Report on personal information breaches

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

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

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

The EFA had no protected personal data related incidents that were judged significant enough to be formally reported to the Information Commissioner's Office in 2016-17.

The EFA had no protected personal data related incidents reported in 2016-17 which did not fall within the criteria for reporting to the Information Commissioner's Office, but which were significant enough to be recorded centrally at department level. Smaller, localised incidents are not included.

The information above relates only to personal data security for the EFA.

### 2.1.2 Statement of the Accounting Officer's responsibilities

This part of the report is about the EFA.

Under section 7 of the Government Resource and Accounts Act 2000 I ensure that the EFA prepares, for each financial year, a statement of accounts in the form and on the basis set out in the accounts direction, as determined by the Secretary of State. The EFA prepares its accounts on the accruals accounting convention and the accounts must give a true and fair view of the state of affairs of the EFA and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, I am required to comply with the requirements of HM Treasury's Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply consistently suitable accounting policies
- make reasonable judgements and estimates

- state whether the EFA has followed applicable accounting standards as set out in the Government Financial Reporting Manual
- disclose and explain any material departures from these standards in the accounts
- prepare the accounts for the EFA group as a going concern

The Principal Accounting Officer for the department designated me as Accounting Officer of the EFA. As such, I am responsible for the propriety and regularity of the public finances, for keeping proper records and for safeguarding the EFA group's assets, as set out in Managing Public Money published by HM Treasury. I can confirm that I have discharged these responsibilities properly.

As Accounting Officer, I confirm that:

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

The annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

### **2.1.3 Governance Statement**

#### **The purpose of the governance statement**

The statement explains how I, as Chief Executive of the Education Funding Agency, have put in place arrangements for good corporate governance and reviews of the effectiveness of these arrangements to ensure compliance with HM Treasury's Corporate Governance Code. During the year I have reviewed and maintained these arrangements, including seeking assurance from the Executive Management Board, that our arrangements have been in operation throughout the whole year.

#### **Scope of responsibility**

As Accounting Officer, I have personal responsibility for maintaining a sound system of governance, internal control and risk management to support the achievement of the EFA's policies, aims and objectives, whilst safeguarding public funds and departmental assets. This is in accordance with the responsibilities assigned to me in Managing Public Money and the Corporate Governance Code, published by HM Treasury.

The EFA has designed its system of governance, internal control and risk management to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives. Therefore, it can only provide reasonable and not absolute

assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the EFA's policy aims and objectives
- evaluate the likelihood of those risks being realised and the impact should they be realised
- take reasonable steps to manage them efficiently, effectively and economically

The system of internal control has been in place in the EFA for the financial year ending 31 March 2017 and up to the date of approval of the Annual Report and Accounts.

## **The organisation's governance framework**

The Chief Executive of the EFA is responsible for the direction and management of the EFA.

I required every senior civil servant working in the EFA to complete an assurance framework record to detail their compliance with the departmental arrangements regarding risk, control systems, use of resources and to detail any issues. This confirmed the effectiveness of management and control within each senior civil servant's areas of responsibility. This enables me to provide the department's management committee and ministers with robust assurance that we have managed our agenda well and will continue to do so while delivering efficiencies. We maintain financial information on the delivery of all programmes corporately and, where relevant, at programme level.

I have put in place arrangements for good corporate governance and I review the effectiveness of these arrangements to ensure compliance with the HM Treasury publication 'Corporate Governance in Central Government Departments: Code of Good Practice' (the Code) where relevant to the EFA and its remit. I have reviewed and maintained these arrangements including seeking assurance from our Executive Management Board that our arrangements have been in operation for the whole year. I have not identified any departures from the Code.

We have continued to embed systems to monitor performance throughout the year. The Executive Management Board receives performance updates both monthly (from each group) and quarterly. Upon review of these updates and of the Board's own effectiveness, the Executive Management Board considered the quality of the data sufficient to serve the Board's purposes. The embedded structure used for collecting and monitoring performance data means that data on performance included in the Annual Report and Accounts has already been shared at points throughout the year with operational boards and the Executive Management Board. However, the Board did identify room for improvement by streamlining and reducing duplication in reporting to enable it to operate more effectively. These improvements will be implemented in June 2017.

In addition, the Executive Management Board reviews the Annual Report and Accounts, which provides an opportunity to challenge any of the data used. More information about the high-level board structure for 2016-17 is set out in the sections below.

## **The EFA Advisory Board**

The EFA has established the EFA Advisory Board with external members to provide support and challenge in respect of how it carries out its functions on behalf of the Secretary of State.

From January 2017, the EFA operated this Board jointly with the SFA to ensure closer working between the two agencies on apprenticeships, non-school post-16 provision and a shared service for finance and funding. The EFA shared a summary of programmes' progress on delivery and their next steps for implementation at each EFA Advisory Board during the year for review and challenge.

The EFA Advisory Board met 2 times in 2016-17, and the joint EFA and SFA Advisory Board met 2 times.

## **The risk and internal control framework**

Each of our four programme boards have risk management as a focus, and use a clear, timely route to escalate risks to the Executive Management Board for their information, or to seek advice or action. Each quarter the executive management board scrutinised programme delivery risks, their countermeasures and contingencies and provided advice and challenge to ensure the EFA effectively managed the risks. The Board also considered any risks to escalate to the department's Performance Committee and Management Committee, with approval from the Director General of the department's Infrastructure and Funding Directorate, either for action or for information.

We managed successfully two of the key departmental risks, namely 'that the financial health of the sector adversely affects the supply of high quality learning provision' and 'the allocation and distribution of funding to schools and post-16 institutions is not accurately or timely'.

The Executive Management Board did not escalate any risks to the department's Management Committee during the 2016-17 year.

Section 1.2.2: Programme Assurance provides detail on how the work of the risk analysis division (now Provider Risk and Assurance or PRA) ensures that academies and sixth-form colleges use the public funding we give to them properly.

## **Audit Committee**

The EFA also has an Audit Committee, which reports to and advises the EFA Chief Executive and the department's Audit and Risk Committee on the adequacy and effectiveness of the operation of the system of internal control within the EFA. This

includes controls for securing economy, efficiency and effectiveness within providers funded by EFA and the application of money paid to these providers in accordance with the purposes for which it was allocated.

All members of the Committee are independent non-executives and have been appointed with the advice of the Government Internal Audit Agency and with the agreement of the Director General of the department's Infrastructure and Funding Directorate. Others that attend Audit Committee meetings include the EFA Chief Executive, the EFA Chief Financial Officer (replaced by Director of Finance Operations following closure of FAS<sup>2</sup>T), an observer from the National Audit Office and an observer from the Government Internal Audit Agency. EFA directors are requested to attend Committee meetings when necessary.

The EFA Audit Committee met 6 times in 2016-17.

The Audit Committee has continued to report in to the department's Audit and Risk Committee and the Chair of the EFA's Audit Committee is a permanent member of the department's Audit and Risk Committee.

The Audit Committee has provided me with an annual report detailing its contributions throughout the year and assurances on the effectiveness of the operation of our system of internal control. Below is a summary of their report:

*"During 2016-17 we have supported the EFA Accounting Officer by reviewing, advising and challenging in a number of areas, but have focused on the accounts, following the Comptroller and Auditor General's adverse opinion of the 2015-16 accounts. The experience of last year and the lessons which have been learned will inform improvements next year. There is much to do in relation to the new accountancy approach and adequate resources are required to achieve a satisfactory outcome. We note that the problems associated with the accountancy treatment of land and buildings will take some years to resolve fully.*

*This year will contain significant challenges with the need to produce two sets of accounts in one year and bring forward the timetable for preparation of the 2016-17 core EFA accounts. In addition, there will be an increasing number of academies as well as the transfer of some functions between EFA and the Department for Education. We have paid particular attention to the formation of the Funding Agencies Shared Service Team (FAS<sup>2</sup>T) given its assurance function and its additional role in supporting the Skills Funding Agency.*

*We continue to focus closely on the EFA's role in monitoring the financial health of the academy sector given its size, diversity and continued expansion. We commend the EFA's emphasis on transparency and probity whilst noting its effectiveness in making its payments in an accurate and timely manner.*

*Our work has looked at key risks and the mitigations. We have reviewed fraud, error and overpayments, capital and monitored the implementation of ICT changes, with a focus on the EFA's resilience to system wide issues. We have also overseen the preparation of the Provider Risk and Assurance business plan and received appropriate assurances through the production of the Annual Assurance Report. In addition, we have approved the internal audit programme and have followed up on reports and ensured action is taken on the recommendations.*

*We have also received reports on the setting up of LocatED (a company to acquire sites for future schools) and the functioning of the 'aggregator' used to secure private funding for building schools. We have also focused on the risk that the expansion of the EFA's activities might have outstripped its staffing resource; and that changes in key personnel might create a lack of stability.*

*We have concluded that the Accounting Officer can take assurance that the overall governance, internal control and risk management systems are operated effectively in the EFA. Looking ahead we plan to focus closely on the EFA's ability to resource its role which grows in scale and complexity; on the resilience of the EFA's IT systems which are critical to its operation and on the challenge of ensuring that LocatED (see above) will be managed through clear and precise commissioning arrangements and performance indicators."*

## **The Executive Management Board and EFA corporate boards**

The Executive Management Board is comprised of the Chief Executive and the EFA directors. The Executive Management Board provides the Chief Executive with the opportunity to hold directors and their programmes to account, along with carrying out forward-looking strategic thinking. The Chief Executive continually reviews the quality of information provided to the Board along with peer review challenge from the Board members.

Since October 2016, EFA has operated this Board jointly with SFA directors to ensure closer working between the two agencies on apprenticeships, non-school post-16 provision and a shared service for finance and funding.

The focus of the Executive Management Board has been progress in the delivery of its operations across its groups and corporate strands, and the development of closer working with the SFA.

The Executive Management Board takes a horizon-scanning role at points in the year. As well as keeping its effectiveness under review throughout the year, the Board also held a planning session in December 2016 to consider the EFA's future challenges, risks, and delivery plans and assessed its ability to deliver them. This has been incorporated into the Executive Management Board business cycle, which has been signed off by the

Board. The Board also meets twice per year with its senior management team to review priorities and action planning to inform these discussions. This has allowed the Board to perform effectively.

The Board also continued to keep under review the effectiveness of the EFA's four corporate boards:

- the People Board that is responsible for developing the EFA people strategy
- the Data and Systems Board that sets, develops and disseminates the strategic direction for our approach to data and systems
- the Customer Service Board that is responsible for developing our high quality customer service
- the Risk, Intervention and Assurance Board that develops a strategy for risk and intervention and to tackle fraud and financial irregularity and impropriety that involves funding for which the EFA is accountable

Each corporate board is chaired by an EFA director, with other directors in attendance to ensure alignment. The boards ensure effective delivery of their programmes by monitoring, reviewing and challenging their performance and risks.

## **Internal Audit**

We maintain a professional and independent internal audit service which is provided by the Government Internal Audit Agency (GIAA). I agreed an audit plan with GIAA including high-level scope and broad timing for each of the reviews. The early identification of issues by internal auditors enabled the EFA to manage risks better and to put improved controls in place. Internal audit operated from a risk-based audit plan designed to identify and address potential issues early on. During the year, internal audit carried out 57 cross-group reviews that included aspects of the EFA's work. These audits proved effective in prompting improvements in the EFA's control environment.

The Group Chief Internal Auditor provided the Permanent Secretary with a single report for the department and its executive agencies that provides an independent and objective opinion on our system of governance, internal control and risk management. The head of internal audit's opinion gave moderate assurance for the EFA. A moderate assurance rating means that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, internal control and risk management.

The report highlighted the EFA work on 2017/18 allocations (Dedicated Schools Grant, Academies and post-16) has meant robust processes were in place to ensure the accuracy of calculations. However, the 16-19 allocations work has been carried forward to internal audit's 2017-18 plan to fit the ESFA business cycle and where there have been delays with GIAA being able to complete the work due to issues with the Store, the

payments and assurance audit review is a key assurance review which is still being finalised.

The report also raised that EFA systems in place may not be scalable in terms of managing the impact of increased numbers of academies and free schools. The ESFA is taking steps to strengthen the Store for supporting allocations and needs to ensure approaches to modify IT applications, operational processes, resources and capabilities can maintain expected performance levels in 2018-19 and beyond.

Further work was required to address recommendations for EFA Capital made in the NAO Management Letter on the 2014-15 financial statements. This included the need for greater clarity and communication of process documentation for decision makers. The follow up review identified that positive progress was made by EFA Capital and finance teams across the department to implement actions resulting from earlier reviews, indicating a reduction in the level of risk exposure to the Agency in this respect. An additional follow up review which will consider the progress of any outstanding actions, and test the operating effectiveness of controls, is planned in 2017-18.

The report also detailed the replacement of the EFA and SFA and concluded that since the reviews of FAS<sup>2</sup>T, these activities have been subsumed into DfE and the ESFA. The need to determine the benefits to be achieved from a shared service including any vacancy gaps now have the opportunity to be resolved via the set-up of services remaining from the FAS<sup>2</sup>T changes which are being shared across all/some of DfE including ESFA.

We are actively managing the risks and issues to which the head of internal audit's assurance report drew my attention, using our risk management arrangements. We continue to develop our systems and processes to ensure that we can meet the challenges presented through the newly formed ESFA operations.

Internal audit confirmed that appropriate action has been taken to implement agreed actions rated high or medium priority due during 2016-17 and arising from internal audit work.

### **External assurance: The National Audit Office**

In December 2016 and following the 2015 Spending Review which saw schools entering a period of reducing real-terms funding per pupil, the NAO published their report on the Department for Education's approach to managing risks to schools' financial sustainability in light of increasing cost pressures<sup>2</sup>.

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<sup>2</sup> [NAO Report:https://www.nao.org.uk/report/financial-sustainability-in-schools/](https://www.nao.org.uk/report/financial-sustainability-in-schools/)

The report focussed on whether the department was well placed to support state-funded schools to manage the risks to financial sustainability and also examined the overall budget and cost pressures for all schools.

The report highlighted the department was seeking to deliver educational excellence everywhere, and to growing numbers of pupils.

The report found that the department can demonstrate using benchmarking that schools should be able to make the required savings on workforce and procurement without affecting educational outcomes, but cannot be assured that these savings will be achieved in practice.

Following the publication of the report and a Committee of Public Accounts meeting in January 2017, the department sought to expand and deepen its School Efficiency and Financial Health programme to meet the increased ambition in how it helps schools to achieve financial efficiency savings of £3 billion, whilst maintaining or improving pupil outcomes. A number of initiatives were delivered across the department. Since then a single coherent programme has been sought by working to consolidate existing strands of work and put in place effective control and governance mechanisms.

As part of our ongoing work to support the department we offer challenge and support to academy trusts facing immediate financial challenges and we are developing a preventative approach working with academy trusts, using long term forecasting to identify future challenges and work with trusts to drive efficiency and encourage robust financial planning. We continue to develop this work and we are looking to expand the approach to include maintained schools and will be working with colleagues in local authorities to take this forward.

This preventative work forms part of the broader DfE-wide approach to support the financial health of the schools sector by providing tools and materials to all schools to build capability and encourage better financial management.

In February 2017 the NAO published their report on capital funding for schools<sup>3</sup>. The report examined how well the department used its capital funding for schools, covering the use of money both to provide new school places and to keep school buildings in good condition.

The report determined that the department, working with local authorities and schools, had responded positively to start meeting the challenges it faced in relation to the quality and capacity of the school estate. The department's creation of a large number of new school places and its progress in improving schools in the worst condition was

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<sup>3</sup> [NAO Report:https://www.nao.org.uk/report/capital-funding-for-schools/](https://www.nao.org.uk/report/capital-funding-for-schools/)

highlighted as well as its improvements to how it managed its capital funding through better use of data and greater targeting of resources at areas in most need.

The report concluded that the department must make the best use of the capital funding it has available by:

- continuing to increase the use of data to inform its funding decisions
- by creating places where it can be demonstrated that they will have the greatest impact

To help make the devolved system work effectively, the report also concluded that the department should strengthen incentives and ensure that accountabilities for managing the school estate are clear.

Following the report's publication, in March 2017 a Committee of Public Accounts meeting was held and a subsequent report published. The government will formally respond to the report and recommendations in the autumn, and the Education and Skills Funding Agency will implement any actions that government response commits the agency to.

### **Fraud and financial irregularity**

I have charged our Risk, Intervention and Assurance Board (RIAB) with creating and maintaining an anti-fraud culture across the EFA group by:

- raising awareness and sharing good practice in combating fraud and irregularity across the EFA group and with education providers
- measuring and setting a framework to tackle fraud, irregularity and impropriety
- maintaining oversight of cases and reporting them to the executive management board as required
- monitoring risk assessments to ensure new operations and systems and the areas of our business most at risk of fraud and irregularity are adequately proofed
- overseeing the handling and protection of whistle blowers

We have committed to publishing investigation reports and have developed a transparent policy for doing so which makes our approach clear. We reiterated this in the 2016 academies financial handbook.

During 2016-17 EFA triaged 43 fraud and/or financial irregularity allegations, including 36 academy referrals and seven post-16 institutions. This resulted in fact-finding visits to 16 academies and five post-16 institutions, of which nine cases are on-going and 12 cases we have closed. Of the 12 closed cases, we found no evidence of irregularity in 10 cases and evidence of irregularity in two cases (one academy and one post-16 institution). In both cases, the EFA Provider Risk and Assurance team identified inadequate governance and financial control arrangements. The findings were discussed and agreed

with the trust boards, including recommendations to resolve the issues and improve control arrangements. The nine on-going cases are at various stages with two nearing completion. Of those nine, one case of irregularity has already been confirmed in relation to an academy.

## **Financial management**

As Accounting Officer, I have responsibility to ensure that there were effective systems to manage and monitor all funds granted for me. I am content that overall processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money. I consider that the EFA's financial management was sound throughout the process of allocating and paying the £57.6 billion of capital and revenue funding.

We put in place clear lines of accountability for all programme and administrative expenditure, and I delegated financial authority to each of my board members in accordance with their responsibilities. We clearly explain these lines of accountability in financial guidance and policies. This enabled spend managers to ensure payments were regular and proper and provided clarity on how they should seek agreement for needs based payments (those outside of ordinary business). I am satisfied that spend managers had sufficient information and resources to make affordable spending decisions that secured value for money.

The Financial Management Performance and Planning team (FMPP) report monthly, or as requested, to the Executive Management Board and elsewhere as required. The financial reporting covers a range of information including the outturn position to date and year end forecasts. FMPP also complete a monthly expenditure return for the department in line with requirements to ensure our business is transparent.

We managed variances in close cooperation with DfE directorates allowing maximum flexibility in the department's management of public funds. Where we identified significant underspends the department redeployed them to ministerial priorities. EFA's revenue expenditure was 99.7% against budget and capital expenditure was 96.0% against budget for 2016-17.

## **Shared services**

The department provides the EFA with a number of shared services, detailed in the notes to our accounts, which provide many of our business systems to protect business continuity. The relevant corporate board reviews and challenges the quality of these services and the board escalates issues to me if required.

## **Conclusion**

I am confident that based on the review outlined above, that the EFA has a sound system of governance, risk management and internal control that supports its aims and objectives.

## 2.2 Financial commentary

The EFA underspent by £228.5 million (0.4%) against total budget. Total expenditure increased £904.8 million 1.01% on last year in two main areas £628.1 million on capital grants and £276.7 million on revenue grants.

Capital grants due to an increase in basic need expenditure - basic need allocations support local authorities in building sufficient school places where there is need. The amount allocated each year therefore varies depending on forecast demographic demand, affected by birth rates, the migration of people around the country, and other factors.

Resource grants key movements are Dedicated Schools Grant has decreased £696.4 million on the previous year and Pupil Premium by £122.6 million on the previous year as more schools have converted to academy status. Grants to academies have increased £1,305.4 million from the previous year, through conversions from LA and the residual due to the increase in the number of Free Schools where there was no predecessor school. Education Services Grant has fallen by £66.2 million from the previous year as the funding rate reduced in 2016-17 and more schools converted to academy status. Local authority and other maintained schools with sixth forms and 16-19 funding streams have reduced with reductions in student numbers and adjustments to Formula Protection Funding.

The net book value of non-current assets at 31 March 2017 was £319.2 million. The increase of £145.6 million on last year was due to expanded activities with capital projects leading to increased assets under construction held at year end.

The EFA's receivable balances increased to £241.8 million (31 March 2016: £151.9 million). The increase is largely due to recoverable VAT transactions outstanding with Academy Trusts as part of their capital programmes.

At 31 March 2017, the EFA held cash balances of £121.4 million (31 March 2016: £152.2 million). This was 0.21% of expenditure.

At 31 March 2017, the EFA had payable balances of £777.5 million (31 March 2016: £626.8 million). Increased accruals relating to EFA capital projects.

The EFA operates an unfunded multi- employer defined benefit pension provided by the Principal Civil Service Pension Scheme (PCSPS). We paid employer contributions of £8.68 million during the year (financial year 2015 to 2016: £8.57 million) but we are unable to identify our share of the underlying assets and liabilities.

Further information is available in the Remuneration Report on pages 48 to 58 and at [civil-service-pensions.gov.uk](http://civil-service-pensions.gov.uk).

The department agreed a settlement with HMT for the next four financial years in November 2015, as part of the 2015 Spending Review<sup>4</sup>. Following this settlement, the Department's Single Departmental Plan<sup>5</sup> was published in February 2016. The figures for the EFA are included within the departmental spending plans.

The government's commitment to deliver 500 free schools by 2020 means that our expected free schools programme will continue to increase.

The departmental accounts covers the expenditure trends for the whole of the departmental group.



**Peter Lauener**  
**Chief Executive and accounting officer, EFA**  
13 July 2017

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<sup>4</sup> [2015 spending review: https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents](https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents)

<sup>5</sup> [Department single departmental plan: https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020](https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020)

## 2.3 Remuneration and staff report

### 2.3.1 Chief Executive and executive management board members' remuneration policy

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

As staff employed by an executive agency of the department, the executive management board's performance management and contractual terms are as described in the department's annual report and accounts. As such, the department manages performance management and non-consolidated performance award for members of the senior civil service within the framework set by the Cabinet Office. The contractual terms of executive management board members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the civil service website<sup>6</sup>.

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. Readers can find further information about the work of the Civil Service Commission on their website<sup>7</sup>.

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<sup>6</sup> [Cabinet Office Framework - https://www.gov.uk/government/organisations/civil-service](https://www.gov.uk/government/organisations/civil-service)

<sup>7</sup> [Civil Service Commission - http://www.civilservicecommission.org.uk/](http://www.civilservicecommission.org.uk/)

## 2.3.2 Remuneration (salary, bonuses and pensions)

This section of the remuneration report is subject to audit.

Official	Salary (1)		Bonus payments (2)		Pensions benefits (3)			Total
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£000	£000	£000	£000	£000	£000	£000	£000
Peter Lauener (4) Chief Executive	140-145	140-145	-	-	5-10	35-40	145-150	175-180
Sue Baldwin (105-110) Director of Academies and Maintained Schools Group (to 19 August 2016)	35-40	95-100	10-15	10-15	5-10	30-35	60-65	140-145
Mike Green Director of Capital Group	130-135	130-135	5-10	-	50-55	50-55	190-195	180-185
Peter Mucklow (6) Director of Young People's Group	90-95	90-95	5-10	-	20-25	25-30	125-130	115-120
Simon Parkes (5) Chief Financial Officer (to 28 February 2017)	125-130 (135-140)	135-140	5-10	10-15	15-20	55-60	150-155	200-205
Mike Pettifer (95-100) Acting Director of Academies and Maintained Schools Group (from 22 August 2016)	60-65	-	-	-	20-25	-	80-85	-
Julian Wood (90-95) Acting Capital Chief Operating Officer (from 1 January 2017)	20-25	-	-	-	5-10	-	25-30	-

### Notes:

- (1) 'Salary' includes gross salary; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the EFA and thus recorded in these accounts.
- (2) The department awards bonuses as part of the performance management process. The EFA sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high quality public services. The EFA follows the arrangements for the senior civil servants as set out in the Performance Management arrangements for the Senior Civil Service<sup>8</sup>, and the department's performance management framework for managing and rewarding performance throughout the year. Bonuses relate to the performance in the year prior to that in which they become payable to the individual. The bonuses reported in 2016-17 relate to performance

<sup>8</sup>[Performance management arrangements for senior civil servants:](https://www.gov.uk/government/publications/senior-civil-service-performance-management)  
<https://www.gov.uk/government/publications/senior-civil-service-performance-management>

in 2015-16 and the comparative bonuses reported for 2015-16 relate to performance in 2014-15.

- (3) 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 decrease due to a transfer of pension rights.
- (4) Peter Lauener became the Chief Executive of the SFA on 1 November 2014 (whilst retaining his EFA post). SFA have paid 50% of his costs from that date. Peter Lauener continues to receive the same remuneration from the EFA; however the EFA recovers the SFA's contribution to his remuneration directly from the SFA. The remuneration shown is the total received for working for both agencies.
- (5) Simon Parkes was appointed from 1 December 2015 as Acting Chief Operating (and Financial) Officer of the SFA. He was also Managing Director designate of FAS<sup>2</sup>T. Simon Parkes was an employee of the EFA. His time was split equally between EFA and SFA roles, 50% of his salary was included in FAS<sup>2</sup>T recharge between agencies. The remuneration shown is the total received for working for both agencies.
- (6) Peter Mucklow is the National Director for Young People in the EFA and from 1 January 2016 is also the Director of Intervention at the Skills Funding Agency. Peter Mucklow is an employee of the EFA and does not receive remuneration from the SFA. His time is split between EFA and SFA roles. The remuneration shown is the total received for working for both agencies.

### 2.3.3 Fair pay disclosure

This section of the remuneration report is subject to audit.

The Hutton fair pay disclosure for the EFA is as follows:

	2016-17	2015-16
Band of highest paid director's remuneration (£000)	140-145	145-150
Median (£000)	40.7	42.9
Range (£000)	18-141	18-148
Remuneration ratio	3.5	3.4

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. In 2016-17, no employees (2015-16: nil) received remuneration in excess of the highest-paid director. 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.

### **2.3.4 Pension benefits**

This section of the remuneration report is subject to audit.

#### **Civil service pensions**

As an executive agency of the department, the EFA's staff are members of the principal civil service pension scheme that provides pension benefits. The department's annual report and accounts provide information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the civil service pensions' website<sup>9</sup>.

#### **Cash equivalent transfer values**

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

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

#### **The real increase in the value of the cash equivalent transfer value**

This reflects the increase in cash equivalent transfer value that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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<sup>9</sup> [Civil service pension scheme: http://www.civilservicepensionscheme.org.uk/](http://www.civilservicepensionscheme.org.uk/)

	Accrued pension and related lump sum at pension age as at 31 March 2017	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contribution to partnership pension account Nearest
	£000	£000	£000	£000	£000	£100
Peter Lauener, Chief Executive	70-75 plus lump sum of 215-220	0-2.5 plus lump sum of 0-2.5	1,626	1,607	8	-
Sue Baldwin (to 19 August 2016)	15-20 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	309	290	7	-
Mike Green	15-20 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	192	152	26	-
Peter Mucklow	35-40 plus lump sum of 105-110	0-2.5 plus lump sum of 2.5-5	725	674	20	-
Simon Parkes (to 28 February 2017)	30-35 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	429	416	7	-
Mike Pettifer (from 22 August 2016)	25-30 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	396	381	9	-
Julian Wood (from 1 January 2017)	5-10 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	55	51	3	-

### 2.3.5 Staff numbers and staff costs

This section of the remuneration report is subject to audit.

The staff costs for the EFA were £52.6 million (2015-16: £47.1 million) and the average number of full-time equivalent staff employed during the year was 1,125 (2015-16: 1,031).

	Permanently employed staff	Others	2016-17 Total	Permanently employed staff	Others	2015-16 Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	32,478	6,806	39,284	29,951	4,954	34,905
Social security costs	4,549	-	4,549	3,558	-	3,558
Pension costs	8,793	-	8,793	8,677	-	8,677
	<b>45,820</b>	<b>6,806</b>	<b>52,626</b>	<b>42,186</b>	<b>4,954</b>	<b>47,140</b>
<b>Staff numbers</b>	<b>897</b>	<b>228</b>	<b>1,125</b>	<b>767</b>	<b>264</b>	<b>1,031</b>

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

The EFA has charged its staff costs relating to the creation of new capital assets to capital grant-in-kind. This totalled £16.7 million (2015-16: £15.6 million) for the free schools programme and £5.9 million (2015-16: £8.2 million) for the PSBP.

### 2.3.6 Sickness absence

During the year, we lost 3,748 days to sickness absence (2015-16: 3,227). This equates to approximately 4.1 days sickness absence per employee per year (2015-16: 3.9 days).

### 2.3.7 People management

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

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

At March 2017 our staff headcount figures, for permanent staff, were as follows:

Grade	Male	Female	Total
CEO	1	-	1
Director	4	-	4
Deputy Director	11	15	26
Grade 6	126	89	215
Grade 7	107	116	223
Senior Executive Officer	95	105	200
Higher Executive Officer	59	105	164
Executive Officer	66	100	166
Executive Assistant	13	13	26
	482	543	1025

### Commitment to improving diversity

The department's Equality, Diversity and Inclusion Plan, refreshed and updated in September 2016, it contains a number of actions that will help us take steps towards the development of a highly capable, diverse workforce. The plan has three key aims, to build a department which reflects the society we serve, in which everyone has the

opportunity to develop and progress in their career and which embraces an inclusive culture for all.

The department has benchmarked itself against external organisations, reaching the top 150 of the Stonewall employer index this year. It has also made a number of improvements to its recruitment processes, using anonymised sifting of applications, introducing more inclusive language in its job adverts and targeting recruitment at under-represented groups for example by advertising on diversity websites. It has also trained over 30 mental health first aiders who are now active within the department. There are Board champions for race, gender, disability, sexual orientation, age and wellbeing. In addition, there is a thriving group of diversity networks representing the interests of their members.

## **Addressing under-representation**

We have chosen not to set specific targets for representation within our workforce, in line with the overall Civil Service approach, but we continue to focus on addressing areas where particular groups of staff are under-represented.

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

### **2.3.8 Expenditure on consultancy**

We employ contractors who are professionally qualified and are employed on short term contracts. The cost of these contractors in 2016-17 was £21.2 million (2015-16: £19.9 million). This increase was largely due to an increase in project manager fees as a result of the increased capital programme. Project manager fees rose from £16.3 million in 2015-16 to £17.2 million in 2016-17, these project manager fees are charged to capital as they work directly on the delivery of capital programmes. Our contractors are mainly, but not exclusively, employed in our free schools programme as project managers. It is the responsibility of the hiring managers to ensure that all contractors comply with their tax obligations. The framework contracts for contingent workers the EFA has placed, or

draws upon as part of the department, include provision for workers supplied by these companies to meet their obligations.

### 2.3.9 Off-payroll engagements

As part of the *Review of Tax Arrangements of Public Sector Employees* published by the Chief Secretary to the Treasury on 23 March 2012, departments were directed to publish information pertaining to the number of off-payroll engagements, at a cost of over £58,200, that were in place on, or after, 31 January 2012 and any off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017. The tables below set out this information.

#### **For all arrangements that have existed as of 31 March 2017, for more than £220 per day and that lasted longer than 6 months**

	2016-17	2015-16
Number that have existed for		
less than 1 year at time of reporting	19	55
between 1 and 2 years at time of reporting	16	49
between 2 and 3 years at time of reporting	10	48
between 3 and 4 years at time of reporting	24	29
4 or more years at time of reporting	2	10
Engagements as at 31 March 2017 (2016)	71	191

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

#### **All new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2016 and 31 March 2017, for more than £220 a day and that lasted for longer than 6 months**

	2016-17
<b>No of new engagements or those that reached 6 months in duration between 1 April 2016 and 31 March 2017</b>	
<b>Of which</b>	
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations (1)	4
No. for whom assurance has been requested	-
<b>Of which</b>	
No. for whom assurance has been received	-
No. for whom assurance has <u>not</u> been received	-
No. that have been terminated as a result of assurance not being received	-

(1) No assurances were requested as these were seen as low risk. Assurance requirements would have been captured in the IR35 year end assessment exercise where the individual was still in post.

## Off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017

	2016-17
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-
No. of individuals that have been deemed 'board members and/or, senior officials with significant financial responsibility,' during the financial year. The figure should include both off-payroll and on-payroll engagements	7

### 2.3.10 Staff exit packages

This section is subject to audit.

In both 2016-17 and 2015-16, the department bore and managed centrally the exit costs of staff in the EFA itself.

During both 2016-17 and 2015-16, EFA staff could choose voluntary exit under an early departure programme. As part of this programme, the department meets the additional costs of benefits in respect of employees who retire early and of compensation payments payable to employees who take early severance.

The EFA has paid redundancy and other departure costs in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. The department has accounted for exit costs in full in the year of departure. Where the EFA has agreed early retirements, the EFA has met the additional costs and not the Civil Service Pension Scheme. The scheme has met the ill-health retirement costs and such costs are not included in the table.

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<£10,000	-	-	-	2	-	2
£10,001 - £25,000	-	-	-	6	-	6
£25,001 - £50,000	-	-	-	11	-	11
£50,001 - £100,000	-	-	1	8	1	8
£100,001 - £150,000	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-
<b>Total number of exit packages</b>	-	-	1	27	1	27
<b>Total cost (£000)</b>	-	-	95	1,075	95	1,075

### **2.3.11 Pension schemes**

The EFA operates two pension schemes for its employees: principal civil service pension scheme and partnership pension accounts.

#### **Principal civil service pension scheme**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit scheme but EFA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012.

For 2016-17, employers' contributions of £8.68m were payable to the PCSPS and CSOPS (2015-16 £8.7m) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. 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 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Further details about the Civil Service pension arrangements can be found at the civil service pensions' website<sup>10</sup>

No individuals retired early on ill-health grounds (2015-16 nil).

#### **Partnership pension accounts**

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £103,006 (2015-16 £111,198) 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. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £3,547 (2015-16 £4,372), 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 balance sheet date were £9,561 (2015-16 £9,294). Contributions prepaid at that date were nil.

### **2.3.12 Staff relations and communications**

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

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<sup>10</sup> [Civil Service Pension Scheme - http://www.civilservicepensionscheme.org.uk/](http://www.civilservicepensionscheme.org.uk/)

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

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

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

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

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

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

## 2.4 Parliamentary accountability and audit report

### 2.4.1 Parliamentary accountability disclosures

This part of the report is subject to audit.

#### Losses statement

Value	2016-17 £000	2015-16 £000
Cash losses	851	4,867
Bookkeeping losses	1,597	-
Fruitless payments (1)	6	1,934
<b>Total</b>	<b>2,454</b>	<b>6,801</b>
Number of cases	2016-17	2015-16
Cash losses	5	10
Bookkeeping losses	2	-
Fruitless payments	119	55
<b>Total</b>	<b>126</b>	<b>65</b>

(1) A fruitless payment is a payment which cannot be legally avoided because the recipient is entitled to it even though nothing of use to the EFA will be received in return. In 2015-16 EFA received permission from HMT to write off £1.48m expenditure incurred on a school building project which was unable to go ahead. Other fruitless payments relate to staff travel purchased but unable to be used.

## **Details of cases over £300,000**

### **Webbs Industrial Estate loss on sale**

This site was purchased to accommodate two proposed free schools, an Oasis secondary school and Big Creative Academy. The Oasis proposal was subsequently cancelled meaning the Webbs Industrial Estate site was larger than needed for one school. In collaboration with Waltham Forest, we identified an alternative site that was both significantly cheaper to buy and would require less work to make it ready for use. We estimated this alternative would be approximately £7.2 million cheaper than proceeding at Webbs and allow Waltham Forest to proceed with its plans for regeneration in the area. We sold the Webbs Industrial Estate for more than we paid for it, but the best price we could achieve was below the carrying value and gave rise to an accounting loss of £501,845. This was considered acceptable given the overall improvement in value for money we achieved by pursuing an alternative site.

### **Coley park loss on sale**

The EFA bought this site in Reading in 2012 for the Wren School. It was the best value for money option at the time. By March 2015 an alternative site, Elvian, had become available and whilst Coley Park was still considered suitable we agreed with the proposer group, that the Elvian site would be preferable as it is over 30% bigger than Coley Park; it has better transport links via the main Bath Road; and it cost less than Coley Park. EFA swapped the Coley Park site, which we valued at £4.2 million, for the Elvian site plus a cash payment of £2.5 million. The estimated market valuation of the Elvian site was £1.9m. This deal therefore represented good value for money. As the Elvian site was to be used for its service potential, the value used in the accounts was its value in existing use rather than the market valuation. The existing use of the Elvian site was estimated to be £0.6m compared to the market valuation of £1.9m. This resulted in an accounting loss of £1.1m despite the clear economic advantages of the deal.

### **Lilac Sky Schools Trust (LSSAT)**

LSSAT was established in 2011 and has nine primary schools across Kent and East Sussex, four of these are brand new schools with growing numbers. In February 2016, while conducting a MAT review, we identified a number of serious and wide ranging concerns around governance and compliance. Following this review, these academies are expected to transfer to new trusts/sponsors. After the transfer of the academies to new trusts, LSSAT does not expect to have any surplus funding to allow us to recover advances totalling £537,440. In order for the academies to transfer to their new trusts without a deficit, the advances have been moved to non-recoverable funding which represents a write-off.

## Special payments

	2016-17	2015-16
<b>Number of cases</b>		
Total number of cases	-	1
<b>Values</b>	<b>£000</b>	<b>£000</b>
Total value of cases	-	5,000

Payments over £300,000 require approval from HM Treasury (HMT). The case disclosed in 2015-16 relates to a one-off exceptional payment to the Hampshire Pension Fund in respect of the Local Government Pension Scheme deficit for Totton College and received HMT approval. The EFA had no special payments in 2016-17.

## 2.4.2 Remote contingent liabilities

This part of the report is subject to audit.

	At start of period	Increase in period	Liabilities crystallised in period	Obligation expired in period	As at 31 March 2017	Sum notified to parliament by departmental minute
	£000	£000	£000	£000	£000	£000
In respect of lease arrangement with Church Commissioners for England	5,000	-	-	-	5,000	5,000
Tenant Default Agreements	2,501	400	-	-	2,901	-
In respect of lease arrangement with Tottenham Hotspur Property Company	12,500	-	-	-	12,500	-
In respect of commercial lease of Free Schools Norwich	110	-	-	-	110	-
Rent deposit deed for Turing House School	470	-	-	-	470	-
	<b>20,581</b>	<b>400</b>	-	-	<b>20,981</b>	<b>5,000</b>

## **Indemnity provided to the Church Commissioners for England**

The contingent liability is in relation to a lease arrangement for an academy site.

## **Tenant default agreements**

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

## **In respect of lease arrangement with Tottenham Hotspur Property Company**

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

## **In respect of commercial lease of Free School Norwich**

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

## **Turing House School**

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



**Peter Lauener**  
**Chief Executive and accounting officer, EFA**  
13 July 2017

### **2.4.3 The certificate of the Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of the Education Funding Agency (the EFA) for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

#### **Respective responsibilities of the Accounting Officer and auditor**

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

#### **Scope of the audit of the financial statements**

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

I am required to obtain evidence sufficient to give reasonable assurance that the 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.

## **Opinion on regularity**

- In my opinion, in all material respects 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.

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the EFA's affairs as at 31 March 2017 and of the net operating cost 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.

## **Opinion on other matters**

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

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

## Report

The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015 required the Department for Education, and consequently the Education Funding Agency (the EFA), to consolidate Academy Trusts within the EFA's 2015-16 Group Accounts. As a result of a material level of misstatement and uncertainty arising within the consolidation process I qualified my opinion on the EFA's 2015-16 Group Accounts.

As explained in note 1.3.1 to the EFA's 2016-17 Accounts, Parliament has agreed that from 2016-17 the EFA and the Department for Education will remove the academy sector from their consolidation boundary. Instead the EFA and Department for Education will prepare a separate standalone annual report and accounts for the academy sector: the Sector Annual Report and Accounts (SARA), covering the academic year. As a result, from 2016-17, Academy Trusts have been removed from the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016 and thereby the EFA's Accounts. In accordance with HM Treasury accounting requirements for such a change the Academy Trusts have also been removed from the comparative statements. As a result the EFA is no longer required to produce a Group Account. My qualified audit opinion on the 2015-16 EFA Accounts related only to the Group Accounts, and therefore I have been able to remove my qualification from the 2016-17 Accounts including the comparative statements.

My report on the first SARA accounts, for the 2015/16 academic year, will explain the Department for Education's progress in addressing the issues that led to my qualification of the 2015-16 EFA Group Accounts.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**17 July 2017**

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

### 3. Financial statements

#### Statement of Comprehensive Net Expenditure

For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Operating Income</b>			
Operating income	2	(45,687)	(9,202)
<b>Operating expenditure</b>			
Staff costs	3	52,626	47,140
Revenue grants	4	52,467,595	52,190,887
Capital grants	4	4,972,960	4,344,810
Other operating expenditure	5	91,967	56,804
<b>Net operating cost</b>		<b>57,539,461</b>	<b>56,630,439</b>
<b>Other Comprehensive Expenditure</b>		-	-
<b>Total Comprehensive Expenditure</b>		<b>57,539,461</b>	<b>56,630,439</b>

All activities are continuing. There are no other gains or losses other than net expenditure for the year.

The notes on pages 71 to 92 form part of these accounts

## Statement of Financial Position

As at 31 March 2017

	Note	2017 £000	2016 £000
<b>Non-current assets:</b>			
Property, plant and equipment	6	294,967	155,291
Intangible assets		5,693	7,658
Loans	8	2,684	3,144
Trade and other receivables		15,903	7,582
<b>Total non-current assets</b>		<b>319,247</b>	<b>173,675</b>
<b>Current assets</b>			
Assets held for sale		-	16,697
Receivables		257,353	164,198
Loans	8	1,932	2,210
Cash and cash equivalents	9	121,492	152,204
<b>Total current assets</b>		<b>380,777</b>	<b>335,309</b>
<b>Total assets</b>		<b>700,024</b>	<b>508,984</b>
<b>Current liabilities</b>			
Payables	10	(777,559)	(626,805)
Provisions		(9,104)	(3,319)
<b>Total current liabilities</b>		<b>(786,663)</b>	<b>(630,124)</b>
<b>Total assets less current liabilities</b>		<b>(86,639)</b>	<b>(121,140)</b>
<b>Non-current liabilities</b>			
Payables	10	(517,971)	(203,366)
Provisions		-	-
<b>Total non-current liabilities</b>		<b>(517,971)</b>	<b>(203,366)</b>
<b>Assets less liabilities</b>		<b>(604,610)</b>	<b>(324,506)</b>
<b>Taxpayers' equity:</b>			
General fund		(604,610)	(326,470)
Revaluation reserve		-	1,964
<b>Total taxpayers' equity</b>		<b>(604,610)</b>	<b>(324,506)</b>



**Peter Lauener**  
**Chief Executive and accounting officer, EFA**  
 13 July 2017

The notes on pages 71 to 92 form part of these accounts.

## Statement of Cash Flows

For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(57,539,461)	(56,630,439)
Adjustments for non-cash transactions		104,223	218,517
(Increase) in receivables		(101,476)	(53,511)
Increase in payables		465,359	299,701
Use of provisions		(2,186)	(6,686)
<b>Net cash outflow from operating activities</b>		<b>(57,073,541)</b>	<b>(56,172,418)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(158,192)	(144,434)
Purchase of intangible assets		-	(1,055)
Proceeds of disposal of property, plant and equipment	6	18,516	170
Proceeds of disposal of assets held for sale		15,100	-
<b>Net cash outflow from investing activities</b>		<b>(124,576)</b>	<b>(145,319)</b>
<b>Cash flows from financing activities</b>			
Exchequer supply from sponsor department		57,166,667	56,321,364
Borrowings (repaid) / advanced		738	928
<b>Net cash inflow from financing activities</b>		<b>57,167,405</b>	<b>56,322,292</b>
<b>Net increase (decrease) in cash and cash equivalents (net of overdrafts)</b>	9	<b>(30,712)</b>	<b>4,555</b>
<b>Cash and cash equivalents (net of overdrafts) at beginning of the year</b>	9	<b>152,204</b>	<b>147,649</b>
<b>Cash and cash equivalents (net of overdrafts) at end of the year</b>	9	<b>121,492</b>	<b>152,204</b>

The notes on pages 71 to 92 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

	Note	General Fund £000	Revaluation Reserve £000	Total £000
<b>Balance at 1 April 2015</b>		<b>(125,042)</b>	<b>1,964</b>	<b>(123,078)</b>
Net Parliamentary Funding - drawn down		56,321,364	-	56,321,364
Comprehensive expenditure for the year		(56,630,439)	-	(56,630,439)
<b>Non-cash Adjustments</b>				
<b>Cost borne by the department:</b>				
Salaries		48,846	-	48,846
Other costs		20,606	-	20,606
Non-cash balances		11,724	-	11,724
Auditor's remuneration	5	395	-	395
Notional shared service recharges	5	26,076	-	26,076
<b>Balance at 31 March 2016</b>		<b>(326,470)</b>	<b>1,964</b>	<b>(324,506)</b>
Net Parliamentary Funding - drawn down		57,166,667	-	57,166,667
Comprehensive expenditure for the year		(57,539,461)	-	(57,539,461)
<b>Non-cash Adjustments</b>				
<b>Cost borne by the department:</b>				
Salaries		44,782	-	44,782
Other costs		21,855	-	21,855
Non-cash balances		(2,714)	-	(2,714)
Auditor's remuneration	5	228	-	228
Notional shared service recharges	5	28,539	-	28,539
<b>Movement in reserves</b>				
Transfer between reserves		1,964	(1,964)	-
<b>Balance at 31 March 2017</b>		<b>(604,610)</b>	<b>-</b>	<b>(604,610)</b>

The notes on pages 71 to 92 form part of these accounts.

## Notes to the accounts

### 1. Statement of accounting policies

These accounts have been prepared in accordance with the 2016-17 *Government Financial Reporting Manual* (FReM) issued by HM Treasury (HMT), as set out in a statutory Accounts Direction issued pursuant to section 5(2) of the *Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) Order 2015*. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context. 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 EFA for the purpose of giving a true and fair view has been selected. The particular policies adopted by the EFA for 2016-17 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

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

#### 1.1 Accounting convention

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

#### 1.2 Going concern

The EFA will transfer all assets, liabilities and activities at book value to the newly created agency, Education and Skills Funding Agency (ESFA) from 1 April 2017, and the reported position will be exactly the same as a going concern basis. The Departmental Group's Estimates and forward plans include provision for the ESFA's continuation and it is therefore appropriate to prepare these accounts on a going concern basis.

#### 1.3 Critical accounting judgements and key sources of estimation uncertainty

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

Management has specifically made such judgements on:

### **1.3.1 Removal of the Academy Trusts transactions and balances**

The EFA has included academy trusts in its consolidated Annual Report and Accounts (ARA) for the previous four financial years from 2012-13 to 2015-16. During those years, the EFA received significant audit qualifications from the Comptroller & Auditor General (C&AG). The cause of the qualifications was primarily the consolidation approach adopted to align the different year-ends between the academy sector (31 August) and the department (31 March).

The EFA judged the audit qualification to be structural; offering little opportunity to address due to restrictions in suitable alternative consolidation approaches. In 2015-16 the EFA and the department secured agreement from Parliament to remove the academy sector from its consolidation boundary and prepare a separate standalone ARA for the academy sector: the Sector Annual Report and Accounts (SARA) covering the academic year. As a result, in 2016-17 Academy Trusts were removed from the Department's Designation Order as issued by HMT.

The department will prepare the first SARA for the reporting period from 1 September 2015 to 31 August 2016. In February 2017, the Permanent Secretary wrote to the Education Select Committee explaining that the department expects the first SARA to be published by the end of October 2017. In future years, the department remains committed to publishing the SARA before the summer recess.

These accounts show the grants paid to academies by the EFA, which will be reflected as income in SARA. Prior year comparatives have been restated to remove academy trust expenditure and balances.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) requires that restatements are pushed back to all periods they affect. The removal of the academy trust balances requires the restatement to be pushed back to 2012-13 as that was the first year of including the academy trusts in the EFA's accounts. All prior year changes are accounted for cumulatively in the earliest SoFP, which is as at 31 March 2016.

### **1.3.2 Accounting for capital expenditure and assets under construction**

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

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

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

## 1.4 Adoption of FReM amendments

There have been no significant FReM changes in 2016-17.

## 1.5 Early adoption

The EFA has not early adopted any accounting standards in 2016-17.

## 1.6 IFRSs in issue but not yet effective

In order to comply with the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, the EFA must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The EFA 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 EFA 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 9 Financial Instruments	1 January 2018	Subject to consultation	<p><b>Change:</b></p> <p>This change simplifies the classification and measurement of financial assets, as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. This will result in impairments being recognised earlier than under <i>IAS 39 Financial Instruments: Recognition and Measurement</i>.</p> <p><b>Impact on EFA:</b></p> <p>The adoption of IFRS 9 has not yet been agreed by HMT, nor has the application date been set for the public sector. Consequently, the EFA is unable to establish the impact.</p>

Standard	Effective	FReM Application	Change & Impact
IFRS 15 Revenue from Contracts with Customers	1 January 2018	2018-19	<p><b>Change:</b></p> <p>The changes set out steps for revenue recognition along with requirements for accounting for contract costs. The aim of the change is to report information that is more useful about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The initial adoption of IFRS 15 will be retrospective but as an opening balance adjustment as at 1 April 2018.</p> <p><b>Impact on EFA:</b></p> <p>The EFA does not recognise significant levels of contract revenue, the majority of income is grant income for joint programmes. Consequently, the EFA does not anticipate material changes following adoption of the standard.</p>

Standard	Effective	FReM Application	Change & Impact
IFRS 16 Leases	1 January 2019	2019-20 (Subject to EU adoption and consultation)	<p><b>Change:</b></p> <p>The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months to be recognised as a finance lease (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.</p> <p><b>Impact on EFA:</b></p> <p>The removal of the academy trusts has removed the bulk of the EFA's leases from the consolidation boundary. Consequently, the EFA does not anticipate any material effect of bringing on-balance sheet former operating leases through applying the new standard.</p>
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Subject to consultation	<p><b>Change:</b></p> <p>The proposed changes amend how to account for deferred tax assets related to debt instruments measured at fair value.</p> <p><b>Impact on EFA:</b></p> <p>The EFA does not pay corporation tax and does not therefore recognise deferred tax. No impact expected.</p>

## 1.7 Segmental reporting

In accordance with *IFRS 8: Operating Segments*, the EFA has considered the need to analyse its income and expenditure relating to operating segments. The EFA 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.

## 1.8 Income

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

### 1.8.1 Draw down of supply from the sponsoring department

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

### 1.8.2 Operating income

Operating income is income which relates directly to the operating activities of the EFA. Income is stated net of recoverable VAT where applicable.

## 1.9 Grant expenditure

### 1.9.1 Grants payable

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

### 1.9.2 Grant recoveries

Grants paid to end users that are unspent at the year-end may be retained to fund future activity. The EFA 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 EFA pays end users according to a grant payment profile established before the final grant obligation is known, and the actual spend shows over-funding.
- Un-spent amounts will arise where time bound grants have been provided and not spent within the stipulated timescale.

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

## 1.10 Provisions

The EFA makes provisions in the accounts where the following criteria are met in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). The criteria are as follows:

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

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

## 1.11 Pensions

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

Accordingly, for funded defined benefit schemes, the EFA 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 EFA has a legal or constructive obligation to make good the deficit in the scheme. EFA's share of the pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full on the face of the SoFP. Actuarial gains/losses from the scheme are recognised in reserves.

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

## 1.12 Property, plant and equipment

The minimum level of capitalisation for expenditure on property, plant and equipment is £2,500. In the case of IT equipment and furniture all items recorded as capital

expenditure are capitalised and if they fall below the £2,500 threshold they are grouped together and recorded as bulk assets. The asset value on capitalisation is measured at cost plus all direct costs, such as installation, attributable to bringing them into working condition.

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

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

The EFA 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 EFA's internal costs. The EFA 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 EFA SoFP.

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

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

### **1.13 Depreciation**

Depreciation is provided at rates calculated to write off the valuation of buildings between 50 – 60 years by equal instalments over their estimated useful lives. Land and AuC are not depreciated.

## 1.14 Intangible assets

Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. Assets are amortised over their estimated useful economic lives. AuC 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

## 1.15 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.

## 1.16 Non-current assets held for sale

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

## 1.17 Financial instruments

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

### 1.17.1 Financial assets

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

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

#### **Trade and other receivables**

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

#### **Loan and receivable assets**

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

#### **Cash and cash equivalents**

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

### **1.17.2 Financial liabilities**

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

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

#### **Trade and other payables**

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

### **1.18 Contingent liabilities**

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

### **1.19 Value Added Tax**

Most of the activities of the EFA 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.

### **1.20 Service concession arrangements**

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

The Group has adopted IFRIC 12 Service Concession Arrangements (IFRIC 12) as interpreted by the FReM for the grantor to account for the 46 schools the private sector will construct and then operate for the Group under the Private Finance 2 (PF2) scheme over a twenty-five year period. These 46 schools include academies within the Group, as well as schools which fall outside the accounting boundary. The transaction is part of the

wider PSBP programme sponsored by the department that is addressing condition issues across the school estate. Within these accounts the transaction is referred to as PF2.

The assets being constructed under the terms of PF2 are, in the main, not recognised by the Group. In accordance with the Group's existing asset recognition approach for PSBP assets, the Group does not recognise school assets being constructed under PSBP (including PF2) where those assets fall outside academy trusts being consolidated. The Group does not judge any economic benefit to flow to the Group from the PSBP assets during and after construction other than where the assets are, or will be, operated by academy trusts involved in the consolidation. The Group instead recognises the value of the assets during construction for schools outside the Group as capital grants-in-kind.

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

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.

## 1.21 Shared services

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

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

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

## 2. Income

	2016-17 £000	2015-16 £000
Joint programme income	13,767	9,064
Capital project contributions from local authorities	28,534	-
Other miscellaneous income	3,386	138
<b>Total income</b>	<b>45,687</b>	<b>9,202</b>

The change in Capital project contributions from local authorities is a result of a change in the presentation of income. Previously capital contributions were netted off against capital grant expenditure. Other miscellaneous income includes £2.3m of sales proceeds of Webbs Industrial Estate and £1m relating to capital income.

## 3. Staff numbers and related costs

	2016-17			2015-16		
	Permanently employed staff £000	Others £000	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and Salaries	32,478	6,806	39,284	29,951	4,954	34,905
Social security costs	4,549	-	4,549	3,558	-	3,558
Pension costs	8,793	-	8,793	8,677	-	8,677
	<b>45,820</b>	<b>6,806</b>	<b>52,626</b>	<b>42,186</b>	<b>4,954</b>	<b>47,140</b>

The EFA provides information in respect of its senior employees' emoluments and pension entitlements in the remuneration and staff report.

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

The EFA has charged its staff costs relating to capital asset, new school build and major refurbishment projects to capital grant-in-kind. This totalled £16.7 million (2015-16: £15.6 million) for the free schools programme and £5.9 million (2015-16: £8.2 million) for the PSBP. The amounts included in AuC are detailed in Note 6.

## 4. Grant expenditure

	2016-17 £000	2015-16 £000
<b>Revenue grant expenditure</b>		
Dedicated Schools Grant (1)	26,804,852	27,501,243
Local authority and other maintained schools with sixth forms (1)	636,182	704,057
Pupil Premium for local authority schools (1)	1,595,548	1,718,113
Academies - Grants to academies for young people under 16 (1)	15,213,124	13,916,551
Academies - Grants to academies with sixth forms (1)	1,493,403	1,484,592
16-19 Further Education (1)	3,661,361	3,729,667
16-19 Bursary funding (1)	167,012	182,290
16-18 Apprenticeships (1)	814,926	792,296
PFI special grant (2)	750,610	748,842
Education Services Grant (1)	496,938	563,089
Universal Free School Meals (1)	670,750	669,949
Other current grants (3)	162,889	180,198
	<b>52,467,595</b>	<b>52,190,887</b>
<b>Capital grant expenditure</b>		
Basic Need schools capital grant (2)	1,575,000	1,097,691
Maintenance capital grants to local authority and VA schools (2)	903,639	838,331
Academy capital grants and Free School programme (2)	1,429,569	1,486,952
Priority Schools Building Programme (2)	1,055,625	906,211
Other capital grants (2)	9,127	15,625
	<b>4,972,960</b>	<b>4,344,810</b>
<b>Total grant expenditure</b>	<b>57,440,555</b>	<b>56,535,697</b>

(1) These are grants over which the Chief Executive has spending authority only. Spending authority holders can make payments, commit and spend against specific budgets.

(2) These are grants for which the Chief Executive has budget authority. Budget authority holders are ultimately accountable for the oversight of all aspects of their delegated budget.

(3) Other grants include some grants for which the Chief Executive has budget authority and some for which he has spending authority only.

The EFA has adopted a consistent presentation with the Departmental Group at the appropriate level of disaggregation of grants to disclose material items.

## 5. Other operating expenditure

	2016-17 £000	2015-16 £000
Cash items		
Staff related costs	468	349
Consultancy and other professional fees	10,654	12,697
Premises costs including rates and service charges	7,629	6,584
IT and telecommunications costs	13,000	16,751
Rentals under operating leases:		
- Other operating leases	-	4
Travel and subsistence	2,641	2,502
PF2 service costs	1,737	6
PF2 finance costs	36,123	8,991
Bank charges and interest	6	7
Other expenditure	7,949	6,550
Non-cash items:		
- Amortisation	1,964	1,789
- loss on disposal of Assets Held for Sale	1,597	-
- NAO Auditor's remuneration	228	395
- Provisions:		
Provided in year	8,262	1,225
Not required and written back	(291)	(1,046)
<b>Total</b>	<b>91,967</b>	<b>56,804</b>

The costs above include notional recharges of £28.5 million (2015-16: £26.1 million) for the shared services provided by the department.

The EFA has adopted a consistent presentation with the Department for Education at the appropriate level of disaggregation of other operating expenditure to disclose material items.

## 6. Property plant and equipment

	2017			2016		
	Land and Buildings	Assets Under Construction	Total	Land and Buildings	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
<b>Cost of Valuation</b>						
At 1 April	3,597	151,694	155,291	16,099	116,332	132,431
Additions	-	158,192	158,192	-	144,434	144,434
Disposals (1)	-	(18,516)	(18,516)	-	(170)	(170)
Transfers to academies	-	-	-	-	(108,902)	(108,902)
Revaluations	-	-	-	-	-	-
Reclassifications	-	-	-	(12,502)	-	(12,502)
<b>At 31 March</b>	<b>3,597</b>	<b>291,370</b>	<b>294,967</b>	<b>3,597</b>	<b>151,694</b>	<b>155,291</b>
<b>Depreciation</b>						
At 1 April	-	-	-	-	-	-
Depreciation charge	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
<b>At 31 March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying value at 31 March</b>	<b>3,597</b>	<b>291,370</b>	<b>294,967</b>	<b>3,597</b>	<b>151,694</b>	<b>155,291</b>

(1) In 2016-17, disposals are the transfer of assets to academies.

All EFA assets are owned assets. £nil has been reclassified as an asset held for resale (2015-16: £12.5 million). £0.4 million (2015-16: £0.3 million) for the free schools programme staff costs have been included in the value of AuC as they are directly attributable to these capital projects.

## 7. Financial Instruments

IFRS 7 – *Financial Instruments: Disclosures* requires the EFA to disclose information on the significance of financial instruments to its financial position and performance.

### Credit risk

Non-payment of debts relating usually to insolvency of provision of learning by commercial and charitable providers exposes the EFA to credit risk, and this risk is most usually attributable to private sector providers' insolvency. The EFA mitigates this risk by subjecting commercial and charitable education providers to quality and financial status reviews prior to the EFA awarding these providers contracts and by monitoring providers' delivery of learning against the value of profile payments made during the currency of the contracts. Advances of funding made to providers to improve their financial stability or on conversion to academy status exposes the EFA to additional credit risk. The EFA mitigates this additional risk by performing a robust review of a provider's current financial status and expected future financial performance, prior to making any such advance of funds.

The table below shows the value of debts overdue by category for EFA:

	2017	2016
Overdue debts	£000	£000
< 30 days overdue	9,596	5,919
30 - 60 days overdue	7,838	4,392
60 - 90 days overdue	2,582	7,793
90 -180 days overdue	17,225	10,064
> 180 days overdue	28,408	3,323
<b>Total overdue debts</b>	<b>65,649</b>	<b>31,491</b>

The increase in the overdue debts is mainly due to recoverable VAT transactions outstanding with Academy Trusts as part of their capital programmes.

### Liquidity risk

Parliament votes annually on the financing of the EFA net revenue resource requirements, as well as its capital expenditure. The EFA does not consider itself exposed to any significant liquidity risks.

### Interest rate risk

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

### Foreign currency risk

All material assets and liabilities are denominated in sterling. The EFA does not consider itself exposed to any significant currency risk.

### Market risk

The EFA does not consider itself exposed to any significant market risk.

## 7.1 Financial assets by category:

	2017 £000	2016 £000
Cash	121,492	152,204
Loans	4,616	5,354
Receivables	273,256	171,780
<b>Total</b>	<b>399,364</b>	<b>329,338</b>

Trade receivables for the EFA is stated net of a provision for doubtful debts of £1.2 million at 31 March 2017 (2015-16: £1.0 million).

## 7.2 Financial liabilities by category:

	2017 £000	2016 £000
Payables	1,295,530	830,171
<b>Total</b>	<b>1,295,530</b>	<b>830,171</b>

## 8. Loans

### 8.1 Loan analysis

	2017 £000	2016 £000
Loans to academy trusts		
Balance at 1 April	5,354	6,282
Repayments received in year	(2,409)	(2,458)
Additional loans in year	1,671	1,530
<b>Balance at 31 March</b>	<b>4,616</b>	<b>5,354</b>
Loans to Academies - current	1,932	2,210
Loans to Academies - non-current	2,684	3,144
	<b>4,616</b>	<b>5,354</b>

### 8.2 Maturity analysis

	2017 £000	2016 £000
Within one year	1,932	2,210
After more than one year but less than five years	2,527	2,117
More than 5 years	157	1,027
<b>Balance at 31 March</b>	<b>4,616</b>	<b>5,354</b>

## 9. Cash and cash equivalents

	2017 £000	2016 £000
Balance at 1 April	152,204	147,649
Net change in cash and cash equivalent balances	(30,712)	4,555
<b>Balance at 31 March</b>	<b>121,492</b>	<b>152,204</b>
<b>The following balances are held at:</b>		
<b>Cash at bank and in hand:</b>		
Government Banking Service	82,757	121,965
Cash held with solicitors	38,735	30,239
<b>Balance at 31 March</b>	<b>121,492</b>	<b>152,204</b>

## 10. Payables

	2017 £000	2016 £000
<b>Amounts falling due within one year:</b>		
Trade payables	20,404	65,831
Tax and social security payables	1,320	1,056
VAT payables	17,272	-
PF2 liability	54,315	16,518
Other payables	17,632	10,383
Accruals and deferred income	666,616	533,017
<b>Total payables due within one year</b>	<b>777,559</b>	<b>626,805</b>
<b>Amounts falling due after more than one year</b>		
PF2 liability	517,971	203,366
<b>Total payables due after more than one year</b>	<b>517,971</b>	<b>203,366</b>

The PF2 liability recognised is in relation to the building of 5 batches of schools through PFI arrangements. The liability shown is that applicable under IFRIC 12 and represents the outstanding element of the construction value of the schools. The liability will be settled over the course of the 25 year service period through payment of the unitary charges by EFA.

## 11. Capital and other commitments

### 11.1 Capital commitments

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

	2017 £000	2016 £000
Free schools	2,417,416	2,336,884
Priority Schools Building Programme	334,703	470,238
<b>Total</b>	<b>2,752,119</b>	<b>2,807,122</b>

These capital commitments do not include the cost of contract workers engaged in the delivery of the free school programme.

## 11.2 Commitments under private finance initiative contracts

	2017 £000	2016 £000
Not later than one year	55,941	18,769
Later than one year and not later than five years	268,489	210,315
Later than five years	1,472,512	1,245,624
	<b>1,796,942</b>	<b>1,474,708</b>

## 11.3 Other financial commitments

The EFA had no other financial commitments at 31 March 2017 or at 31 March 2016.

## 11.4 Education grant funding commitments

	2017 £000	2016 £000
<i>Private finance initiative grants to local authorities and voluntary-aided schools</i>		
Not later than one year	750,837	751,005
Later than one year and not later than five years	3,006,712	3,007,157
Later than five years	9,002,424	9,758,636
	<b>12,759,973</b>	<b>13,516,798</b>

## 11.5 Other education grants

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

# 12. Contingent liabilities

## PSBP asbestos removal and dark ground rectification

There are a number of asbestos and dark ground rectification claims covering 56 schools that have been notified by contractors but as yet no value has been quantified. It is standard EFA practice to negotiate with PSBP contractors and for EFA to partially meet the cost of asbestos or dark ground rectification works found during PSBP projects.

There are too many cases to mention individually, in many cases we are still awaiting assessment of potential impact.

## PFI arrangement

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

## Overage clauses

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

## 13. Contingent assets

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

## 14. Related party transactions

The EFA regards the Department for Education as a related party. During the year, the EFA had a number of material transactions with the department and with other entities for which the department is the parent department.

In addition, the EFA has had a number of transactions with other government departments and central bodies. Most of these transactions have been with the SFA, which is part of the DfE Group.

The EFA's senior civil servants are each required to complete an Assurance Framework Record where they declare related party transactions. The EFA considers the following relationships as related parties and the EFA has disclosed the relationships in line with IAS 24 Related Party Disclosures:

- Peter Lauener is the joint Chief Executive of the Skills Funding Agency; Chief Executive of the Institute of Apprenticeships; and a Trustee of Educators International. Peter is also a non-executive Director of Sheffield Childrens Hospital.
- Peter Mucklow is the Director for Intervention at the Skills Funding Agency.
- Sue Baldwin is a member of the board of governance for Barnet and Southgate College. She is a Trustee of Fedcap UK (incorporated as a company limited by guarantee) and a Trustee of the Action for Kids charity.
- Simon Parkes was (until 28 February 2017) Chief Financial Officer of Skills Funding Agency.
- Mike Green is a non-executive member on the Northern Estate Programme Board and a Director for LocatED Property Company.

The remuneration report lists transactions with key management.

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

Organisation	2016-17		2015-16	
	Payments £000	Receipts £000	Payments £000	Receipts £000
Skills Funding Agency (1)	544,523	(13,076)	827,073	(9,068)
Barnet and Southgate College	16,855	-	18,464	-
LocatED (2)	-	-	-	-

(1) Some payments made to the SFA were paid to its sponsor department: the Department for Business Innovation and Skills.

(2) EFA manage LocatED's finances and there are material transactions.

## 15. Events after the reporting period

On 29 March 2017, the Prime Minister notified the European Council in accordance with Article 50(2) of the Treaty on European Union of the United Kingdom's intention to withdraw from the European Union. The financial effect of this event won't be known until after the reporting period and a reasonable estimate cannot be made at this time.

The Secretary of State announced the creation of the ESFA which came into effect from 1 April 2017; with the purpose to oversee and be accountable for the funding all 5 – 16 education, as well as post-16 education; and training for young people, apprenticeships and funding for adult education in England. It will also manage and deliver our school building and maintenance programmes. The ESFA is an executive agency of the DfE and will replace both the EFA and the SFA.

On 19 April 2017, the House of Commons voted to dissolve the sitting Parliament with a General Election to be held on 8 June 2017. The General Election returned the Conservative party as a minority government. Justine Greening retained her role as Secretary of State for Education, and her ministerial team remained broadly unchanged following the election. The department's role and policy areas remained broadly stable across the election, we do not anticipate significant changes in the forthcoming year.

On 28 June 2017, the ESFA terminated, with 12 months' notice the funding agreement made between the Secretary of State and the Durand Academy Trust (DAT) due to a material breach in the conditions of the funding agreement concerning financial management and governance. This is likely to require significant follow through action in 2017-18 to work towards the replacement of DAT with a suitable trust, to ensure continuity of education for pupils at the school.

The annual report and Financial Statements were authorised for issue by the Accounting Officer at the date they were certified by the Comptroller and Auditor General. These accounts do not consider events after that date.



