



Education & Skills
Funding Agency

Education and Skills Funding Agency

Annual report and accounts

For the year ended 31 March 2020

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Annual report and accounts

For the year ended 31 March 2020

An executive agency of the Department for Education

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Notes on terminology

ESFA / the agency / we

This refers to the Education and Skills Funding Agency

The department / DfE

This refers to the Department for Education (DfE), of which the ESFA is an executive agency.

'Financial' versus 'academic' year

ESFA's financial year runs from 1 April to 31 March. In this report, we distinguish the financial year using a dash. For example, we write the financial year 1 April 2019 to 31 March 2020 as 2019-20.

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 2019/20.

Learners

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





Performance report

Forewords

Chief Executive

This is the third Annual Report and Accounts since the ESFA was formed in April 2017 and at the time of writing we are working during the unprecedented challenges of the COVID-19 virus across the world. It is in this context that our work to support educational and learning settings, for children, young people, adult learners, apprentices and employers has a particular level of prominence and will continue to do so for some while.

We are responsible for managing £58.57 billion investment in education and skills to support the country. What we do as a key part of the DfE family has always been crucial, and is even more so today.

We occupy a critical role in the regulatory landscape for education and skills and discharge these responsibilities with great care. In tandem we also act as a champion of policy development in skills, qualifications, technical and vocational education. In both areas of our work it is critical that we have good and productive engagement with the organisations we oversee and with those who can help shape and inform the best possible policy outcomes, including employers and representative bodies.

In 2019-20 we demonstrated excellence while delivering in uncertainty. While we already worked flexibly and with colleagues across the country, the impact of COVID-19 changed our ways of working overnight. I am deeply grateful for the way our staff responded to this change, remaining focused on our role and showing compassion and support to one another. This was echoed in the approach I saw towards the providers we fund, with commitment to ensuring consistent and helpful communications and reliable funding that makes all the difference in crisis.

The theme of flexibility and resilience was common throughout the year, which also included preparing for exiting the European Union, a general election and a spending round. Through it all, we also progressed important reforms across apprenticeships, T-Levels and qualifications, while the National Apprenticeship Service and the National Careers Service continued to exemplify user-centred design and delivery. We transformed the way we approach customer experience and will continue to do more in this space. We honed our expertise in oversight and assurance and made more progress in delivering improvement work with the sector for long-term change. I am incredibly impressed with the work we have done to strengthen relationships across our Whitehall partners and the education and business communities. Most pleasing for us all is to see life-changing results for young people as a result of the work we do with the sector, and the transformations taking place amongst employers who really invest in these schemes.

It is important to recognise the value of what we have delivered and how we have delivered it. We want to be one of the best places to work in public service and our dedicated and expert staff are excellent role models of outstanding public servants. We made great strides over 2019-20, progress which gives me confidence about what more we can achieve, even with significant challenges ahead of us.

I commend this report to you: we in the ESFA have always been committed to working to make a difference. As we work to support education and skills at a time of emergency, this commitment has never been more important and will be very much part of a successful recovery.

Eileen Milner
Chief Executive

Non-executive Board Chair

This is my second year as Chair of the ESFA Management Board and it is great to be able to look back on what has been a really important year focusing on the efficiency and effectiveness of the ESFA, its staff and senior leaders. We have seen just how invaluable this progress has been, and will continue to be, in our response to COVID-19.

I have seen the Chief Executive, directors and staff display a clear focus on achieving the ultimate goal: better outcomes for young people in this country and, in particular, those young people from disadvantaged backgrounds who have not had the same opportunities as others. This objective has never been clearer as in the current crisis, and as staff work on the recovery of the nation.

When doing this, the ESFA is committed to getting value for money for taxpayers and our teams realise the importance of getting this absolutely right. While the timeliness of funding may not appear to be the most exciting headline, for our providers it is critical to delivering education and skills to England's students and workforce. We recognise this importance, and I am particularly proud of the ESFA for achieving over 99% accuracy and timeliness of allocations and payments to the sector.

This year I also saw how well the ESFA deals with challenges in the sector. We are very much focused on early warnings, supporting and challenging providers to ensure both learners and the taxpayer are being protected. This is not a one-way street, of course. We also expanded customer experience research this year. This not only starts to build a 'service blueprint' for the ESFA, but also opened doors for providers to talk to us directly about how we can improve our services.

As a board, one of the highlights was meeting more staff by moving our meetings to offices across the country. This gave us a chance to hear directly from more staff and get a better understanding of the whole organisation. It also allowed staff to hear from us as a board about our ambitions for the ESFA which is helping foster a shared vision and direction, particularly important in times of crisis. Since staff have worked entirely from home, they have continued their commitment to community and collaboration online while connecting with our Chief Executive weekly on video all-staff calls.

Looking forward, I see the ESFA's central role in facilitating economic recovery through quality skills education and training. As for our role as a board in this endeavour, there will be a renewed determination to support and challenge the organisation to maintain their current high standards, guide it through the challenges ahead and ensure every penny spent by the ESFA contributes to a better outcome for learners.

Irene Lucas
Chair



Vision, mission and core principles

The overview section outlines our agency's purpose, objectives and summary of our performance in 2019-20.

Our vision:

to support, develop and fund world-class education and skills provision for every learner to reach their potential, regardless of background.

Our mission:

to improve education and skills through excellent policy design, operational delivery, expert funding and market oversight.

On behalf of the Secretary of State for Education (Secretary of State), we have a responsibility to administer funding to deliver education and skills, from early years through to adulthood.

The providers we fund include:

- maintained schools and early years institutions (through local authorities);
- academy trusts;
- special schools;
- colleges;
- independent training providers (ITPs); and
- high needs institutions.

We also work with the Mayoral Combined Authorities and Greater London Authority on the devolved Adult Education Budget.

We fund over

24,700

education and skills providers

We distribute over

£58 billion

funding

We provide assurance that these public funds:

- are spent appropriately;
- are correctly accounted for;
- represent value for money for the taxpayer; and
- are used to deliver the policies and priorities set by the Secretary of State.

Our core principles

- consistently striving for excellence in all we do;
- investing in expertise to allow us to develop and deliver high-quality policies, interventions, services and outcomes; and
- always seeking to drive forward improvement, whether our own, or that of the providers and sectors we work with.

Performance analysis

These were our five key policy and delivery objectives for 2019-20, including the effective distribution and oversight of public money.¹ In our analysis, we have noted where changing priorities impacted these commitments.

In a year of significant, national change and challenge, we managed several risks to achieving our goals. We monitored our key risks and performance through our corporate boards.²



1 Deliver value for money

Effectively organise, direct and manage the resources at our disposal, maximising value for money for the taxpayer while delivering the policies and priorities set by the Secretary of State.



2 Effectively meet our customers' needs

Deliver on our Customer Commitment by valuing and drawing insight from our customers' experience. Create and continuously improve our programmes and services to meet their needs.



3 Timely and accurate funding

Ensure all of our customers receive timely and accurate funding allocations and implement the National Funding Formula.



4 Successful oversight and improvement

Act on behalf of the Secretary of State to assure the proper use of public funds. Ensure ESFA funded providers are complying with their funding agreements, relevant statutory legislation, and can evidence appropriate and robust governance. Intervene swiftly and proportionately if providers do not meet this standard.



5 Seamlessly develop and deliver policy end-to-end

Ensure policy development and delivery is fully integrated, whilst adapting to meet the growing demand from providers, employers and citizens. This includes developing and delivering the Government's post-16 technical education reform programmes, as set out as a priority by the Secretary of State.

When preparing for the country to exit the European Union (EU), we supported other government departments by redeploying staff. More details on redeployment on page 71 and in the 'key issues and risks' section of this report. Our objectives and performance goals for 2019-20 were not significantly impacted by the temporary redeployment of staff. There were specific areas more affected by preparations to leave the EU, primarily around Erasmus+ and the European Social Fund (ESF). The following performance analysis provides detail on the impact in these areas.

¹ <https://www.gov.uk/government/publications/esfa-business-plan>

² More detail in the 'key issues and risks' section of this report.

As the COVID-19 pandemic escalated in March 2020, our priorities as a government agency rapidly pivoted to focus on the response and sustaining critical lifelines to the sector, including reliable funding and communications.

Performance Summary

These are a selection of our performance highlights, followed by more detailed analysis against each strategic objective.

Our **19-20 performance metrics and milestones** are indicated throughout this section. These were the measures we set out in our 2019-20 business plan to assess performance against our **objectives**.



Deliver value for money

- Launch of the ESFA Investment and Commercial board, providing scrutiny and approval of all investments and commercial contracting arrangements in ESFA
- Increased capacity in our provider market oversight function, ensuring the proper use of public funds
- Improvements to data processing using automation and machine learning: 1 new process delivered and 2 more brought into discovery phase



Effectively meet our customers' needs

- Customer Experience research with external users and staff – we started to build a 'service blueprint' for the ESFA – opening doors for providers to talk to us about how we can improve our services
- 373,880 customers access the National Careers Service
- Successful launch of the 'live chat' into the apprenticeships service at our National Contact Centre
- More external engagement with the sector, including events and user testing



Timely and accurate funding

- Successful delivery of the Dedicated Schools Grant in the new, improved funding system
- Over 99% of core funding payments and allocations issued accurately and on time



Successful oversight and improvement

- Achieved 100% on Cabinet Office counter-fraud functional assessment
- College Oversight 'support and intervention strategy' launched
- School Resource Management Advisers programme reaching 984 total deployments since the start of the programme
- Launch of new Related Party Transactions approval system for academy trusts
- Worked closely with LAs to improve the financial health of maintained schools



Seamlessly develop and deliver policy end-to-end

- As part of National Apprenticeships Week, 800 events were delivered with ministerial engagement and NAW hashtags trending on social media
- Worked with the first 50 T-Level providers, 48 will be delivering qualifications from September 2020
- We have 61 new providers to deliver T-Levels from September 2021
- Reaching 2,141,500 total apprenticeship starts
- Strongest WorldSkills competition – Team UK best in the world for Aircraft Maintenance and Beauty Therapy



1. Deliver value for money

19-20 objective: Effectively organise, direct and manage the resources at our disposal, maximising value for money for the taxpayer while delivering the policies and priorities set by the Secretary of State.

In January 2020, the ESFA brought the Finance and People directorates together, developing our understanding of operational efficiency and resource. Our Finance and People directorate led the support to our staff and effectively managed our £58.57 billion spend.³

Every Senior Civil Servant (SCS) completed a learning course in budget management and obligations of Managing Public Money, with an end of course assessment.

**19-20 performance goal:
100% of SCS complete learning course**

All staff in provider oversight were trained in provider accountability frameworks and effective prevention methods to detect misuse of public funds.

**19-20 performance goal:
100% of relevant staff trained**

Assurance and transparency

Through the year, we made improvements to the internal control environment, supported by PwC's independent review. This included establishing an improved Assurance Framework Record, which all Senior Civil Servants must complete to evidence their internal control measures and assurance around their budgets. The outcome from this work is reflected in the assurance section of this report.

Improving Financial and Commercial awareness

We refreshed staff capability in efficiency, economy and effectiveness in the administration of public resources. This year we focused on staff who hold budgets, manage contracts and work in provider oversight.

The governance of the ESFA was strengthened by launching a new Investment and Commercial Gateway to oversee all commercial activity in the agency. Working closely with commercial colleagues in the DfE, the Gateway ensures closer scrutiny of all business cases and contracts, and applies consistent evaluation to deliver the best value in all our decisions and investments.

Another significant milestone was implementing a new Commercial Operating Model. This placed commercial experts and professionals central in decision-making, ranging from procurement to contract and supplier management. This supported stronger value for money outcomes and helped mitigate commercial risk and challenge.

³ See 'financial commentary' section for headlines on budget including breakdown of spend.

Operational efficiency

We increased investment in smarter working and digital services for better customer experience and improved operational efficiency. This included:

- Expanding the award-winning Apprenticeship Service, including inviting all employers to use the service from January 2020, including employers who do not pay the apprenticeship levy.
- Developing analytical and business support tools that allowed staff to work more efficiently. This included developing a new, integrated information and management system for all teams across the DfE who work with schools and academies.
- Developing and rolling out automation tools to improve the accuracy and efficiency of manual processes. To do this, we upskilled staff to deliver these projects in-house, with significant savings compared to external procurement.

3,578 registrations

3,578 registrations to the Apprenticeships Service, including 3,338 from non-levy providers (1 January – 31 March 2020)

**19-20 performance goal:
increase the number of
employer accounts registered**

5 lead and 11 junior developers trained to deliver artificial intelligence projects across the ESFA

Automation and machine learning projects in 2019-20:

1 process delivered to improve the accuracy and efficiency of the qualifications funding approvals process.

Advancing 2 processes into 'discovery' phase:

- a solution for the Education Data Division's helpdesk to improve the speed of allocating school census queries to the correct teams, freeing up staff time for drafting responses
- a solution for automating claims to the European Social Fund

Ad hoc robotics solutions delivered to help ensure data and MI reports were sent to providers on time, and other solutions for smaller-scale problems



2. Effectively meet our customers' needs

19-20 objective: Deliver on our Customer Commitment by valuing and drawing insight from our customers' experience. Create and continuously improve our programmes and services to meet their needs.

Delivering on our aim to be user-centred, we took action to better understand our users and re-establish our commitment to excellent customer experience.

14,000

In 2019-20 we received over 14,000 enquiries to our contact service

Customer experience

Recognising our previous working practices and team structure was impacting our ability to meet our key performance indicators, including to resolve questions within agreed timescales, we made changes to our operational approach. Although we did not meet the performance goals, we did make in-year progress and we continue focusing on these improvements.

Due to a successful pilot in December 2019 to reduce the backlog of queries, triaging of simple queries is now done by the outsourced contact centre. This gave our staff more time to handle customer queries with care. We will continue to make use of the increased flexibility of our shared resource across contact centres to maintain these improvements and respond to national challenges.

73.4%

73.4% of customer service enquiries across the financial year responded to within 5 working days

19-20 performance goal: 98%

Having resolved issues with service backlogs, we also implemented a new planning function to reduce the risk of these issues occurring again. We invited leading external industry organisations to benchmark and audit our service provision against globally recognised standards in customer service, which will guide improvements through 2020-21.

70.4%

70.4% customer satisfaction

19-20 performance goal: 80%

Making progress towards our performance goal, this led to an in-year improvement in customer satisfaction scores, up from a low of 56% in September 2019 to an average of 70.4% across 2019-20.⁴ We also delivered quality training across our support teams, which may also factor into an improved score. We are continuing to focus on resolving queries which have been outstanding for a prolonged period, for example the number of live incidents has been reduced by over 300 in the service centre during March. Whilst we are making significant progress in this area across all of internal operations, resolving older queries will always impact negatively on the SLA. We also began to see the impact of COVID-19 during March; the emerging nature of the situation and development of policy did impact on resolution times, particularly in relation to schools and academy trusts.

Launched our education provider immersion programme, allowing staff to undertake visits to the customers we serve to connect with service users in new ways and deepen relationships, helping shape new customer journeys. 26 staff completed the programme.

⁴ 2019-20 average based on 9 months of data. No data was collected in October and November while we developed a more targeted process of collecting feedback, and the survey was suspended in March 2020 following escalation. This score relates specifically to customer satisfaction towards the internal service desks and not with all interactions across the ESFA.

At the start of 2019-20, we brought together work from across different internal divisions to form a single Customer Experience division. This directorate focused on delivering a better customer experience and understanding customer needs. We also started reviewing service levels across online, phone and chat functions, and we are developing better measures of performance and satisfaction for 2020-21.

November 2019: established a “voice of the customer” programme, bringing together insight from across the ESFA to understand opportunities to improve services for the provider sector. We plan to extend this programme further in 2020 to include all customer groups and use the insight to help strategic decision making and prioritise future change.

National Careers Service

We enhanced the National Careers Service, providing a personalised customer journey which gives citizens access to high-quality support to help them acquire the skills and training needed to progress in work and life.⁵ This included delivering targeted support for older customers to retain their current role or re-skill.

373,880

373,880 customers accessed the community service

19-20 performance goal: 450,000

43.2% of customers achieved a job or learning outcome

19-20 performance goal: 45%

Customer satisfaction was 84.5%

19-20 performance goal: 85%

Personalising the customer journey: we launched ‘Discover Your Skills and Careers’, an online tool that allows customers to identify their skills and preferences and match them to more than 800 role profiles

Linking up user services across the DfE, we developed a process for the National Retraining Scheme (NRS) to use data from the National Careers Service. In NRS private beta testing, careers adviser resource is now also available for customers to contact. This is providing a more integrated and streamlined service for users.

User-centred design and external engagement

Continuing our ambition to be “digital-first”, new services or updates in 2019-20 focused on improving user experience and reducing burdens as much as possible.

Across the ESFA, we increased the amount of external engagement, meeting more of our users and providers. This has been invaluable in helping us better understand and meet our users’ needs, getting first-hand feedback and allowing us to test ideas. Including:

- 6 academy trust finance director forums nationwide
- A stakeholder engagement strategy, using sector steering and working groups to test and inform our work, including for updates to provider oversight frameworks
- User testing systems, including the academy trust Related Party Transactions declaration system

We made improvements to the Apprenticeship Service to make the service more seamless for customers, including integrating end-point assessment organisations into the service and supporting join-up between providers and launch of the ‘live chat’

⁵ After reviewing the target published in the 2019-20 business plan, we adjusted it to a more ambitious 45% National Careers Service customers achieving a job or learning outcome.



3. Timely and accurate funding

19-20 objective: Ensure all of our customers receive timely and accurate funding allocations and implement the National Funding Formula.

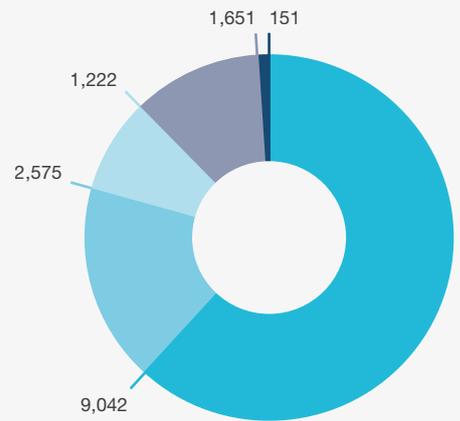
Funding operations

We exceeded our targets on allocations and payments in all sectors. ⁶

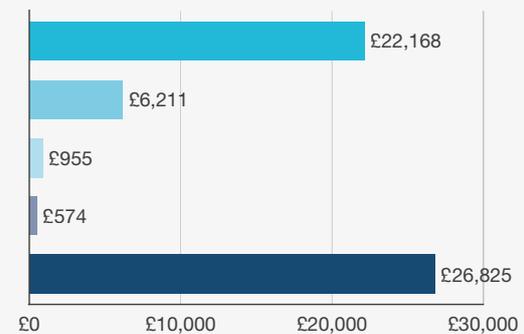
What is the difference between an “allocation” and “payment”?

An allocation is the confirmation of an amount available for a given period – the funding that the DfE will provide a customer (usually for a year). Payment is the remittance/transfer of the allocated amount to a customer (usually in instalments throughout the funding period).

14,641 20/21 sector allocations



■ Academies
 ■ 16-19
 ■ 19+
■ Non-levy apprenticeships
■ Dedicated Schools Grant (to Local Authorities)



⁶ 299, 301 payments were accurate, that is 99.999% against a target of 99%
 299, 194 payments were on time, that is 99.963% against a target of 99%

Our Funding Directorate approved 299,304 funding payments in 2019-20

Over 99.9% of all payments delivered accurately and on-time

19-20 performance goal: 99% payments delivered accurately and on-time from our Funding Directorate

We exceeded our targets in a challenging year which included a General Election, preparation for Brexit and managing the complexities of a late Spending Round. In addition to delivering funding, we worked with the DfE to secure a three-year funding settlement for schools under the National Funding Formula and a one-year settlement for 16-18 and adult education. The Spending Round and General Election led to extremely condensed delivery timescales, particularly for the adult education budget where a new 16-19 policy linked to an increase in funding was agreed late in the cycle. This level of uncertainty is difficult for providers, and we worked closely with all sectors, ensuring regular and clear lines of communication to provide reassurance and transparency. This was also critical at the end of the financial year as the COVID-19 pandemic escalated and ensuring funding could be delivered on time and as expected was central to our response.

Erasmus+ participation is subject to our ongoing negotiations with the EU. In parallel with negotiations, DfE is exploring delivery of a domestic alternative scheme to the programme to ensure we are prepared for every eventuality. ESFA have dedicated additional resource in the Funding Directorate to support development of the domestic alternative scheme. The service development will have added benefits of expanding the ESFA's capability to deliver similar grants in the future, and therefore this investment should deliver benefits for both the ESFA and DfE beyond the scope of the domestic alternative scheme. This work will continue through 2020-21.

£56.7 billion

We allocated £56.7 billion funding to education and skills providers for 20/21

Over 99% of expected allocations delivered accurately and on-time

19-20 performance goal: 99% allocations issued accurately and on-time

Funding service improvements

We continued to grow our digital funding service. This year, we successfully calculated the Dedicated Schools Grant (DSG) in the new funding service, publishing allocations for the year ahead in the same modern, accessible, digitised format that we already offered for the Primary PE and Sports Premium. Moving the DSG into the service for 2020-21 was a significant milestone, accounting for circa £26 billion of our total payments in 2019-20 (after recoupment to fund academies directly).

We understand how important it is to get the right funding at the right time and so we took careful steps to make sure this was not disrupted while we made improvements. Throughout the changes to the funding service, we maintained excellent levels of service.



4. Successful oversight and improvement

19-20 objective: Act on behalf of the Secretary of State to assure the proper use of public funds. Ensure ESFA funded providers are complying with their funding agreements, relevant statutory legislation, and can evidence appropriate and robust governance. Intervene swiftly and proportionately if providers do not meet this standard.

We also introduced new transparency measures. This included publishing the names of academy trusts who were late with their financial returns,⁷ publishing our framework for academy trusts seeking additional financial support during financial difficulty,⁸ and publishing a new contract management framework for Further Education funded providers.⁹

Assurance and oversight

We strengthened our oversight and assurance activities, increasing the amount of resource dedicated to ensuring the proper use of public funds and engaging more with the sector. As in previous years, we engaged with sector steering groups on updates to our provider frameworks.

Updated College Financial Planning Framework published in April 2019

19-20 performance goal: publish by April 2019

Updated Academies Financial Handbook published in June 2019

19-20 performance goal: publish by June 2019

115 reviews

Delivered 115 compliance reviews on Independent Training Providers (ITPs) with 21 additional control visits

19-20 performance goal: 90 reviews

Assurance and oversight milestones in 2019-20:

Launched process for academy trusts to declare and seek ESFA approval for related party transactions on time in April 2019.

19-20 performance goal: launch in April 2019

Strengthened the quality of providers that are admitted to the Register of Apprenticeship Training Providers (RoATP) through improvements to the application process and complete re-registration of providers. There are now 2067 providers on the register, and during the process we removed 894 providers who did not meet the new criteria.

19-20 performance goal: implement strengthened RoATP and complete re-registration of providers by March 2020

Continued the high pay challenge process with academy trusts, part of our commitment to increase the level of transparency and achieve appropriate use of public funds. From the 105 trusts written to in 2019-20, 42 have given a written commitment to reduce the salaries identified through the high pay exercise. Guidance for setting executive salaries was published on gov.uk.

19-20 performance goal: challenge academy salaries based on latest financial returns

7 <https://www.gov.uk/government/publications/academy-trusts-late-financial-returns-2018-to-2019/academy-trusts-late-financial-returns-2018-to-2019>

8 <https://www.gov.uk/government/publications/financial-support-for-academy-trusts-in-financial-difficulty>

9 <https://www.gov.uk/guidance/esfa-education-and-skills-contracts-2019-to-2020>

Our oversight activities are aimed at ensuring financially healthy, compliant sectors that can deliver excellent education and skills for learners. In schools, we saw a reduction in the percentage of maintained schools in deficit and the proportion of academy trusts in deficit remained stable, a positive change in direction achieved with the sector.

Intervention

While our aim is to reduce the need for formal intervention, we remain committed to protecting public money and learners' education. This year we refined our approach, using a range of activities within transparent frameworks and making more use of predictive and analytical tools.

Overall, we reduced the number of providers in intervention and the length of time taken for intervention to conclude compared to the year before which was one of our 19-20 performance goals.¹⁰ We will continue the focus on the efficacy of our interventions in the year ahead to help providers return to financial health quickly. With the impact of COVID-19 on the financial health of institutions and stability of the sector, we adapted our approach to first manage the immediate crisis and then facilitate recovery. More details on our response on financial support in the 'COVID-19' section of this report.

In cases of suspected fraud and irregularity, we continued to act swiftly against improper use of funds. The summary of this work is in the 'counter fraud and investigation' section of this report.

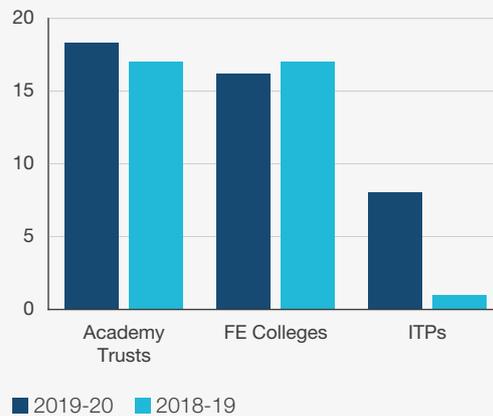
This year, we placed two providers into education administration under the new insolvency regime. This was an important action to take under our responsibilities to learners and parliament. We use administration only as a last resort to prioritise the protection of current learners and it is done in the context of a broader, complimentary, improvement and oversight approach. Subsequently, ministers appointed Dame Mary Ney to carry out an independent review of how the government monitors colleges' finances and financial management. The findings of the review are due to be published in 2020-21.

71.4%

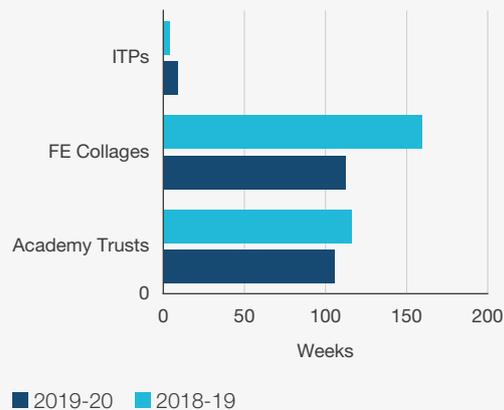
71.4% of academy cases were resolved within the target time. By March 2020, the in-month resolution average was a 9 percentage point improvement from the year before.

**19-20 performance goal:
85% cases resolved in target time**

Number of institutions exiting formal intervention



Average time spent in formal intervention



¹⁰ Academy trusts: In March 2020, the in-month de-escalation average was 75.9%, an improvement of 9 percentage points compared to March 2019. No Sixth Form Colleges exited formal intervention in 2019-20, compared to 3 in 2018-19.

Improvement and prevention

We invested more time on improvement and preventative activities, working with sectors to support good financial health and encourage robust governance. This included expanding the pilot to successfully deliver the first full year of School Resource Management Advisers (SRMA) programme¹¹ and publishing the Further Education College oversight framework.¹²

The Further Education College Oversight framework brought together activities into a single regime, increasing the level of transparency in our actions and expectations on the sector. The purpose of the regime is to improve financial resilience and quality by incentivising and supporting college leaders to recognise issues and take early action. The policy was published and introduced in April 2019.

19-20 performance goal: implement new, strengthened college oversight and intervention regime by September 2019

The SRMA pilot report was published in January 2020 and found that the advisers identified opportunities worth over £35m for reallocation of resources in the 72 trusts they worked with. The participating trusts valued working with an expert peer, with 94% rated their experience of working with an adviser as good or very good. In 2019-20, we expanded the programme to full roll out, reaching a total of 984 deployments to schools and trusts since the start of the programme.

Collaborative working

We continued to work closely with the DfE and other agencies to improve interactions with providers and share intelligence. For schools, we continued improving our joined-up approach with the Regional Schools Commissioners, considering financial and educational performance together. This helped us have single conversations with academy trusts, supporting robust risk management and improving the quality of our engagement with providers. Similarly, for Further Education Colleges and Sixth Form Colleges we worked closely with the Further Education Commissioner (FEC) to identify and work with institutions who could benefit most from the expert advice and scrutiny. We also improved the collaboration with Ofsted, including better data sharing arrangements, and with the Charity Commission on areas of shared responsibility such as charity law compliance.

This close, collaborative working was critical in our response to COVID-19. We drew upon our expertise and shared objectives to work across sectors and locally in support of the education and skills sector.

¹¹ <https://www.gov.uk/government/publications/school-resource-management-adviser-srma-pilot-evaluation>

¹² <https://www.gov.uk/government/publications/college-oversight-support-and-intervention>





5. Seamlessly develop and deliver policy end-to-end

19-20 objective: Ensure policy development and delivery is fully integrated, whilst adapting to meet the growing demand from providers, employers and citizens. This includes developing and delivering the Government's post-16 technical education reform programmes, as set out as a priority by the Secretary of State.

Across all areas of skills education, we worked to meet growing demand. This included increasing our engagement with employers and ensuring our users get an excellent service to support their education and careers. Our commitment to skills reform remained central through our COVID-19 response and will be critical in national recovery.

WorldSkills UK

In 2019-20, we set out a new strategy with WorldSkills UK and the DfE, exploring how a regional, national and international competitions framework can help raise quality, standards and aspiration in technical and vocational education.

The ESFA manages the WorldSkills UK grant. This allows the UK's Further Education, technical and vocational training system benchmark against other global systems during WorldSkills, an international skills competition, hosted this year in Kazan, August 2019.

Team UK, made up of 37 young apprentices, trainees and employees, finished 12th out of 63 competing countries with 19 individuals reaching the world class standard for their skill.

19-20 performance goal: top 10 position for Team UK at WorldSkills 2019.
18-19 position: 9th

72,000 attendees

WorldSkills UK live, November 2019 – the country's largest experiential careers and guidance event

- 3,647 competition registrations for the event in 66 skills
- 474 young apprentices, trainees and employees competing to be crowned national champion in their skill
- 72,000 attendees, c. 2000 more than in 2018

19-20 performance goal: 3,500 registrations in 56 skills; over 70,000 WorldSkills UK Live 2019 participants

Technical Education

This was an important year in preparing for the first T-Levels to start in September 2020. Our approach included increased engagement with employers in developing T-Levels, particularly forming industry placements as a fundamental element of a successful T-Level qualification. Considering the impact of COVID-19, providers remained committed to starting T-Levels in September 2020, building on all the preparation throughout the year. We continue to work with providers to meet this milestone and the first three qualifications were approved on 1 April 2020.



Of the first 50 T-Level providers, 48 will be delivering qualifications from September 2020, and two deferring to a later date.

- We worked closely with the first 50 T-Level providers and those delivering the next 7 T-Levels in 2021, making sure we provided the right level of support and sharing best practice.
- We completed our consultation of Higher Technical Education (at levels 4 and 5).
- We launched the review of qualifications at levels 3 and below with extensive public consultation and started preparing for the implementation of the transition offer from September 2020.

Apprenticeships

We focused on quality apprenticeships that will change the lives of apprentices and the prospects of businesses.

- We made significant progress moving the programme entirely to standards to ensure apprenticeships are occupation-focused, a commitment we first set out in 2017.¹³ Moving away from frameworks consolidates the routes for learners and standards meet the needs of employers through a blend of skills, knowledge and behaviours an apprentice needs in that occupation.
- We moved non-levy payments into the new apprenticeships system, ensuring everyone can now get an apprentice through this service.

2,141,500 starts

By 31 March 2020 we reached 2,141,500 total apprenticeship starts since May 2015

19-20 performance goal: working towards 3 million high-quality starts

74%

74% of apprenticeship starts in 2019/20 on standards

19-20 performance goal: working towards all new apprenticeship starts to be on standards by 31 July 2020

Further Education

Further Education is critical to the success of technical education and in 2019-20 it became central to the government's skills and education commitments. Alongside work to support a financially stable, improving Further Education system, we began to develop a future policy framework with the DfE for a college sector that can deliver excellent technical education.

- We set up and managed the 2019-2021 European Social Fund (ESF) programme through provider contracts. We also contributed towards the design and delivery of a successor programme following the UK's exit from the EU, and this work continues. ESF is a fund to support skills development, investing in employment projects in Europe.
- We supported the devolution of the Adult Education Budget (AEB).

11 audit errors on ESF in 2019-20

These audit errors ranged between a few pounds up to £7000. These were recovered directly and not extrapolated across the programme.

19-20 performance goal: 0 audit errors

¹³ <https://apprenticeships.blog.gov.uk/2017/08/01/apprenticeship-frameworks-and-standards-the-main-differences/> 156, 043 out of 209,873 reported apprenticeship starts in 2019/20 academic year to date (end of Q3) were on standards, instead of frameworks.

Financial Review of the Year

The ESFA's total outturn was £58.57 billion against a budget of £58.83 billion, a 0.4% underspend. This included £58.51 billion expenditure on grant and other funding, the balance of expenditure was in respect of staff costs and operating expenditure.

The variance on resource funding was largely attributable to an underspend on Apprenticeships. This is a demand-led programme, with employers choosing the types of apprenticeships they offer, how many and when.

There was a small overspend on capital which included a marginal overspend on FE exceptional grant funding and loans, offset by an underspend on loans to Academies. Budget cover for this was confirmed by DfE prior to the end of the year.

We strengthened the governance over expenditure by launching a new Investment and Commercial Gateway to scrutinise all commercial activity in ESFA in November 2019. Working closely with commercial colleagues in the Department, the Gateway ensures closer scrutiny of all business cases and consistent evaluation to deliver the best value in all our decisions and investments.

Within the losses statement we reported claims waived or abandoned of £25 million for this year (2018-19 £62 million). This has reduced due to the completion of the college restructuring programme which implemented recommendations from the area reviews of post-16 colleges.

Statement of comprehensive net expenditure

The total comprehensive net expenditure reported for the year was £58,568 million.

The operating income totalled £137 million, primarily relating to income from the European Commission to fund various skills programmes.

Resource grants account for 99.6% of operating expenditure. The biggest element of this are National Funding Formula grants to Local Authority maintained schools and academies.

Statement of financial position

There has been a movement in the financial position of £724 million, the most significant element of this was the reduction in cash balance of £756 million due to improvements in ESFA's cash management.

The remaining balance is made up of small movements in current assets, payables and provisions.

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

Statement of changes in taxpayers' equity

The ESFA is funded by the DfE and records this as draw down of supply. The ESFA's taxpayers' equity has moved from a £602.3 million surplus in 2018-19 to a £121.5 million deficit in 2019-20; ESFA's liabilities (£771.2 million) exceed ESFA's assets (£649.7 million).

This reduction in the ESFA's taxpayers' equity is due to improvements in ESFA's cash management. At 31 March 2019, ESFA had £823 million of surplus cash reserves. The ESFA is supply funded by the DfE, meaning they should only draw down cash when needed. As all ESFA's cash ultimately comes from the Treasury, holding surplus cash is poor value for money for the taxpayer. This surplus was managed down during the year by drawing down £57.59 billion of cash funding compared to £58.57 billion of expenditure, leaving a cash balance of £67.1 million, the difference being the movement in payables and receivables. The ESFA has a target cash reserve of £130 million.

Contributing to the deficit position as at the 31 March 2020 is a closing accruals balance of £663.1 million (2018-19: £643.3 million). These accruals represent expenditure incurred in 2019-20 which have yet to be paid. The cash needed to pay these liabilities will be drawn down from the DfE as it becomes due. Supply funding ensures that the ESFA can continue its operations regardless of its reserves position.

Long-term expenditure trends

In September 2019, the DfE agreed a one-year financial settlement with HM Treasury for the 2020-21 financial year. This included over £3 billion of additional funding for schools, pensions and core funding for 16-19 year olds. The single departmental plan sets out the DfE's key priorities and how funds available will be used to deliver them. Due to COVID-19, the distribution and utilisation of funding may change from the original financial forecasts and plans. Beyond the end of the 2020-21 financial year, the DfE and the ESFA does not have confirmation of available budgets. A Comprehensive Spending Review across public spending was due to conclude in July 2020 which would have set a three-year financial settlement. This has been delayed due to COVID-19. It is expected that there will be a fiscal event during 2020-21 to set expenditure limits in future years, but at this stage we have received no confirmation of the period it will cover.

The following table shows the expenditure and Net Parliamentary funding for the ESFA in respect of the last 3 financial years:

	2019-20	2018-19	2017-18
	£000	£000	£000
Income	136,990	198,263	255,748
Staff costs	94,400	66,006	78,845
Resource grant expenditure	58,474,077	56,720,548	55,908,646
Capital grant expenditure	35,761	119,013	3,999,147
Operating Expenditure	53,253	67,967	69,114
Shared Service Cost (Included in the above)	30,756	33,210	41,268
Net Parliamentary funding	57,592,941	56,899,501	60,456,073
Average staff numbers (whole numbers)	1,986	1,852	1,765

In 2019-20 income relates mostly to European Social Funds which have declined in line with the contract cycle.

In 2019-20 there were several variances which led to the reduction in operating expenditure;

- The budget for estates has moved from ESFA to DfE.
- Shared service costs were reduced by £2.4 million due to a windfall in group estates costs. We expect shared service recharge to return to previous levels in future years.
- Digital Apprenticeships Service IT and telecommunications costs were recharged to Apprenticeships & Support Funding and shown in resource grant expenditure.

Capital Directorate were moved to DfE in April 2018 leading to reduced capital expenditure and associated funding and income in ESFA accounts.

Up to 2018-19 elements of staff costs were recharged to programme costs and staff costs were shown as net. From 2019-20 all staff costs are shown in the note (gross).

In 2017-18 there was a major investment in IT infrastructure, an element of these costs was borne by ESFA in the shared service cost.

COVID-19

The ESFA has, along with other public bodies, been fully engaged in the ongoing government response to COVID-19. Our work in this area started before the year end and continues now. Our reactions have been both internally faced as an employer and externally faced to the education sectors we support.

As is widely known, educational settings were closed from 20 March 2020 to all but children of critical workers and vulnerable children, and businesses either directed to close, adhere to social distancing or to work remotely. This has a significant impact on education and skills providers and learners, ranging between children and schools, to apprentices learning on the job.

Schools began to open from 1 June 2020, starting with children in reception, year 1 and year 6 and from 15 June provision to open for year 10 and 12 pupils to supplement remote education.

The past 3 months have been an incredibly difficult time for education and skills providers who have navigated these events and taken action to protect their learners and staff. We have been able to respond to the pandemic with their support, feedback and expertise at the front line.

The action we have taken

To support these government decisions, the ESFA worked with the DfE, and with colleagues in other government departments, to quickly provide direct support and guidance to navigate these changes and mitigate the impact. In our response, we prioritised two key lifelines:

- 1:** Funding and payments to the sector. We prioritised having the resources to deliver funding and payments to providers as expected. This ensured providers have sufficient funds for ongoing provision to learners and pupils.
- 2:** Communications to the sector. We worked with the DfE on communications to the sector and the public, including a dedicated helpline and local communications.

In addition to assuring these critical services, we took several actions to support learners and the education and skills institutions to mitigate the impact. These were introduced after the financial year ended. This included:

- Taking steps to ensure that, wherever possible, apprentices could continue and complete their apprenticeship, despite any break they need to take as a result of COVID-19
- Exceptional costs support for schools, the provider relief scheme and flexibilities around Further Education grant-based funding
- Launching a skills resource on the National Careers Service website

Throughout, the response to the outbreak, we worked with the DfE and other government departments on a coordinated, complimentary approach. The work has been complex and fast-paced, requiring us to use our collective expertise and resources.

In addition to our own responses, we supported the DfE to launch specific responses to the pandemic including a free school meal voucher scheme, the provision of IT equipment to disadvantaged children under the age of 16 and a £1 billion catch up fund to enable schools to help students catch up on work missed in readiness for exams.

In addition to our support of the sector, we prioritised the health and wellbeing of our staff who remain committed to excellent public service. All offices were closed to adhere to government guidelines and protect our staff, all staff were required to work from home. To support staff, we introduced additional wellbeing activities and communication, encouraged flexible working patterns where beneficial and redeployed staff to ensure critical areas of work had enough capacity to deliver.

Financial impact

In line with other government bodies ESFA has adopted *Procurement Policy Note 02-20 Supplier relief due to COVID-19* to cover our response to the pandemic. As well as continued grant funding the ESFA has also reviewed its support for providers and relaxed clawback of some grants.

One area that has been reviewed is whether COVID-19's impact on the FE and academy sectors would trigger increased levels of impairment on loans due to a deterioration in financial position of providers. Our view is that any additional reduction in financial health of such providers would not trigger a significant increase in impairment of our loans as at the year end. We are satisfied that impairment levels are realistic and sufficiently reflect the expected outcome for the borrowers in light of the continued support provided by the ESFA.

The timing of COVID-19's emergence so close to the ESFA's year end of March has meant that most of the ESFA's response will occur during 2020-21, and no significant additional liabilities or obligations have crystallised in 2019-20.

As of the date of this annual report there is still considerable uncertainty as to the full impact of COVID-19 on different educational sectors. We expect COVID-19 to impact the various educational sectors supported by the ESFA in different ways and to different degrees. We will continue to monitor its impact and identify suitable responses to support providers and ultimately the educational outcomes of learners. We expect the bulk of any financial impacts of the ESFA's COVID-19's response to be recognised in 2020-21.

Key issues and risks

ESFA operates in a complex environment and its business is subject to a broad range of risks. During 2019-20, we took steps to mitigate and manage those risks and decisive action to manage issues that arose.

This is a summary of the significant risks and issues we managed during 2019-20.

Risks and issues	Impact and Mitigation	Direction for year
Unable to meet key objectives if required to divert resources to respond to national crises.	<p>The need to quickly redistribute staff to respond to national events, such as preparing for Brexit and COVID-19, reduces the amount of resource available for our strategic objectives.</p> <p>While appropriately responding with the DfE and government to national events, we mitigated impact on core ESFA objectives with thorough scenario planning and re-prioritisation in consultation with delivery partners.</p>	Increasing
Unable to deliver timely and accurate 2020/21 allocations to the education and skills sectors due to significantly compressed timescales resulting from the late spending round and general election.	<p>Delays to allocations would cause disruption for providers and potential financial instability in the sector, as well as reputational damage to the ESFA.</p> <p>This was mitigated by working closely with delivery partners, including local authorities. Mitigations also included thorough planning with new timescales and prioritising funding operations. Successfully managing the significant challenges, 20/21 allocations were delivered accurately and on time.</p>	Decreasing
Disrupted educational provision, provider failure or liquidation, as a result of weak financial management and oversight in the sectors. COVID-19 further contributed to this risk due to disruption for providers and learners.	<p>Institutional weakness could disrupt provision of high quality education for young people and adults.</p> <p>This was mitigated through judicious use of exceptional financial support, facilitated mergers and other structural changes to ensure continuity in provision. In addition to careful use of interventions, we also strengthened our approach to risk and intervention to identify weakness earlier and respond quicker.</p>	Increasing

Risks and issues	Impact and Mitigation	Direction for year
<p>Delivery of the first three T-Levels in September 2020 is not successful. COVID-19 further contributed to this risk due to the potential impact on providers' ability to prepare for launch</p>	<p>This would cause reputational damage by failing to meet a publicly stated commitment and delay learners' ability to access quality technical education.</p> <p>This was mitigated with close financial planning, delivering support for providers and direct engagement with them on progress, including launching package of support to upskill teachers. Considering the impact of COVID-19, we decided to continue the September 2020 launch date in consultation with T-Level providers.</p>	Static
<p>Unable to meet growing demand for apprenticeship funding in future years.</p>	<p>Growing demand for apprenticeship funding in future years has the potential to place pressures on available funding.</p> <p>Improvements to financial forecasting, making better use of performance data and trends, and increased employer engagement has allowed us to better understand needs and manage future demand.</p> <p>At the end of the financial year, the nature of the risk to the apprenticeships programme changed dramatically, with the risk of economic downturn due to COVID-19. This may mean employers are not able to fully engage with the apprenticeships programme as they previously have done. A skills recovery package will incentivise employers to create apprenticeship opportunities and target specific groups.</p>	Static
<p>Disrupted ESFA services and loss of critical data due to a sustained cyber-attack.</p>	<p>Disruption could mean users are unable to access critical systems, including those needed to obtain information and communicate with the ESFA. Loss of data could also disrupt effective delivery of services, including distribution of funding, and internal efficiency.</p> <p>While we continue to mitigate this risk, we recognise that the sophistication of assault on systems is always increasing and requires even more focus on preventative activities.</p>	Static

Complaints to the Parliamentary Ombudsman

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

In 2019-20, we were made aware of 8 ESFA-related complaints being escalated to the PHSO. Of these, 1 was accepted for investigation and was not upheld. After discussion with the PHSO, we made a small editorial amendment to our complaint page on gov.uk.¹⁴

Respect for human rights

Under the Equality Act 2006, the DfE encourages and supports the development of society in which:

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

Anti-corruption and anti-bribery matters

The ESFA adopts the DfE's policies on anti-corruption, anti-bribery and whistleblowing. We are committed to conducting our affairs in an ethical and honest manner and to implementing systems that ensure bribery is prevented. The ESFA has zero-tolerance for bribery and corrupt activities and is committed to acting professionally, fairly and with integrity in all business dealings and relationships, wherever in the country we operate.

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

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

The DfE regularly reviews whistleblowing arrangements to ensure employees feel able to raise cases and they are handled appropriately. As an ESFA within the DfE, we have adopted their whistleblowing arrangements. ESFA has a dedicated lead who works with staff and the DfE.

Effectiveness of whistleblowing arrangements

The ESFA's whistleblowing policy is entirely integrated into DfE procedures. The effectiveness of these arrangements will be reflected in the DfE group accounts.

Sustainability

The ESFA adopts the DfE's policies on sustainability. We aim to manage our business in an environmentally sustainable way, including making use of digital working to reduce travel and printing. DEFRA publish a cross-government report on sustainability each year in the *Greening Government Commitments* report.

¹⁴ <https://www.gov.uk/government/organisations/education-and-skills-funding-agency/about/complaints-procedure>

Forward Look

Future developments

As we reflect upon the last year, our nation is experiencing unprecedented peace-time challenges. Together, we are facing an unexpected and unsettling global event that is redefining what matters most, prompting us to fulfil re-focused responsibilities to the education and skills sector and to our staff.

Moving from crisis management into the recovery phase, we will continue to deliver reliable critical services for providers, including communication and funding. We will also fulfil our responsibilities in the wider government effort, working together with other departments. In the coming months, this will include opening up educational settings, assurance around public funds spent on the COVID-19 response and working to maintain financial stability in the sector.

We remain committed to ambitious improvement within both the ESFA and across the wider DfE, putting our very best endeavours to reforms that will be a critical component of national recovery ahead of us. These sectors will need our support more than ever, and our plans for the future focus around that.

Strategic objectives 2020-21

Along with the rest of government, our priority is to respond to the COVID-19 pandemic, including our role in recovery.

Each year, we reflect on our objectives and consider new or evolving challenges ahead of us to lead our business plan. In addition to our singular priority as a government organisation to respond to COVID-19, our objectives and commitments are geared towards recovery, including the critical reforms needed for a resilient and thriving education and skills sector.

1. An excellent funding service that improves provider experience
2. Expert oversight that integrates a compelling provider improvement strategy
3. Skills reform that delivers prosperity for learners and business
4. Improved customer experience and user services that deliver customer satisfaction

Eileen Milner
Chief Executive
10 July 2020



Accountability report

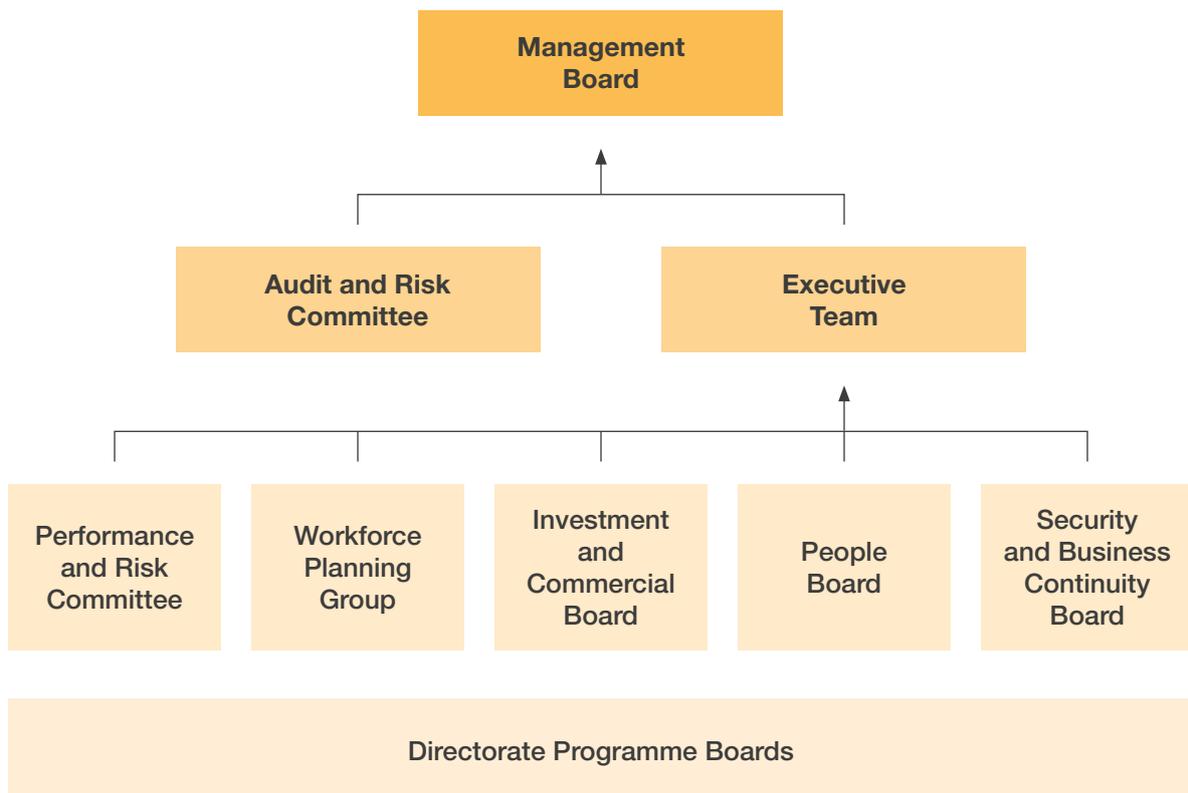
Accountability report

Corporate governance report

The corporate governance report explains ESFA's governance structure, role of the Accounting Officer and governance statement

The directors' report

Board and committee structure



Non-executive board members during 2019-2020¹⁵



Irene Lucas CBE
Chair: Management Board



Hunada Nouss
Chair: Audit and Risk Committee

Non-executive member:
Management Board



Stuart McMinnies
Non-executive member:
Management Board

Non-executive member:
Audit and Risk Committee



Martin Spencer
Non-executive member:
Management Board



Ian Hickman
Non-executive member:
Audit and Risk Committee



Nigel Johnson
Non-executive member:
Audit and Risk Committee



John Lakin
Non-executive member:
Audit and Risk Committee

¹⁵ Register of interests published on gov.uk: <https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2019-to-2020>

Executive board members during 2019-2020 ¹⁶



Eileen Milner
Chief Executive
and Accounting
Officer



Matthew Atkinson
Director of Provider
Market Oversight



Charlotte Briscall
Director of Customer
Experience,
Digital and Data
(from September 2019)



David Craig
Interim Director of
Customer Experience,
Digital and Data
(until September 2019)



Sue Lovelock
Interim Director of
Professional and
Technical Education
(from November 2019)



Jennifer Coupland
Director of
Professional and
Technical Education
(until November 2019)

¹⁶ Register of interests published on gov.uk: <https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2019-to-2020>



Kate Josephs
Director of Funding



Peter Mucklow
Director of Further
Education



Mike Pettifer
Director of Academies
and Maintained
Schools



Keith Smith
Director of
Apprenticeships



Sarah Whitehead
Director of ESFA
Finance & People



Sue Husband
Director of Employer
and Employee
Engagement
(until January 2020)

Personal data incidents

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

A 'personal data related incident' is defined as a loss, unauthorised disclosure or insecure disposal of protected personal data.

We had one protected personal data related incident that was judged significant enough to be formally reported to the Information Commissioner's Office (ICO) in 2019-20. The ICO was informed of the potential breach in January 2020 and the DfE, with the ESFA, underwent a full investigation. The ICO was notified that a learning provider registered with the Learning Records Service (LRS), an ESFA system, had been working with another company to use their access to the LRS for the purposes of ID verification for non-educational purposes, in clear breach of their agreement with DfE. The personal data comprised of the name, date of birth, gender and postcode of 380,000 individuals registered with the LRS. In response, the ESFA temporarily withdrew access to the LRS from all providers. Trustopia (Trust Systems Software Ltd) had their access to the system suspended. Additional monitoring of the LRS access and audit logs was initiated and queries created to highlight any unusual activity to ensure this situation does not happen again via any provider. The ICO is continuing its investigation and will contact the DfE once the investigation is concluded.

The ESFA had 22 protected personal data related incidents reported in 2019-20 which did not fall within the criteria for reporting to the ICO but were recorded centrally with the DfE level.

The ESFA was subject to a review as part of a wider DfE compulsory data protection audit by the ICO in early 2020. The ICO made recommendations to the DfE to put in place and comply with data protection law. We are working with the DfE on the recommendations and have started improvements within the ESFA. So far, this has included increasing capacity around information security with a stronger focus on data protection and data sharing governance.

Statement of the Accounting Officer's responsibilities

ESFA's Chief Executive is the Accounting Officer and is responsible for day-to-day operations and management, safeguarding public funds the ESFA distributes, and ensuring regularity, value for money and feasibility. These duties are set out in HM Treasury's *Managing Public Money*.

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

- aligning the ESFA's business plan with the DfE's wider strategic aims and agreed priorities;
- informing the DfE of progress and how we are meeting policy objectives, and demonstrating how resources are being used to achieve those objectives; and
- ensuring timely forecasts and information on performance and finance, including any necessary corrective actions and/or significant problems detected by internal audit.

Under Section 7 of the *Government Resource and Accounts Act 2000*, the DfE has directed ESFA to prepare a statement of accounts for each financial year, on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs in ESFA, 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*, in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures; and
- prepare ESFA's accounts on a going concern basis.

As the Accounting Officer, I can confirm that I have discharged my responsibilities properly. I can confirm that:

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

The Annual Report and Accounts is fair, balanced and understandable, and I take personal responsibility for the judgements required to determine this.

The Principal Accounting Officer of the DfE has appointed me as Accounting Officer of ESFA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding ESFA's assets, are set out in *Managing Public Money* published by the HM Treasury.

Governance statement

The purpose of the governance statement

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

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of governance, internal control and risk management, to support the achievement of our objectives while safeguarding public funds and assets.

The scale and complexity of the ESFA's work means that total elimination of risk is unlikely to be achieved. Therefore, we have designed a system of governance, internal control and risk management that can manage risk to a reasonable level rather than eliminate it completely. As defined in the ESFA's risk appetite statement, the ESFA has a cautious approach to risk and a system of internal control based on a framework designed to:

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

I am satisfied that effective internal control of risk has been in place from 1 April 2019 and up to 31 March 2020.

Governance framework

We have planned for good corporate governance, and I have executed my responsibilities to the DfE in accordance with the agreed framework document,¹⁷ which details the parameters under which the DfE and the ESFA will work together. This framework was reviewed in 2019-20 and is in the process of final sign-off by all parties.

We maintain financial information on the delivery of all programmes corporately and, where appropriate, at programme level.

¹⁷ <https://www.gov.uk/government/publications/esfa-framework-document>

Non-executive boards and committees

Summary of board attendance and appointments is contained in Annex 1.

Management Board	
Chair	Irene Lucas CBE
Frequency	6 per year
Purpose	<p>The board provides strategic direction, support and guidance, to ensure the delivery of the Business Plan objectives, organisational effectiveness, and alignment with the DfE's mission, strategy and purpose.</p> <p>The board advises the Chief Executive on arrangements that provide assurance on risk management, governance and internal control. It advises how to improve the performance of the ESFA and supports the Chief Executive discharge obligations set out in 'Managing Public Money' for the proper conduct of business and maintenance of ethical standards.</p> <p>Summaries of meetings are published on gov.uk¹⁸</p>

The Chair and non-executive members completed an annual declaration of interests to disclose any potential or actual conflicts of interest. At the start of each meeting, members declared conflicts of interest related to the agenda. No new conflict of interest was identified at a meeting during 2019-20. The Register of Board interests has been published separately.¹⁹

Statement from the Board Chair

The information the board received for meetings was of good quality and fit for purpose. The board received information on performance against objectives including performance targets, key agency risks and their mitigations, and financial information. The board recognised notable improvements in the quality of risk information and progress with performance information, including better articulation of risk and presentation of performance data. This routine data was supplemented with in-depth information and discussion around key work areas. The information provided supported the board to operate effectively during the year. It allowed us to better understand the work of the agency and provide effective challenge.

The board continued to be supported with weekly updates from the Chief Executive with areas of interest and key developments in between meetings. This was particularly valuable as the COVID-19 pandemic developed rapidly.

The board held a review in February 2020 and concluded that we were operating effectively. This reflected the progress made through the year on improved management of risk and performance as well as matured ways of working. Our governance is compliant, where relevant, with the Cabinet Office's *Corporate Governance in Central Government Departments: code of good practice*. Following a review of the relevant requirements, no departures from the Code were identified in 2019-20.

¹⁸ <https://www.gov.uk/government/organisations/education-and-skills-funding-agency/about/our-governance>

¹⁹ <https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2019-to-2020>

Audit and Risk Committee	
Chair	Hunada Nous
Frequency	Quarterly, additional meetings for key business
Purpose	The Audit and Risk Committee (ARC) supports the Management Board on issues of risk, control and governance, including overseeing internal and external audit activity. ARC is also responsible for giving assurance to the DfE's Management Board on ESFA audit and risk activity.
Members	Audit and Risk Committee non-executive members, ESFA Chief Executive, National Audit Office, the Government Internal Audit Agency and Provider Market Oversight. Directors from the ESFA and DfE are invited to attend ARC meetings when necessary.

ARC members completed an annual declaration of interests form. At the start of each meeting, members declared conflicts of interest related to the agenda. No new conflict of interest was identified at a meeting during 2019-20.

Statement from the Chair, Hunada Nous

Statement from the ARC Chair

As the ARC chair, I am a non-executive director of the ESFA Management Board and a member of the DfE's ARC. Throughout the year, as chair I am responsible for making the Management Board and DfE's ARC aware of any issues in respect of risk, controls and assurance, as well as progress towards resolution.

It was a busy year for the ARC. Both the committee and the organisation have matured, bringing improvements to our assurance activity and understanding of the key risks to the ESFA. In response to unprecedented circumstances presented by COVID-19, the organisation has adapted quickly to understanding the emerging issues and has adopted an agile approach to addressing the associated risks. Looking forward, we must remain focused in responding to the needs of our learners and providers, but it remains important that we provide oversight that supports the sector as it evolves. Whilst challenge is an important part of our responsibility in protecting the public purse, much of our focus is in creating the conditions for great performance.

A summary of ARC's activity is noted below.

Summary of activity in 19-20 financial year

- During the year, ARC reviewed the regular and ad hoc reports provided on the key issues and risks identified in connection with the work of the ESFA and provided challenge and advice where required.
- ARC received regular reports from the Government Internal Audit Agency (GIAA). It approved the annual audit plan for the 19-20 financial year, and noted further cross-cutting audit work performed for the DfE on which the ESFA could also rely for assurance. It reviewed the progression of audit activity against the plan and was made aware of any changes to the plan. It also monitored progress on outstanding actions in respect of prior year audits.
- ARC received regular reports from NAO on the planning for, and progress of, the annual financial audit as well as updates on the progress of and plans for new NAO value for money audits.
- ARC received regular reports on the work of the Provider Market Oversight (PMO) directorate, responsible for the provision of oversight and assurance around the proper use of funds provided by ESFA. ARC considered the PMO Target Operating Model to aid ARC's understanding of PMO work and allocation of resources. It reviewed the work of investigations, and plans to address both the backlog of investigations and proposed process improvement. It has also considered progress on the Assurance Review Framework and effective financial forecasting for providers.
- ARC considered the ESFA's effectiveness in its management of risk. The Committee reviewed the risk register, identifying the highest risks for escalation to the Management Board and the DfE. In June 2019, the Committee undertook an annual review of the ESFA risk management framework and risk appetite statement and the revised framework and risk management training was subsequently rolled out across the ESFA.
- ARC also reviewed the work of ESFA's Performance and Risk Committee (PaRC). PaRC is responsible for overseeing the identification and management of risk on behalf of the Executive Committee.
- ARC members attended a workshop on accounting judgements with colleagues in the ESFA and DfE finance.
- The Committee held deep dive reviews of specific risks over the year in; resilience of the Further Education sector; T-level preparedness; readiness for delivery of 20/21 funding allocations; customer service desk responsiveness; and SRMA effectiveness.
- ARC received updates from the Finance Director on financial performance as well as work to strengthen the financial control framework. The ARC interrogated the output of the Annual Framework Record and found these demonstrated adequate operational controls. The finance team led a workshop to seek ARC agreement to the key accounting judgements required for the preparation of the financial statements
- As a Committee, ARC reviewed and supported the annual governance statement made by the Chief Executive, which is included in the Annual Report and Accounts.

Executive committees and corporate boards

Executive Team	
Chair	Eileen Milner, Chief Executive
Frequency	Twice monthly
Purpose	The Executive Team assist the Chief Executive, as the Accounting Officer, to discharge her duties and ensure the efficient and effective management of the ESFA. The Executive Team is responsible for implementing the strategies agreed by the Management Board and for overseeing operational delivery, performance and risk against the ESFA's business plan. This is a forum in which to hold each other and their programmes to account, along with carrying out forward-looking strategic thinking.
Members	Chief Executive and ESFA directors
Performance and Risk Committee	
Chair	Rolling chair between directors
Frequency	Monthly
Purpose	<p>The Performance and Risk Committee (PaRC) is focused on providing collective and corporate operational leadership of the ESFA by:</p> <ul style="list-style-type: none"> • reviewing performance and risk management by providing directors with a dedicated forum that ensures there is consistency, clear accountability, and management and mitigation of risks that may jeopardise the achievement of our objectives; • monitoring operational performance against the agreed business plan objectives via key performance indicators, agreeing actions to improve delivery and performance as appropriate; and • agreeing risks and performance issues to escalate to the Chief Executive, Audit and Risk Committee, Management Board and DfE, to provide assurance risks are being managed effectively and to enable scrutiny and challenge of actions and mitigations at the highest level.
Members	ESFA directors
People Board	
Chair	Sue Husband, Director (until January 2020) Sarah Whitehead, Director (from January 2020)
Frequency	Monthly
Purpose	<p>The People Board oversees the delivery and focus of the People Plan and priorities. The People Board provides direction and challenge to ensure the key People Plan milestones are delivered, including the recruitment and retention of talent across the ESFA, and by promoting zero tolerance on bullying, harassment, discrimination and misconduct.</p>
Members	Deputy director representation from each directorate. Membership also includes people team members and relevant work leads appointed by the chair.

Investment and Commercial Board	
Chair	Sarah Whitehead, Director
Frequency	Monthly – established November 2019
Purpose	<p>The Investment and Commercial Board reviews all programme, project and policy investment above £1m full lifetime cost, and managed service contracts of all values. Any investment above £20m is reviewed at the DfE Investment Committee.</p> <p>The board is responsible for scrutinising and challenging business justification, ensuring alignment of investments to ESFA strategic priorities and maximising value for money.</p>
Members	Representation from across the ESFA. Including the Director of Customer Experience, Digital and Data, Finance, Funding Directorate, experts from Commercial and ESFA service owners.
Security and Business Continuity Board	
Chair	Charlotte Briscall, Director
Frequency	Quarterly
Purpose	<p>The Security and Business Continuity Board's (SBCB) purpose is to provide oversight of Information Security and Business Continuity across the ESFA including the associated risks and issues.</p> <p>SBCB mitigates security and business continuity risks and issues and enables a clear line of sight between the ESFA and the DfE on these issues.</p>
Members	Representation from, the ESFA SIRO, each ESFA directorate's information asset owners and the DfE's representative from the Cyber and Information Security division.
Workforce Planning Group	
Chair	Sue Husband, Director (until January 2020) Sarah Whitehead, Director (from January 2020)
Frequency	Monthly
Purpose	The Workforce Planning Group remit is to prioritise existing resources and future recruitment, ensure the ESFA operates within budgetary allocations and to ensure adherence to DfE policies including recruitment and selection.
Members	Chief Executive, directors, HR business partners and people team representatives.

Other information

Auditor remuneration for non-audit work

The Comptroller and Auditor General, appointed by statute, audited these accounts. The certificate and report appear in the Parliamentary and Audit Report section of this Annual Report and Accounts (ARA). The notional audit fee incurred for the year was £345,000 (2018-19: £330,000). There was no remuneration for non-audit work.

Research and development activities

There has been no expenditure on research and development in the current or prior financial years.

Public sector information

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

Financial instruments and financial risk management

There is some credit risk to the ESFA from non-payment of recoverable funding. This is usually due to commercial and charitable providers becoming insolvent and unable to provide learning. The position for the financial year is shown in the notes to the accounts in this document.

Political donations

We did not make any political donations during 2019-20 (2018-19: £nil).

Risk management framework

Chief Executive's assessment

Risk

The ESFA has a clear framework and statement of appetite that define the ESFA's approach to risk. The framework aligns with the DfE's framework and risk management guidance used across government. In June 2019, we reviewed our risk management framework with the Audit and Risk Committee. This was followed by a review of our appetite statement with Management Board in July 2019. These documents have been published internally for all staff to adopt and underpinned by on-going training. Following the escalation of the COVID-19 pandemic, we updated our risk appetite to reflect the current environment, allowing greater flexibility, innovation and working at pace.

Directors are responsible for the overall success of their programmes and projects and must manage their programmes' risk. Directors manage risks by promoting and supporting risk management within their projects, programmes and directorates. The monthly Performance and Risk Committee is responsible for managing the ESFA's key risks.

ARC was sighted on significant risks and issues pertinent to the ESFA to ensure they were able to challenge and support their management. Where risks were deemed to have wider departmental impact, these were escalated. The key risks identified in 2019-20 are in the 'key issues and risks' section of this report.

Chief Executive's assurance statement

I, with the support of the Board, have ensured that there are robust governance, risk management and internal control arrangements across the whole ESFA.

During the year I have required every senior civil servant (SCS) working within the ESFA to complete an Assurance Framework Record (AFR). These detailed their compliance with the DfE's assurance framework and set out the arrangements for risk, control systems and use of resources, along with issues which might prevent sufficient, continuous and reliable assurance of improved, cost effective, public services. In 2019-20, the ESFA made improvements to the process to strengthen the level of assurance following external review. The improvements implemented during 2019-20 included peer reviews, additional validation checks and thematic analysis to inform ways to further strengthen the control environment.

During 2019-20, these AFRs were reviewed to evaluate the effectiveness of management and controls within each senior civil servant's areas of responsibility. The AFRs and subsequent validation showed that the SCS have a good understanding of risk, controls and oversight within their areas.

In 2019-20, we produced an annual report which detailed the results of our provider assurance work. At the start of the year, a plan of work was agreed by the ARC which encompassed a wide range of planned and responsive work. ARC and I received regular reports during the year that detailed progress made and emerging issues which needed to be addressed. The assurance plan was successfully delivered and, based on the findings and conclusions and, having regard to the evidence available, the Assurance Team provided an overall opinion of substantial assurance on ESFA funded activity, concluding that, in all material respects, providers had applied ESFA funds for the purposes intended by Parliament.

There was one significant area, the assurance of funds paid to local authorities, where additional assurance work was required. Under the assurance framework, the ESFA places reliance on the local authority audited financial statements on a 'lagged basis'; that is, for this 2019-20 assurance year, we rely on local authorities' 2018-19 audited financial statements. This is appropriate following our assessment that the local authority control environment remains stable and there have been no significant changes to our funding programmes. However, a number of local authorities have yet to finalise their 2018-19 financial statements, leading to a potential assurance gap. To address this gap, the Assurance Team developed and delivered an additional programme of work, drawing on information publicly reported by the local authorities, including minutes of and papers submitted to school forum and audit committee meetings. Based on this additional programme, the Assurance Team has satisfactorily concluded its assurance work over this funding.

Both the AFR process and the provider oversight have given me assurance that ESFA has managed its agenda and resources well and in line with HMT Managing Public Money and the responsibilities issued to me as Accounting Officer.

Internal audit

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

The Head of Internal Audit expressed the view that in 2019-20 the ESFA has had to deal with an array of significant issues including identifying an incident of non-compliance with competitive tendering rules, coping with the repercussions of high-profile data breach and latterly the COVID-19 pandemic. Effective risk management processes have operated throughout and internal audit have seen that we have demonstrated a resilience and strength to continue to deliver against our objectives set.

Of the 4 possible opinion ratings, the rating given by GIAA for 2019-20 was moderate. A Moderate rating states that some improvements are required to enhance the adequacy and effectiveness of the governance, risk management and control frameworks. The opinion direction is made on the basis of the work and assurance provided during 2019-20, meetings with senior management, and the provision of advisory work.

I have accepted this assessment, and the relevant ESFA teams have implemented, or are working to implement, the suggested improvements from GIAA's findings.

Out of a total of 18 reviews specifically included in the ESFA plan (within the DfE plan) 15 resulted in moderate opinions, two were substantial and one was limited. GIAA provided a summary of each audit to the ESFA Audit and Risk Committee. A limited rating states that there are significant weaknesses in the framework of governance, risk management and control, such that it could be or become inadequate and ineffective. The one limited opinion, out of 18 reviews, related to the management arrangements of investigations. All recommendations have been successfully implemented.

My executive team and I accepted the conclusions and recommendations of the assurance reports. The actions arising are either in progress, or complete.

There were five limited opinions in the internal audit plan within the wider DfE that impact the ESFA. These are:

- Investment & Business Case Approval
- IT Service Management
- Information Security Management Systems
- Contract Management
- IT disaster recovery

Taking into consideration the impact and the ESFA reviews, GIAA retained the overall moderate rating for the agency.

External assurance

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

Several planned external assurance exercises in 2019-20 were delayed due to national events including the General Election and COVID-19. Most of these have been re-scheduled for 2020-21.

University Technical Colleges, National Audit Office (NAO) report

The NAO published its report into University Technical Colleges in October 2019 which build on previous NAO reports that had covered UTCs. As part of its analysis of the UTC programme, the report assessed the financial state of UTCs. This analysis explored the financial viability of the sector and set out the ESFA's oversight and intervention role in regards to UTCs. The ESFA continues to work alongside the wider DfE to help UTCs build their financial capacity and ensure effective education.

The Public Accounts Committee held a hearing in March 2020 on the report and its analysis. Jonathan Slater was the DfE witness. The Public Accounts Committee published its report in June 2020 with recommendations to share good practice, set three-year financial targets for each UTC, to explain how it will track performance and inform parents of the benefits of UTCs and to gain assurance about the value schools get from the licence fee paid to the Baker Dearing Educational Trust. The ESFA will work with the DfE and respond to its recommendations through a Treasury Minute.

Counter fraud and investigations

The fraud landscape continues to evolve and present increasing challenges as we seek to anticipate, detect and prevent the misuse of public funds.

Following the much-improved rating of 89% in July 2018 for compliance against the Cabinet Office (CO) cross Government Counter Fraud Functional Standards (CFFS), the ESFA achieved a 100% assessment rating by July 2019. The continued improvement reflects our commitment to ensuring Counter Fraud arrangements are robust and able to respond effectively to the challenges and threats it faces.

Governance arrangements are in place with the Counter Fraud Operations Board maintaining oversight and responsibility for the ESFA's Counter Fraud framework. Oversight examines new and emerging risks and potential trends arising that are identified from Counter Fraud work and investigations. This includes the cross-agency Fraud Risk Assessment (FRA) activity which is underway. FRA is an essential part of our counter fraud strategy and assists the organisation to understand the main fraud risks that have the potential to affect business processes.

The ESFA already has a high-level FRA in place, which is currently rated as green and meets the requirements of the CO CFFS. As part of our drive for continuous improvement our aim is to build on this high-level FRA, working with experts from within the ESFA funding teams to fully understand the main risks posed by fraud and any mitigations currently in place at an operational delivery level. Significant progress has been made in relation to the Apprenticeships funding stream whilst scoping work is commencing in other areas.

In 2019-20, the GIAA reviewed our investigations management arrangements and identified areas for improvement, some of which were already being discussed with actions underway. As a result, we have been able to quickly respond to and address all recommendations, including improvements to records storage, key performance indicators and increasing capacity and capability.

We have continued to invest in counter fraud and investigations functions through expanding our team by 15% to 31.5 FTE in 2019-20. We are working closely with our recently established Enforcement team, taking action to hold those responsible to account when wrongdoing is identified and provide advice and support in respect of the recovery of ESFA funds.

We are further investing in the strength and efficiency of our investigations through the procurement of additional investigative software and training.

One of the notable high risk areas for providers is cybercrime, including phishing emails and hacking of email accounts. This reflects the increased risks reported by the National Crime Agency and sophisticated criminals targeting business rather than individuals. Our Counter Fraud team has been alert to this issue, resulting in specific guidance being published (updated August 2019) alongside the existing generic fraud awareness guidance, to both raise awareness and support providers to manage those threats. We continue to monitor and highlight the fraud risks to our providers, engaging with the sector to both share and capture relevant information through a range of communication routes.

We are further investing in the strength and efficiency of our investigations through the procurement of additional investigative software and training.

At 31 March 2020 we have a total of 82 live investigations and allegations in triage to carry forward into 2020-21. This comprises 19 on-going academy trust cases at various stages of the investigation cycle and similarly, 63 live cases relating to colleges and independent training providers.

It is in the public interest to be fair and transparent about issues relating to how public money is spent and to hold individuals and institutions to account where error and/or irregularity has been established. Publishing the outcomes of our investigations is an important part of this and we will publish unless there are exceptional circumstances, including when publication could prejudice other law enforcement or other regulatory investigations. Our publication policy is available on gov.uk.²⁰

The number of cases carried forward from both sectors continues to reflect the complex nature and longevity of investigation casework. Our investment in Counter Fraud and Investigations and the Enforcement team has ensured an appropriate response to increasing demand whilst also championing continuing improvements to mitigate and prevent future issues arising.

The formation of new academy trusts and mergers continued to rise in 2019-20 with academies increasing by around 900 in-year. Whilst there has not been a significant rise in the number of academy investigation visits compared to 2018-19, there is a continuing slightly upward trend aligned to sector growth. Additionally, in response to changes in apprenticeships funding we have seen a rise in the number of allegations this year. These factors have contributed to the increase in investigation activity in 2019-20.

We have zero tolerance of fraud and take swift action through our Provider Market Oversight (PMO) Directorate to identify and investigate fraud allegations. We take action to respond to investigation outcomes to protect and recover ESFA funds where appropriate to do so. Where control weaknesses are identified we follow up and implement recommendations to prevent further issues arising.

²⁰ <https://www.gov.uk/government/publications/efa-investigation-publishing-policy/efa-investigation-publishing-policy>

Investigations: academy trusts

During 2019-20, we brought forward 15 ongoing cases (2018-19: 6) and undertook the following new activity in year:

Academy activity	2019-20	2018-19
Allegations received	43	45
Failed triage and/or referred for other action	29	14
Closed	10	22
Carried forward to 2020-21	19 ²¹	15

Advice only	2019-20	2018-19
Advice	83	92

Visits undertaken in response to triage	2019-20 ²²	2018-19 ²³
Fact finding	1	6
Financial management and governance review (FMG)	4	4
Formal investigation	10	2

Closed cases - outcomes:	2019-20	2018-19
Irregularity identified	8	1
No fraud / irregularity	2	21
Fraud	0	0

2019-20 Financial values: confirmed cases of fraud, irregularity & theft ²⁴ (ESFA fraud loss/recovery figures)	Value of fraud/ Irregularity	Value of Recoveries
Loss ESFA	£5,645,506 ²⁵	£8,119
	(£0 – 2018-19)	(£0 – 2018-19)

21 Includes 6 cases brought forward from 2018/19 and 13 cases arising in-year

22 Reported by visit outcome for 2019-20 and includes 4 visits carried forward from 2018-19.

23 Reported by planned visit type for 2018-19. For comparison to 2019-20 the outcomes of those visits resulted in 3 that did not escalate beyond fact finding, 5 FMG and 4 investigations.

24 In 2019-20 ESFA changed the methodology used to report fraud and irregularity to align with Cabinet Office requirements. Fraud values and recoveries now reflect the amount of fraud and irregularity values confirmed and recorded in-year, as opposed to the date the investigation case was reported which may be in prior year(s). The result of this recording methodology means that the recovery figure may exceed the value of fraud identified as it is an on-going process. Prior year comparative figures for 2018-19 have been restated to reflect the new reporting methodology. Data in this report may therefore not be comparable to reports for preceding years.

25 The majority of this relates to 2 specific cases and includes fraud and irregularity values which have been quantified during 2019-20. These cases are not yet in the public domain. Recovery of the identified losses remain ongoing.

In accordance with the Academies Financial Handbook's requirements to report instances of fraud exceeding £5,000 either individually or cumulatively in any academy financial year, we received a total of 53 (2018-19: 62) self-reported cases, of which the following were categorised as fraud or theft:

Self-reported cases by Academy Trusts	2019-20	2018-19
Fraud	45	47
Theft	2	14

2019-20 Financial values: confirmed cases of fraud, irregularity & theft ²⁴ (Academy Trusts' fraud loss/recovery figures)	Value of fraud / irregularity	Value of recoveries
Self-reported: loss to trust	£1,448,275	£2,894,456
	(£1,681,749 – 2018-19) ²⁶	(£1,544,521 – 2018-19) ²⁶

The academy schools sector consolidated annual report and accounts also reports on instances of fraud, theft and/or irregularity reported to the ESFA.

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

During 2019-20, we continued 53²⁷ ongoing live cases and undertook the following new activity in year:

Colleges, charitable and commercial providers, and private providers casework	2019-20	2018-19
Allegations	153	101
Advice / referral only required	(34)	
Failed Triage	(93)	(62)
Cases closed	(16)	(13)
Live investigations and Triage carried forward	63	53

NB 63 carried forward includes 49 live investigations + 14 triage.

Resources used to conduct investigations	2019-20	2018-19
Undertaken using the provider resources (under the direction of PMO) ²⁸	-	12
Undertaken using external resources (under the direction of PMO)	-	3
Undertaken by the Investigations Team	44	2

Closed case outcomes	2019-20	2018-19
Error	5	5
Suspected fraud	5	5
No issues identified	6	3
Total closed cases	16	13

Financial values: confirmed error / fraud	Total error / suspected fraud ²⁹	Value of recoveries in year ³⁰
Identified funds at risk	£4,415,470	£1,058,621
	(2018/19: £2,773,208)	(2018/19: £4,614,155)

26 Figures updated to reflect new methodology as per footnote 24

27 21 live investigations + 12 Triage+ 20 pre-vetting = 53 carried forward)

28 Some investigation support work outsourced to external firms (outsourced by ESFA)

29 Identified in-year (including live investigations)

30 Recovery in-year includes outstanding recoveries for prior years

Financial management

As Accounting Officer, I have responsibility for ensuring that effective systems to manage and monitor all funds for which the ESFA has responsibility were in place. I am content that processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money during 2019-20. I consider that ESFA's financial management was sound throughout the process of managing a £58.83 billion budget.

The DfE implemented clear lines of accountability for administration, programmes and capital expenditure. Each member of my executive team received a delegation of financial authority from me in accordance with their respective responsibilities. Financial guidance and policies clearly explained these lines of accountability. This enabled budget holders to ensure payments were regular and proper, and to follow a clear process for seeking agreement for needs-based payments outside of ordinary business. I am satisfied that spend managers have received sufficient information and resources to make affordable spending decisions that secured value for money.

Our financial management team provided financial reporting monthly to the executive team. In 2019-20, reporting was enhanced with additional information provided on the ESFA balance sheet, investments and KPIs on DfE shared service performance. The team also provided a monthly expenditure return to budget holders in the DfE and completed monthly consolidation, to ensure the ESFA's business was transparent and reported in line with requirements.

We managed variances in close cooperation with the DfE, allowing maximum flexibility in the department's management of public funds.

During the year, we continued to strengthen our systems of accountability and control in performance and risk management. ARC and Management Board have oversight of risk and performance through a suite of reports. These are also supported by a series of deep dives into key delivery areas, to give assurance that we had identified and addressed risks that had the potential to adversely impact the delivery of our key objectives.

Shared services

The DfE provides the ESFA with a number of corporate services, including technology, estates and security, transactional finance, legal and HR. Key monthly metrics are reported to the Executive Team each month on finance services, including payments, cash forecasting and balance sheet transactions. Directors are sent prompt payment data on a monthly basis which has also led to improvements on the ESFA's use of finance services. During 2019-20, a formal document was developed which set out the roles, responsibilities and service levels between the DfE and the ESFA for transactional finance service, which will come into force in 2020-21.

On broader corporate service provision, service owners have regular conversations with key users in the ESFA to discuss the quality of the provision and agree any areas for improvement. Documentation of service provision is currently being explored and will be formalised during 2020-21.

Conclusion

The ESFA's governance arrangements have continued to evolve during the year and will continue to do so in 2020-21. The scale of our remit means that there will always be multiple risks to manage, but I am satisfied that the governance arrangements in place are sufficient to manage them effectively.

I conclude that the ESFA has a sound system of governance, risk management and internal controls that supports the organisation's aims and objectives for 2019-20.

Annex 1:

Summary of board attendance 2019-20

Management board member	Role	Meetings attended (out of a possible)
Irene Lucas	Chair	5 / 6
Stuart McMinnies	Non-executive member	6 / 6
Hunada Nouss	Non-executive member	6 / 6
Martin Spencer	Non-executive member	6 / 6
Eileen Milner	Chief Executive	6 / 6

Audit and Risk Committee member	Role	Meetings attended (out of a possible)
Hunada Nouss	Chair	5 / 5
Stuart McMinnies	Non-executive member	5 / 5
Nigel Johnson	Non-executive member	5 / 5
Ian Hickman	Non-executive member	5 / 5
John Lakin	Non-executive member	5 / 5

Remuneration and staff report

Overview

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

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

Remuneration Part A: Unaudited

Chief executive and Executive Team members' remuneration policy

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

As staff employed by an executive agency of the department, the Executive Team's performance management and contractual terms are as described in the department's Annual Report and Accounts. As such, the department manages performance management and non-consolidated performance award for members of the senior Civil Service within the framework set by the Cabinet Office. The contractual terms of Executive Team members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the Civil Service website.³¹

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Readers can find further information about the work of the Civil Service Commission on its website.³²

³¹ Cabinet Office Framework - <https://www.gov.uk/government/organisations/civil-service>

³² <https://civilservicecommission.independent.gov.uk/>

Part B: Audited

Official	Salary		Bonus payments		Pensions benefits		Total	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
	£000	£000	£000	£000	£000	£000	£000	£000
Eileen Milner ¹	150-155	140-145	0-5	0-5	58	56	215-220	200-205
Peter Mucklow ¹	100-105	95-100	10-15	10-15	88	10	200-205	115-120
Mike Pettifer ²	125-130	115-120	5-10	10-15	43	42	175-180	170-175
Sue Husband (left 26 January 2020)	95-100	105-110	5-10	0-5	38	42	140-145	150-155
Keith Smith	110-115	110-115	5-10	10-15	39	34	155-160	160-165
Béatrice Lightfoot (left 12 April 2019)	0-5 (90-95)	90-95	-	-	1	36	0-5	125-130
Matthew Atkinson	130-135	130-135	5-10	10-15	52	52	190-195	195-200
Jennifer Coupland (left 17 November 2019)	55-60 (90-95)	55-60 (90-95)	10-15	10-15	23	22	90-95	95-100
Sarah Whitehead	90-95	30-35 (90-95)	5-10	-	38	12	140-145	45-50
Charlotte Briscall (from 5 September 2019)	65-70 (110-115)	-	0-5	-	26	-	95-100	-
Kate Josephs (from 23 April 2019)	100-105 (105-110)	-	5-10	-	93	-	200-205	-
Sue Lovelock (from 18 November 2019)	30-35 (90-95)	-	0-5	-	40	-	75-80	-
David Craig (from 14 April to 4 September 2019)	35-40 (90-95)	-	-	-	45	-	80-85	-

1 Eileen Milner and Peter Mucklow took on additional responsibilities in 2018-19 which were reflected in their salary in 2019-20 and included an element of back pay

2 Mike Pettifer took on additional responsibilities from September 2018 which were for the remainder of 2018-19 and for the full year in 2019-20

Figures in (brackets) are full year equivalent values.

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the agency and thus recorded in these accounts.

Benefits-in-kind

The monetary value of benefits-in-kind covers any benefits provided by the agency and treated by HM Revenue and Customs as taxable emolument. No board members received benefits-in-kind in 2019-20 (2018-19: none).

Bonuses

The department awards bonuses as part of the performance management process. The agency sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high quality public services. The agency follows the arrangements for the senior civil servants as set out in the *Performance Management Arrangements for the Senior Civil Service*³³, and the department's performance management framework for managing and rewarding performance throughout the year.

All performance awards are awarded in the current year.

Non-executive Director Fees

The following Non-executive Directors received a fee for their work.

Non-executive Directors	Dates in Office	2019-20	2018-19
		£000	£000
Hunada Nouss	1 April 2019 to 31 March 2020	10-15	5-10
Martin Spencer	1 April 2019 to 31 March 2020	5-10	5-10
Stuart McMinnies	1 April 2019 to 31 March 2020	5-10	5-10
Ian Hickman	1 April 2019 to 31 March 2020	0-5	0-5
Nigel Johnson	1 April 2019 to 31 March 2020	0-5	0-5
John Lakin	1 April 2019 to 31 March 2020	5-10	0-5

Irene Lucas received a fee from the Department for her role as a Non-executive Director on the Departmental Board (£000) 2019-20: 15-20 (2018-19: 0-5) and no additional fees from ESFA for her dual role as Chair of the ESFA Management Board.

Pay multiples

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

	2019-20	2018-19
Band of highest paid director's remuneration (£000)	155-160	145-150
Median (£000)	37	37
Range (£000)	18-155	19-148
Remuneration ratio	4.2	4.0

The banded remuneration of the highest paid director in 2019-20 was £155,000-£160,000. This was 4.2 times the median of the workforce which was £37,099. This is due to a change in salary of the highest paid director.

In 2019-20 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £18,000 to £155,000.

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

³³ <https://www.gov.uk/government/publications/senior-civil-service-performance-management>

Pension benefits

Civil Service pensions

As an executive agency of the department, ESFA staff are members of the principal Civil Service pension scheme that provides pension benefits. The department's Annual Report and Accounts provides information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the Civil Service Pensions' website.³⁴

	Accrued pension and related lump sum at pension age as at 31 March 2020	Real increase in pension and related lump sum at pension age	CETV at 31 March 2020	CETV at 31 March 2019	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Eileen Milner	5-10	2.5-5	111	61	35	-
Peter Mucklow	40-45 plus a lump sum of 130-135	2.5-5 plus a lump sum of 10-12.5	993	864	87	-
Mike Pettifer	35-40	2.5-5	579	524	25	-
Sue Husband	10-15	0-2.5	175	142	19	-
Keith Smith	40-45 plus a lump sum of 90-95	0-2.5	707	655	17	-
Béatrice Lightfoot	20-25	0-2.5	243	233	1	-
Matthew Atkinson	5-10	2.5-5	98	62	23	-
Jennifer Coupland	25-30 plus a lump sum of 50-55	0-2.5	442	423	11	-
Sarah Whitehead	10-15	0-2.5	104	83	11	-
Charlotte Briscall	0-5	0-2.5	17	-	12	-
Kate Josephs	20-25 plus a lump sum of 45-50	2.5-5 plus a lump sum of 5-7.5	343	271	53	-
Sue Lovelock	20-25	0-2.5	246	221	21	-
David Craig	20-25 plus a lump sum of 45-50	0-2.5 plus a lump sum of 2.5-5	377	332	32	-

³⁴ <http://www.civilservicepensionscheme.org.uk/>

Principal Civil Service Pension Scheme (PCSPS)

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

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

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the *Finance Act 2004*.

Partnership pension

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

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

Further details about the Civil Service pension arrangements can be found at the Civil Service Pensions' website.³⁵

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Compensation for loss of office

The agency paid no compensation for loss of office in 2019-20 (2018-19: £nil).

³⁵ <https://www.civilservicepensionscheme.org.uk/>

Staff report Part A: Audited

Staff costs

	Permanently employed staff	Others	2019-20 Total	2018-19 Total
	£000	£000	£000	£000
Wages and salaries	68,018	341	68,359	71,156
Social security costs	7,588	-	7,588	6,396
Pension costs	18,561	-	18,561	12,278
	94,167	341	94,508	89,830
Less recoveries in respect of outward secondments	(108)	-	(108)	(69)
Transfer to programme	-	-	-	(23,755)
	94,059	341	94,400	66,006

In 2018-19 programme related staff costs were reported in the programme note rather than the staff note. In 2019-20, in order to align with the Departmental reporting, it was agreed that staff costs should no longer be reported in the programme note.

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

Average number of persons employed

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

	Permanently employed staff	Others	2019-20 Total	2018-19 Total
	Number	Number	Number	Number
Directly employed	1,654	332	1,986	1,852
Other	-	-	-	-
	1,654	332	1,986	1,852

Pension schemes

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

Principal Civil Service Pension Scheme

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

The scheme actuary valued the scheme as at 31 March 2016. Details can be found in the resource accounts of the Cabinet Office.

For 2019-20, employers' contributions of £18.4 million (2018-19 £12.1 million) were payable to the PCSPS and CSOPS at one of 4 rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The schemes' actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2019-20 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

No individuals (2018-19: none) retired early on ill health grounds, the total additional accrued pension liabilities in the year amounted to £nil (2018-19: £nil).

Partnership pension accounts

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £151,000 (2018-19 £141,000) were paid to one or more of the panel of 3 appointed stakeholder pension providers.

Employer contributions are age-related and range from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £5,000 (2018-19 £9,000) 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 £15,000 (2018-19: £10,000). Contributions prepaid at that date were £nil (2018-19: £nil).

No persons (2018-19: no persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2018-19: £nil).

Staff by grade and gender

The headcount for permanent staff as at 31 March 2020 is as follows:

Grade	2019-20			2018-19		
	Male	Female	Total	Male	Female	Total
CEO	-	1	1	-	1	1
Director	4	3	7	4	2	6
Deputy Director	16	21	37	14	23	37
Grade 6	75	77	152	69	69	138
Grade 7	182	223	405	157	185	342
Senior Executive Officer	217	270	487	188	232	420
Higher Executive Officer	194	265	459	159	246	405
Executive Officer	88	141	229	69	113	182
Executive Assistant	11	24	35	15	21	36
	787	1,025	1,812	675	892	1,567

Reporting of Civil Service and other compensation schemes

In 2019-20 there were nil (2018-19 nil) early exit costs.

Part B: Unaudited

Analysis of staff policies and statistics

Our people

Our primary engagement with employees centres around the agency’s ambitious People Plan, which we outlined in the performance report and committee structure.

Recruitment practice

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

Sickness absence

	2019-20	2018-19
Total days lost	6,244	5,427
Sickness absence days per FTE	3.7	3.8

The figures disclosed above compare well with the latest published figures across the Civil Service for 2018-19 of 5.9 working days lost per FTE.³⁶

Commitment to improving diversity

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

The strategy is underpinned by 4 key principles:

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

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

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

³⁶ <https://www.gov.uk/government/publications/civil-service-sickness-absence>

Addressing under-representation

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

Staff policies for disabled persons

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

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

People management

Our staff are predominantly civil servants. We will use contractors where necessary to bring in specialist skills or to support specific projects. Our civil servants are employed by the department on its terms and conditions. Responsibility has been delegated to me, as Chief Executive, for the recruitment of staff within the parameters provided by the department's policies and procedures.

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

Consultancy and temporary staff

It is the responsibility of the hiring managers to ensure that all contractors comply with their tax obligations. The framework contracts for contingent workers placed by the ESFA, or drawn upon as part of the department, include provision for workers supplied by these companies to meet their obligations.

Review of tax arrangements of public sector appointees

As part of the *Review of Tax Arrangements of Public Sector Employees* published by the Chief Secretary to the Treasury on 23 March 2012, departments were directed to publish information pertaining to the number of off-payroll engagements, at a cost of over £58,200, that were in place on, or after, 31 January 2012 and any off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 April 2019 and 31 March 2020. The tables below set out this information.

For all off-payroll engagements as of 31 March 2020, for more than £245 per day and that last for longer than 6 months

	2019-20	2018-19
Number of existing engagements as at 31 March:	2	27
Of which		
less than one year at time of reporting	1	2
between one and two years at time of reporting	1	10
between two and three years at time of reporting	-	1
between three and four years at time of reporting	-	7
four or more years at time of reporting	-	7

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 2019 and 31 March 2020, for more than £245 per day and that last for longer than 6 months

	2019-20	2018-19
No. of new engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020	3	-
Of which:		
No. assessed as caught by IR35	1	-
No. assessed as not caught by IR35	2	-
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	-	-
No. of engagements reassessed for consistency / assurance purposes during the year	-	-
No. of engagements that saw a change to IR35 status following the consistency review	-	-

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2019 and 31 March 2020

	2019-20	2018-19
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-	-
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements	19	20

Trade union facility time

The *Trade Union (Facility Time Publication Requirements) Regulations 2017* requires relevant public sector organisations to report on trade union facility time in their organisations. The Departmental Annual Report and Accounts reports on this information for both the department and executive agencies. This is collated at department level as union representatives work across the Departmental group.

Staff redeployments

Staff were redeployed across government in year in response to Brexit and COVID-19 to provide support where deemed necessary. The following table shows the number of staff redeployed in the year.

Grade	2020 Total Number
Grade 7	2
Senior Executive Officer	5
Higher Executive Officer	1
	8

The average duration of staff redeployments as at 31 March 2020 was 210 days (2019: 29 days).

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

Grade	2020 Total £000
Admin	455

Parliamentary accountability and audit report

Overview

This report includes details of the agency's losses and special payments.

Parliamentary accountability disclosures

Public sector losses and special payments: audited

A1 Losses statement

	2019-20	2018-19
	£000	£000
Value		
Cash losses	-	162
Fruitless payments	4	198
Claims waived or abandoned	24,859	62,162
	24,863	62,522
Number of cases		
Cash losses	-	2
Fruitless payments	84	116
Claims waived or abandoned	20	27
	104	145

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

A1.1 Claims waived or abandoned over £300,000

	Value of claims
	£000
FE sector loans	
Trafford College	1,750
Overpaid grant recoveries	
South Thames College	15,160
Manchester Creative Studio	823
Wigan UTC	609
Baverstock Academy	539
Nottingham County Council	368
Academy transfer debt forgiveness	
Royston School Academy Trust	1,253
Avonbourne International Business and Enterprise Trust	816
Steiner Academies Bristol, Exeter and Frome	686
Bradfield School	568
Woodlands Academy	508
Derby UTC	417
Eaton Bank Academy	360
Countesthorpe Leysland Community College	300

Details of cases over £300,000**FE sector loans**

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

Overpaid grant recoveries

In certain circumstances over-payments of grants can occur when grant payment profiles for educational bodies are based on expected learner numbers which are not supported by actual numbers or where capital grants are eligible for recovery. One example relates to our waiver of the capital grant recovery from South Thames College to facilitate the acquisition of the site for a new school.

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

Academy transfer debt forgiveness

Balances owed by academies may in some circumstances be waived to facilitate the transfer of the academy to a more sustainable academy trust or support Trust or academy closure.

A2 Special payments

	2019-20	2018-19
Total number of cases	11	7
	£000	£000
Total value of cases	1,421	506

Special payments over £300,000

Payment of a £1,172,000 contribution towards emergency relocation of Pinner Wood School after a large hole emerged on the site from a historical chalk mine.

A3 Gifts and hospitality statement

	2019-20	2018-19
Total number of cases	-	24
	£000	£000
Gifts, Prizes or Hospitality Given	-	1

Gifts and hospitality over £300,000

There were no gifts or hospitality over £300,000.

A4 Remote contingent liabilities

This part of the report is subject to audit.

In addition to contingent liabilities reported within the meaning of IAS 37, ESFA also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability. There were no remote contingent liabilities in 2019-20.

Eileen Milner
Chief Executive and Accounting Officer
10 July 2020

The certificate and report of the comptroller and auditor general to the house of commons

Opinion on financial statements

I certify that I have audited the financial statements of the Education and Skills Funding Agency for the year ended 31 March 2020 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Education and Skills Funding Agency's affairs as at 31 March 2020 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Education and Skills Funding Agency's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Education and Skills Funding Agency have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Education and Skills Funding Agency's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Education and Skills Funding Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Education and Skills Funding Agency's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Education and Skills Funding Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Education and Skills Funding Agency to cease to continue as a going concern.

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General
13 July 2020

National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP



Financial statements

Financial statements

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2020

	Note	2019-20	2018-19
		£000	£000
Operating income	3	(136,990)	(198,263)
Total operating income		(136,990)	(198,263)
Staff costs		94,400	66,006
Grants and other funding			
Resource	4.1	58,474,077	56,720,548
Capital	4.2	35,761	119,013
Operating expenditure	5.1	53,253	67,967
Depreciation, impairments & other non-cash charges	5.2	46,796	22,004
Total operating expenditure		58,704,287	56,995,538
Net operating expenditure		58,567,297	56,797,275
Finance income		(4,700)	(1,094)
Finance expense		8	8
Other (gains)/losses	6	5,578	46,145
Net expenditure for the year		58,568,183	56,842,334
Other comprehensive net expenditure Items that will not be reclassified to net operating expenditure			
Net (gain)/loss on:			
transfer of function - DfE	2	-	160,542
Total other comprehensive expenditure		-	160,542
Comprehensive net expenditure for the year		58,568,183	57,002,876

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

The notes on pages 84 to 102 form part of these accounts.

Statement of Financial Position

as at 31 March 2020

	Note	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment		292	409
Intangible assets		48,406	37,772
Loans	9	148,008	125,257
Receivables	10	11,885	16
		208,591	163,454
Current assets			
Loans	9	19,344	36,799
Receivables	10	354,648	374,238
Cash and cash equivalents	11	67,103	823,067
		441,095	1,234,104
Total assets		649,686	1,397,558
Current liabilities			
Payables	12	(744,037)	(757,217)
Provisions		(1,791)	(13,387)
Financial guarantees	13	(3,577)	(2,874)
		(749,405)	(773,478)
Total assets less current liabilities		(99,719)	624,080
Non-current liabilities			
Provisions		-	(372)
Financial guarantees	13	(21,802)	(21,399)
		(21,802)	(21,771)
Assets less liabilities		(121,521)	602,309
Taxpayers' equity			
General Fund		(121,521)	602,309
Assets less liabilities		(121,521)	602,309

Eileen Milner
Chief Executive and Accounting Officer
10 July 2020

The notes on pages 84 to 102 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2020

		2019-20	2018-19
	Note	£000	£000
Cash flows from operating activities			
Net expenditure for the year		(58,568,183)	(56,842,334)
Adjustments for non-cash transactions		297,862	213,787
Decrease between receivables	10	7,721	18,440
Increase/(Decrease) between payables	12	(13,180)	31,131
Use of provisions		(10,896)	(1,388)
Financial guarantee movement	13	(8,924)	(3,258)
Finance income		(4,700)	(199)
Other losses	6	5,578	46,145
Net cash outflow from operating activities		(58,294,722)	(56,537,676)
Cash flows from investing activities			
Purchase of intangible assets		(21,900)	(17,829)
Loans:			
academy trusts	9.1	(6,778)	(59,947)
colleges	9.2	(25,505)	(47,114)
Net cash outflow from investing activities		(54,183)	(124,890)
Cash flows from financing activities			
Net parliamentary funding - drawn down		57,592,941	56,899,501
Receivables and payables movements through the transfer of function		-	(614,006)
Net capital asset transferred to DfE		-	774,548
Net cash inflow from financing activities		57,592,941	57,060,043
Net (decrease)/increase in cash and cash equivalents	11	(755,964)	397,477
Cash and cash equivalents at beginning of the year	11	823,067	425,590
Cash and cash equivalents at end of the year	11	67,103	823,067

The notes on pages 84 to 102 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2020

	Note	General Fund £000
Balance at 1 April 2018		352,878
Transfer of function – DfE Capital 1 April 2018		(160,542)
Net Parliamentary funding - drawn down		56,899,501
Net expenditure for the year		(56,842,334)
Cost borne by the department:		
Salaries		89,028
Other costs		458,979
Non-cash balances		(228,741)
Auditor's remuneration	5.2	330
Notional shared service recharges	5.1	33,210
Balance at 31 March 2019		602,309
Net Parliamentary funding - drawn down		57,592,941
Net expenditure for the year		(58,568,183)
Cost borne by the department:		
Salaries		95,820
Other costs		118,392
Non-cash balances		6,099
Auditor's remuneration	5.2	345
Notional shared service recharges	5.1	30,756
Balance at 31 March 2020		(121,521)

This reduction in the ESFA's taxpayers' equity to a deficit position is due to improvements in ESFA's cash management. Expenditure exceeded supply as ESFA is supply funded and should only draw down cash as it is needed, in 2018-19 ESFA held cash reserves of £823 million which were utilised during the year.

The notes on pages 84 to 102 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These accounts have been prepared in accordance with the 2019-20 government FReM issued by HM Treasury. This is 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 2020.

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 agency for the purpose of giving a true and fair view has been selected.

The particular policies adopted by the agency for 2019-20 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

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 and intangible assets.

1.2 Going concern

As the Departmental Estimate and forward plans include provision for the agency's continuation. It is therefore appropriate to prepare the agency's accounts as a going concern.

Whilst the ESFA is in a negative equity position at the year end, this is due to supply funding being provided as cash is required, the ESFA carries a number of accruals in respect of transactions outstanding at the year-end which will be met in the following year to enable the ESFA to continue its operations.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to consider whether significant judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure need to be made and therefore disclosed. After management consideration there are no such judgements in these accounts.

1.4 Adoption of FReM amendments

Following the deferral of IFRS 16 adoption until 1 April 2021, there have been no significant amendments to FReM for 2019-20.

1.5 Early adoption

The ESFA has not early adopted any accounting standards in 2019-20.

1.6 IFRSs in issue but not yet effective

In order to comply with the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, the ESFA must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The ESFA has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment.

Standard	Effective	FReM Application	Change & Impact
IFRS 16 Leases	Annual periods beginning on or after 1 January 2021	2021-22	<p>Change: The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new standard requires recognition of all leases which last over 12 months (on-balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching financing liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.</p> <p>Impact on ESFA: The main effect of the adoption of IFRS 16 will be for lessees; which will result in a number of former operating leases being brought on-balance sheet, however the ESFA does not anticipate that this change will have a material impact because of the low value of leases held.</p>
IFRS 17 Insurance Contracts	Annual periods beginning on or after 1 January 2023	Unknown, the standard has not yet been endorsed by the EU	<p>Change: The standard makes changes to how insurance contracts are accounted for and may in certain circumstances widen the scope to include arrangements that may not have previously been viewed as insurance contracts. Changes may be more extensive for bodies that have not previously adopted the existing standard IFRS 4 Insurance Contracts.</p> <p>However, prior to endorsement by the EU and adoption by FReM the final version for the standard applicable to the ESFA has still to be decided. Consequently, the ESFA is currently unable to identify the impact of adopting the new standard.</p>

1.7 Segmental reporting

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

See the Performance Report for operational disclosures.

1.8 Net parliamentary funding drawn down from the sponsoring department

The Agency has recorded all draw down of supply by the Department as financing, as the Agency regards draw down of supply as contributions from the Agency's controlling party giving rise to a financial interest. The Agency records draw down of supply as financing in the Statement of Cash Flows and draw down of supply to the General Reserve.

1.9 Income

The majority of the income ESFA receives is Grant income. Other income is stated net of recoverable VAT where applicable.

1.9.1 Grant income (IAS 20)

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

European Social Fund income is included within grant income.

European Social Fund

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

1.10 Grant expenditure

1.10.1 Grants payable

The majority of grants made by the ESFA are recorded as expenditure in the period in which the allocation is paid, as the grant funding cannot always be directly related to activity in a specific period and isn't designed to, in line with legislation. The allocations are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient. However, recognition of the entitlement of grant varies according to the individual programme. Where entitlement to the grant has arisen during the period but not paid it is accrued.

1.10.2 Grant recoveries

Grants paid to end users that are unspent at the year-end may be retained to fund future activity as per legislation. The ESFA does not recognise a prepayment if the end user has not spent the grant due to timing or delays. Some grants will result in recognition of a receivable at the year-end if there has been over-funding or un-spent amounts:

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

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

1.11 Pensions

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

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

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

1.12 Property, plant and equipment

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

1.13 Depreciation

Depreciation is provided at rates calculated to write off the valuation of plant and equipment by equal instalments over their estimated useful lives.

Asset lives are in the following ranges:

- Furniture and fittings 5 years
- Plant and machinery 5 years
- IT hardware 5 years

1.14 Intangible assets

Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. For ESFA, the main intangible assets are development of online services including the Digital Apprenticeship Service, National Careers Service and Data Science. Assets are amortised over their estimated useful economic lives. Development expenditure is not amortised but assessed for impairment annually.

Asset lives are in the following ranges:

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

1.15 Financial instruments

The ESFA applies *IFRS 7 Financial Instruments: Disclosures* (IFRS 7), *IAS 32 Financial Instruments: Presentation* and IFRS 9. Financial assets and financial liabilities are recognised when the ESFA becomes party to the contractual provisions of the instrument.

1.15.1 Financial assets

Financial assets include cash and cash equivalents, trade and other receivables and loans. The ESFA determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable costs. The ESFA does not hold derivative financial instruments.

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

Amortised cost

Financial assets held at amortised cost include:

- Trade and other receivables where contractual terms give rise to cash flows on specified dates and are solely for payments of principal. They do not carry any interest and are initially recognised at their face value.
- Loans comprise loans that are not traded on any active market and expected to be held until maturity.
- Cash and cash equivalents which comprise cash in-hand and on-demand deposits.

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

1.15.2 Financial liabilities

Financial liabilities are mostly measured at amortised cost. Financial liabilities include trade and other payables and financial guarantees. The ESFA determines the classification of its financial liabilities at initial recognition.

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

Trade and other payables

Trade and other payables including accruals are generally not interest bearing and are stated at their face value on initial recognition. Subsequently, they are measured at amortised cost using the effective interest method. Cost is judged to be similar to amortised cost, so the balances are held at cost as an approximation to amortised cost.

Financial guarantees

Financial guarantees are initially recognised at fair value on the date that the guarantee was given in accordance with IFRS 9. Subsequently measurement is at the higher of:

- the amount of the equivalent IFRS 9 expected credit loss allowance at the reporting date
- the amount initially recognised less cumulative effect of income recognised

1.16 Provisions

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

- a legal or constructive obligation exists that will result in the transfer of economic benefit;
- the transfer is probable; and
- a reliable estimate can be made.
- The provision's value is discounted where the provision is classified as medium to long term. 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.

1.17 Value added tax

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

1.18 Shared services

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

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

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

2. Transfer of function

2.1 2020

There were no transfers of function in 2019-20 financial year.

2.2 2019

As part of 2018-19 organisational changes there was a transfer of function between the ESFA and the Department.

	ESFA previously reported	Removal of Capital Group	ESFA Revised
	£000	£000	£000
Non-current assets			
Property, plant and equipment	778,952	(778,415)	537
Intangible assets	31,395	-	31,395
Loans	98,802	-	98,802
Receivables	14,825	-	14,825
Total non-current assets	923,974	(778,415)	145,559
Current assets			
Assets held for sale	15,337	(15,337)	-
Loans	31,172	-	31,172
Receivables	426,210	(48,341)	377,869
Cash and cash equivalents	425,590	-	425,590
Total current assets	898,309	(63,678)	834,631
Total assets	1,822,283	(842,093)	980,190
Current liabilities			
Payables	(807,497)	81,411	(726,086)
Provisions	(4,931)	2,184	(2,747)
Total current liabilities	(812,428)	83,595	(728,833)
Total assets less current liabilities	1,009,855	(758,498)	251,357
Non-current liabilities			
Payables	(580,936)	580,936	-
Provisions	(17,854)	17,020	(834)
Financial guarantee	(23,394)	-	(23,394)
Total non-current liabilities	(622,184)	597,956	(24,228)
Assets less liabilities Taxpayers' equity	387,671	(160,542)	227,129
General fund	387,671	(160,542)	227,129

3. Operating income

3.1 Analysis

	2019-20	2018-19
	£000	£000
Grant income		
EU income	135,050	197,578
Joint programme income	222	140
Other income		
Other income	1,718	545
	136,990	198,263

IAS 20 grant income

The European Commission provides funding for certain projects, EU income. This income is matched to the expenditure profile for each project concerned. Income not matched to expenditure at the end of the financial year is transferred to deferred income. Where expenditure exceeds income an accrual is made to recognise the relevant income. Funding has been agreed until 2023 and projects will be considered in line with funding requirements and policy.

4. Grants and other funding

4.1 Resource

	2019-20	2018-19
	£000	£000
Schools		
National Funding Formula	34,984,235	34,140,113
High Needs Funding	5,754,964	5,632,858
Pupil Premium	2,467,489	2,416,137
Primary Sport Premium	312,147	323,930
School Improvements	124,283	104,281
Teachers Pay Grant	427,431	187,865
Teachers' Pension Employer Contribution Grant	930,771	-
Universal Free School Meals	703,978	710,321
Early Years		
Entitlements	3,550,546	3,587,585
Early Years – Pupil Premium	29,373	29,317
Post-16 and Skills		
Core Funding	5,194,349	5,326,716
Apprenticeships & Support Funding	1,919,161	1,729,259
Adult Education Budget & Support Funding	1,027,787	1,445,593
Bursary Funding	209,060	215,314
High Needs (16-19)	656,000	655,991
Other Post-16 and Skills Grants	34,622	13,929
Professional & Technical Education	12,831	3,760
Operations		
European Social Fund	135,050	197,579
	58,474,077	56,720,548

The National Funding Formula is used to allocate funding to mainstream, state-funded schools. Funding is based on pupil numbers and aims to remove discrepancies in funding and ensure that all school budgets are set using the same criteria. Dedicated schools grant payments are made directly to Local authorities to distribute to maintained schools and General annual grant payments are made directly to academies.

High Needs Funding supports provision for children and young people with special educational needs and disabilities from their early years to age 25

Pupil Premium is extra funding for state funded schools and early years providers to help them improve the attainment of their disadvantaged pupils

Early years entitlements: Local authorities are provided with 6 relevant funding streams which form dedicated schools grant. They are:

- 15 hours entitlement for disadvantaged 2 year-olds
- universal 15 hours entitlement for all 3 and 4 year-olds
- additional 15 hours entitlement for eligible working parents of 3 and 4 year-olds
- early years pupil premium
- disability access fund, and
- maintained nursery school (MNS) supplementary funding

Core Funding includes funding for 16-19 year olds to sixth-form colleges, further education colleges, sixth-forms in schools, sixth-forms in academies, special schools, special academies, independent learning providers, local authorities, special post-16 institutions and some higher education institutions. We fund these institutions to provide study programmes for young people.

Apprenticeships & Support Funding funds the delivery of the apprenticeships programme for young people and adults.

Adult Education Budget & Support Funding aims to engage and provide the skills and learning they need to progress into work or equip them for an apprenticeship or other learning. Funding has reduced this year because a proportion of the budget has been devolved to combined authorities and is therefore no longer paid by ESFA.

Teachers Pay and Teachers' Pension Employer Contribution are fully funding the increased costs to schools due to the rise in the employer contribution rate of the Teachers' Pension Scheme (TPS) from 16.4% to 23.6%, starting from September 2019, through the teachers' pension employer contribution grant (TPECG) and supplementary fund. The teachers' pay grant provides funding for schools to cover the difference between the 2019 pay award and the 2% award that we assessed schools could, on average, afford at a national level. It also supports schools with the ongoing cost of the 2018 pay award.

European social fund expenditure is matched to income for each project concerned.

4.2 Capital

	2019-20	2018-19
	£000	£000
FE sector grants	35,761	119,013

Capital restructuring facility grants were wound down in 2019-20.

5. Other expenditure

5.1 Operating expenditure

	2019-20	2018-19
	£000	£000
Staff related costs	1,060	765
Consultancy and other professional fees	5,937	7,161
Premises costs including rates and service charges	1,319	6,189
IT and telecommunications costs	21,122	41,539
Travel and subsistence	3,450	2,800
EU Disallowance	11,125	-
Other expenditure	9,240	9,513
	53,253	67,967

Further analysis of staff costs can be found in the Accountability Report.

The costs above include notional recharges of £30.8 million (2018-19: £33.2 million) for the shared services provided by the department. In 2018-19 the costs of the estate were met by the ESFA, in 2019-20 budget responsibility was transferred to the Department and ESFA are charged as part of the shared service cost. In 2019-20 group estates costs were reduced due to a windfall and we anticipate them to return to previous levels in future years.

As a result of a review of claims made against ESF recoveries of £11.125 million were made in 2019-20.

In 2019-20 IT and telecommunications costs in respect of the Digital Apprenticeships Service were recharged to Apprenticeships & Support Funding, and shown in the programme note.

The majority of 'other' expenditure costs are HR and accounting services recharges.

5.2 Depreciation, impairment and other non-cash charges

	2019-20	2018-19
	£000	£000
Depreciation	117	128
Amortisation	11,267	11,452
Impairment:		
loans	26,109	(5,758)
Auditor's remuneration	345	330
Provisions and guarantees:		
provided in year	10,103	18,437
change of discount rate	248	(2)
unwinding of discounts	564	(14)
not required and written back	(1,957)	(2,569)
	46,796	22,004

6. Other (gains)/losses

	2019-20	2018-19
	£000	£000
On de-recognition		
write-off of FE sector loans	-	46,145
write-off of academy sector loans	5,578	-
	5,578	46,145

7. Financial instruments

7.1 Financial assets by category

	Note	2020	2019
		£000	£000
Amortised cost			
Loans	9	167,352	162,056
Receivables	10	172,074	157,219
Cash	11	67,103	823,067
		406,529	1,142,342

This reduction in cash is due to improvements in ESFA's cash management. The ESFA is supply funded by the Department and cash should only be drawn down when needed, the surplus cash held at 31 March 2019 has been utilised in 2019-20.

7.2 Financial liabilities by category

	Note	2020	2019
		£000	£000
Amortised cost			
Payables ¹	12	733,316	717,704
Financial guarantees	13	25,379	24,273
		758,695	741,977

1 Deferred income is excluded from the payables figure

8. Financial risk

8.1 Financial risk management

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

Credit risk

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

Liquidity risk

Parliament votes annually on the financing of ESFA resource requirements via the department's estimate process. The ESFA does not consider itself exposed to any significant liquidity risks. The ESFA may operate with either a deficit or surplus position.

Interest rate risk

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

9. Loans

9.1 Loans to Academies

	2020	2019
	£000	£000
Opening balance at 1 April	65,458	5,511
Loan advances	17,470	48,177
Repayments received in year	(10,692)	(6,272)
Reclassification of debtor to loan	-	18,042
Written off	(5,578)	-
Impairment	(24,259)	-
Balance as at 31 March	42,399	65,458
Gross value	66,658	65,458
Closing impairment allowance	(24,259)	-
	42,399	65,458
Presented as:		
Current assets	10,776	10,852
Non-current assets	31,623	54,606
	42,399	65,458

Loans to academy trusts

Loans are provided to academy trusts on conversion to settle any local authority deficit and repaid by the agency deducting repayments at source from future payments of general annual grant (GAG) over an agreed period of time. Loans may be impaired where the academy is in financial difficulty. This practice is a cash management approach and does not change the agency's liability to academy trusts for their GAG.

9.2 Loans to Colleges

	2020	2019
	£000	£000
Opening balance at 1 April	96,598	124,463
Cumulative restatement from adoption of IFRS 9	-	(34,793)
Restated opening values	96,598	89,670
Loan advances	35,295	60,441
Effective interest income	4,700	2,273
Repayments received in year	(9,790)	(13,327)
Written off	-	(46,145)
Impairment allowance movement	(1,850)	3,686
Balance as at 31 March	124,953	96,598
Gross value	157,910	127,705
Closing impairment allowance	(32,957)	(31,107)
	124,953	96,598
Presented as:		
Current assets	8,568	25,947
Non-current assets	116,385	70,651
	124,953	96,598

Loans to colleges

Loans are provided to further education and sixth form colleges in England impacted by a substantive area review recommendation and need to make major changes, or to further education colleges who are encountering financial difficulties.

10. Receivables

10.1 Analysis

	2020	2019
	£000	£000
Amounts falling due within one year:		
Trade receivables	159,508	155,670
VAT receivables	4,223	-
Other receivables	681	1,533
Prepayments and accrued income	190,236	217,035
	354,648	374,238
Amounts falling due after one year:		
Trade receivables	11,885	16
	11,885	16

Trade receivables are stated net of an impairment allowance of £14.9 million (2019: £12 million).

11. Cash and cash equivalents

	2020	2019
	£000	£000
Balance at 1 April	823,067	425,590
Transfer of function (Note 2)	-	-
Net change in cash and cash equivalent balances	(755,964)	397,477
Balance at 31 March	67,103	823,067
The following balances are held at:		
Cash at bank and in hand:		
Government Banking Service	64,781	818,603
Cash held with solicitors	2,322	4,464
Balance at 31 March	67,103	823,067

This reduction in cash is due to improvements in ESFA's cash management. The ESFA is supply funded by the Department and cash should only be drawn down when needed, the surplus cash held at 31 March 2019 has been utilised in 2019-20.

Cash held by solicitors is held for loan issues in progress at the year end.

12. Current payables

	2020	2019
	£000	£000
Trade payables	70,114	63,627
VAT payables	-	30,945
Other payables	10,852	19,365
Accruals and deferred income	663,071	643,280
	744,037	757,217

The most significant accruals include pupil premium £298 million (2019: £282 million) and apprenticeships £215 million (2019: £191 million).

13. Financial guarantees

The ESFA provides financial guarantee in respect of Professional and Career Development Loans. The ESFA has a liability for the cost of default on such loans and for the interest costs of the loans whilst the learners are in learning.

	2020	2019
	£000	£000
Balance at 1 April	24,273	23,394
Provided in year	9,224	5,519
Utilisation	(8,924)	(3,258)
Movement in year	806	(1,382)
Balance at 31 March	25,379	24,273
Presented as		
Current financial liabilities	3,577	2,874
Non-current financial liabilities	21,802	21,399
	25,379	24,273

14. Other commitments

The Secretary of State is committed to funding the on-going provision of education at a wide variety of providers.

14.1 Maintained schools and other local authority grants

The ESFA cannot quantify the commitments as the ESFA typically agrees funding for one year even though the Secretary of State's commitment is for a much longer period. The main funding element is the Dedicated Schools Grant.³⁷

14.2 Academies education grants

ESFA has commitments for grants to academies for the remainder of the academic year to 31 August. The Secretary of State is committed to funding the on-going provision of education. The main funding stream to Academies is the General Annual Grant.³⁸

³⁷ <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2020-to-2021>

³⁸ <https://www.gov.uk/guidance/academies-general-annual-grant-allocation-guides-2019-to-2020>

14.3 Post 16 funding

	2020	2019
	£000	Restated £000
Not later than one year	2,183,791	2,426,192

2019-20 has been restated to include commitments in respect of grants to post 16 providers for 16-19 programmes.

The ESFA has commitments to post 16 providers for the remainder of the academic year to July 2020. This is lower in 2020-21 because a proportion of the adult education budget has been devolved to combined authorities and is therefore no longer paid by ESFA and is now paid by the Department to those authorities.

14.4 Apprenticeship Levy funding

	2020	2019
	£000	£000
Not later than one year	1,103,717	837,265
Later than one year and not later than five years	776,256	640,636
Later than five years	3,190	3,739
	1,883,163	1,481,640

Income from the Apprenticeship Levy is accounted for by HMRC, and as such, no Apprenticeship Levy income is shown in the ESFA's ARA. Funds paid by the ESFA to apprenticeship training providers are funded through the supply estimates process and are accounted for in line with our grant recognition policy.

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

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

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

The ESFA's senior civil servants are each required to complete an assurance framework record where they declare potential related party relationships, from which the ESFA is able to identify related party transactions. As well as the disclosures in the Remuneration and Staff Report, the following relationships are also considered as related parties and have therefore been disclosed in line with IAS 24 *Related Party Disclosures*. Transactions are classified as related party transactions if they occurred during the period the board member named held office. Steps have been taken to avoid conflicts of interest arising.

Disclosures are split between those individuals who were board members as at the year-end below, and those whose term as a board member ended during the year.

Further information can be found in the governance statement.

The following are related party disclosures for those board members in post at year-end.

- **Irene Lucas is:**
Chair, and family members are directors and joint owners of Hays Travel Limited
- **Hunada Nouss is:**
member of the Governance Committee of ICAEW
- **Stuart McMinnies is:**
non-executive director of Voyage Care Limited
- **Martin Spencer is:**
non-executive director and Chair OFSTED Audit and Risk Assurance Committee

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

	2019-20		2018-19	
	Net payments / (receipts)	Receivable / (payable)	Net payments / (receipts)	Receivable / (payable)
	£000	£000	£000	£000
Hays Travel Ltd	694	-	948	-
Voyage Care Ltd	684	-	-	-
OFSTED	4,847	-	-	-
ICAEW	41	-	-	-
Edmonton Academy Trust	-	-	11,399	-
Northern Education Trust	-	-	63,408	-

16. Events after the reporting period

16.1 COVID-19 response

We are working to support the government's response to COVID-19. All schools, colleges and early years providers were closed to all children except those of critical workers from 20 March until further notice.

An additional support scheme for costs relating to COVID-19 has been announced and will be open to applicants in June³⁹. Claims are capped at between £25,000 and £75,000 depending on the type and size of the school.

In April DfE announced that the free school meals programme would be extended to cover Easter and schools would be supported to deliver meals where necessary, ESFA will be responsible for administering these claims.

We have also supported the DfE to launch specific responses to the pandemic including a free school meal voucher scheme and the provision of IT equipment to disadvantaged children under the age of 16.

In June it was announced that the free school meals programme and vouchers were extended to cover the summer holidays.

In April ESFA confirmed that providers of adult education will be funded in line with the current agreement schedule with no clawback, subject to specific conditions. It has not been possible to quantify the cost of this decision due to the unpredictable impact of COVID-19 on providers.

The Post 16 Provider Relief Scheme was launched on 24 April. This applies to apprenticeship contracts that commenced in January 2018, for delivery to smaller employers that do not pay the levy (non-levy), and adult education budget contract for services that commenced in November 2017.⁴⁰ In June the scheme was extended until October.

In June a catch up fund of £1 billion was announced in which schools would be given additional funding to enable them to help students catch up on work missed in readiness for exams.

Further details regarding COVID-19 can be found in the performance report on page 30.

16.2 EU Exit

The UK left the EU on 31 January 2020. Significant uncertainty remains regarding the impact any exit scenario will have, and so we continue to monitor the issue accordingly.

16.3 Authorisation

These accounts were authorised for issue by the Accounting Officer on the date they were certified by the Comptroller and Auditor General. With the exception of the above, there have not been any other significant post year end events that have required disclosure in the accounts.

³⁹ <https://www.gov.uk/government/publications/coronavirus-covid-19-financial-support-for-schools>

⁴⁰ <https://www.gov.uk/government/publications/esfa-post-16-provider-relief-scheme/esfa-post-16-provider-relief-scheme-covid-19-response-policy-document>

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