Education
Funding
Agency

Education Funding Agency

Annual report and accounts for the year ended 31 March 2015

An executive agency of the Department for Education

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Notes on terminology

The EFA and the EFA group

This annual report and accounts cover the:

- Education Funding Agency (EFA) in its own right, reporting according to the expectations on it as an executive agency. As the EFA we are expected to report on aspects of the EFA's performance over and above the wider EFA group's performance
- wider EFA group, which comprises the EFA as an executive agency and the 4,900 academies (through their 2,824 academy trusts) open at 31 March 2015

We have stated which parts of the report apply either to the EFA, the EFA group or both.

Financial versus academic year

The EFA financial year runs from 1 April to 31 March. In this document, we distinguish the financial year using a dash. For example we write financial year 1 April 2014 to 31 March 2015 as 2014-15. Academy trusts normally have financial years that run from 1 September to 31 August that mirror their academic year. For clarity, we refer to the academy trusts' financial year as the 'academic year' and we write these years with an oblique. For example, we write 1 September 2014 to 31 August 2015 as 2014/15.

Academies are publicly funded independent schools that a local authority does not maintain. The term encompasses the following: former city technology colleges; academies (those that are both sponsored and those that converted from local authority control); free schools; university technical colleges; studio schools; faith and special academies. Once converted, academies are run by an academy trust, which is a charitable company limited by guarantee.

Many academy trusts are multi-academy trusts in that they operate more than one member academy, with each academy within the multi-academy trust having a funding agreement with the Secretary of State. There were 4,900 academies open at 31 March 2015, and 3,104 academy trusts operational in the 12 months to 31 March 2015. The year end number of operational academy trusts fell to 2,824 by 31 March 2015 because of the transfer of academies between academy trusts. In this annual report and accounts, we refer to academies as recipients of our funding, and to academy trusts as the legal entities we consolidate into the EFA group annual report and accounts.

The EFA funds a wide range of other education providers – including local authorities and their maintained schools, sixth-form colleges, general further education colleges, higher education institutions and commercial and charitable providers of learning. These education providers are outside of the EFA group and we have not therefore consolidated their results into these annual report and accounts.

Section 1: Performance report

1.1 Overview

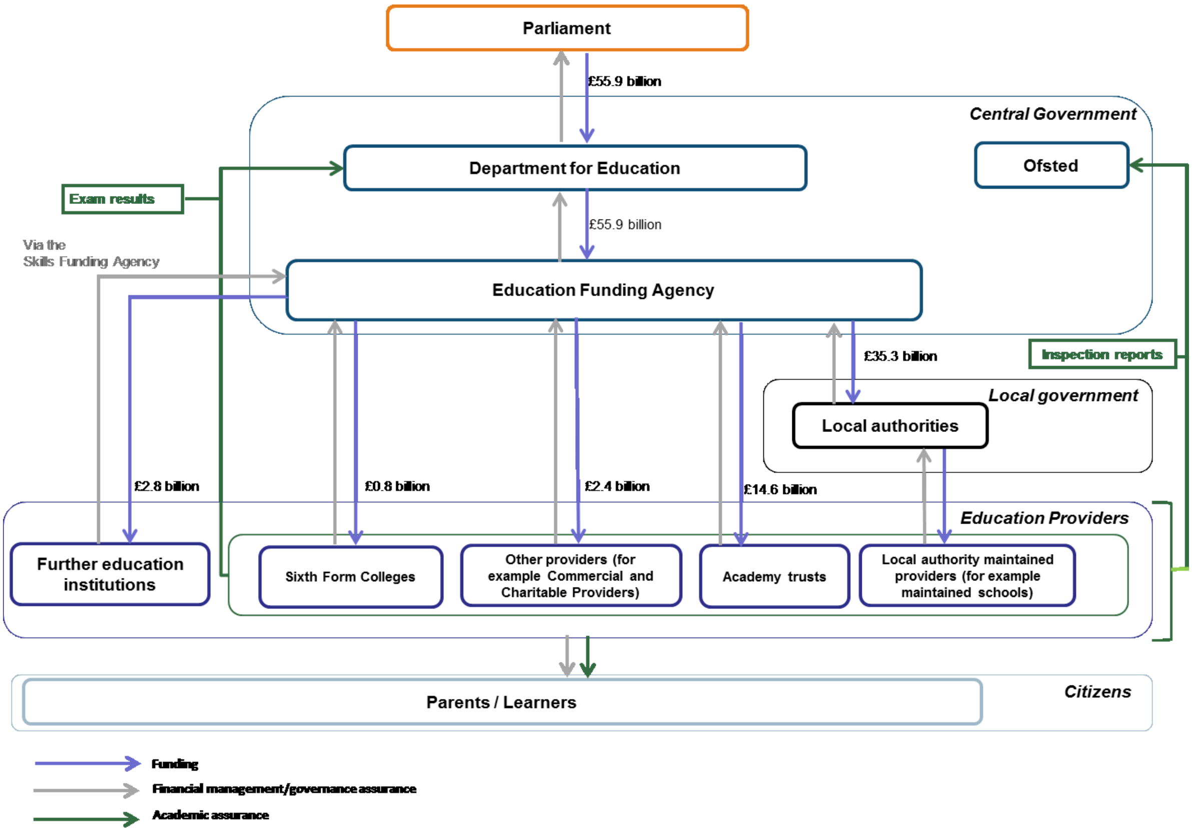
1.1.1 Chief Executive's perspective on performance

The EFA funds, on the Department for Education's (the department's) behalf, almost all of the annual running costs and capital needs of compulsory education in England, as well as a significant value of non-compulsory education. We have further developed the integration, resilience and stability of our funding and payments systems. We maintained sound internal control throughout by operating and developing its processes, through risk management and by the Government Internal Audit Agency's (internal audit's) independent scrutiny.

We have managed successfully a significant increase in our operations. The academies and free school programmes have seen further growth in 2014-15 with the number of academy trusts increasing by 9% to 2,824 at 31 March 2015 (2,585 at 31 March 2014). Revenue funding paid to academies in 2014/15 rose by 10% to £14.6 billion. We have worked with Regional School Commissioners and Head Teacher Boards to move operational decision making from ministers and departmental officials to our best academy head teachers, and continued to manage our oversight of sixth-form colleges.

The size of the EFA's free schools programme increased dramatically in 2014-15 with capital funding for free schools increasing from £326 million in 2013-14 to £1.1billion in 2014-15. The same programme has also driven an increase in assets under construction held by the EFA group to £1.03 billion (2013-14: £714.6 million).

The diagram below sets out how the EFA distributed funding and received assurance in 2014-15.



1.1.2 Statement of purpose and activities

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

- fund the education of pupils in academies
- distribute the dedicated schools grants for the education of pupils up to age 16 in local authority maintained schools
- fund provision of education and training for learners aged 16 to 19 years
- provide funding for the education of children and young people with high needs and who are supported by an education, health and care plan up to age 25
- support the delivery of capital programmes for local authority maintained schools, academy trusts and sixth-form colleges

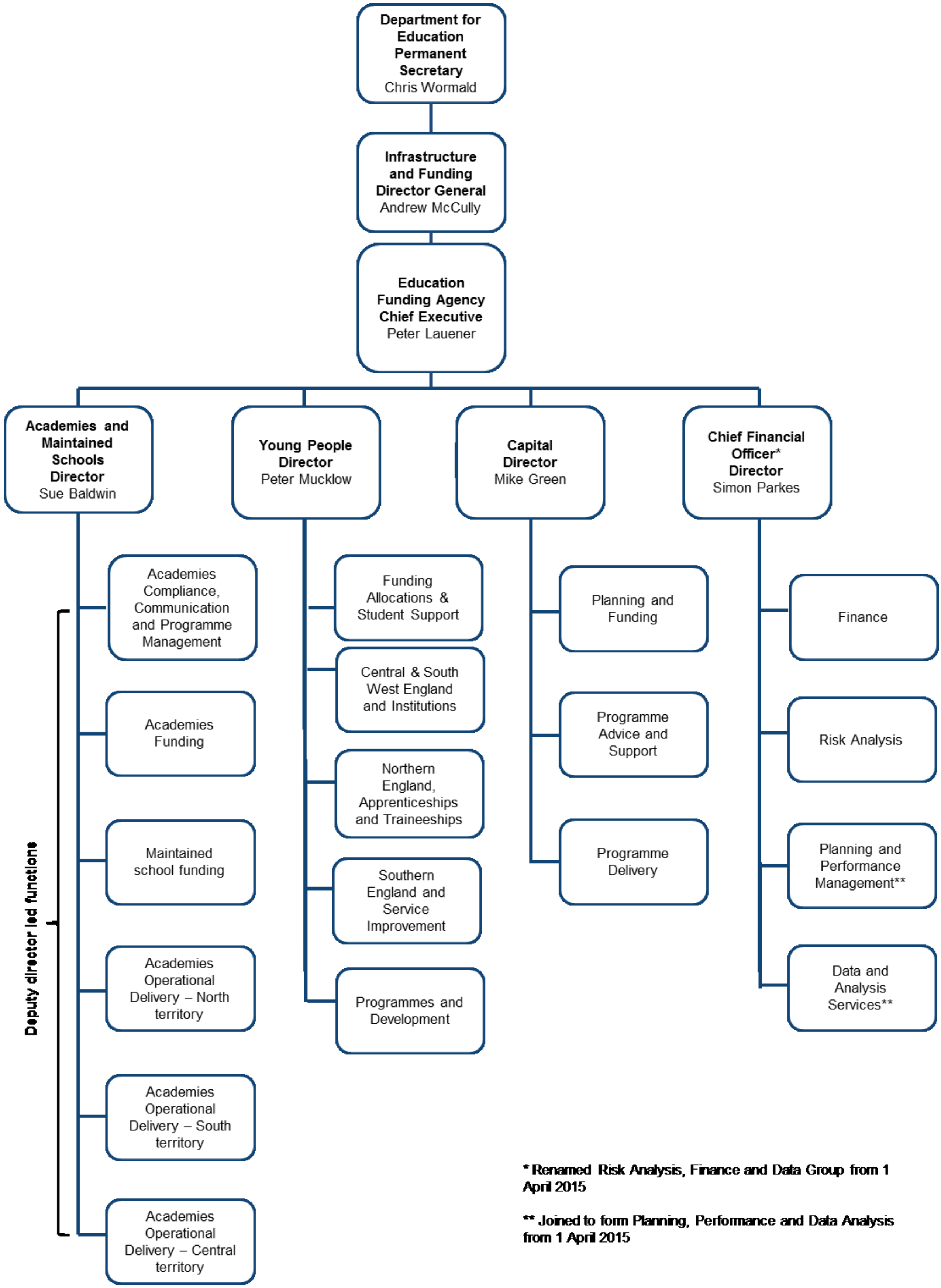
The Chief Executive is responsible for the leadership and day-to-day management of the EFA. His responsibilities also include:

- securing the capacity and capability required to deliver the funding arrangements for the education and training of pupils and learners aged 3 to 19 years efficiently and effectively

- ensuring the EFA has the financial and accounting systems that allow it to make payments accurately, efficiently and on time and secure proportionate assurance about the regularity, propriety and value for money of its programme spend
- developing operational policies and practices that support improved outcomes for children and young people and that deliver ministerial targets for the EFA
- advising the Secretary of State and the department's director general of the Infrastructure and Funding Directorate (the director general) of the impact of policy proposals and decisions on the delivery of policy and of ministers' objectives
- reporting regularly on delivery performance, expenditure, risk management and forward planning

The EFA is organised into 4 director-led groups, with each director reporting to the Chief Executive. The Chief Executive reports on behalf of the EFA to the director general who reports to the Permanent Secretary for the department.

Structure of the EFA 2014-15



* Renamed Risk Analysis, Finance and Data Group from 1 April 2015

** Joined to form Planning, Performance and Data Analysis from 1 April 2015

1.1.3 Key issues and risks facing the entity

The EFA faces a principal risk and uncertainty that could cause our financial outcomes or operational delivery to differ materially from expected results. This risk is detailed below along with a summary of how we managed it in 2014-15.

Risk

Capital programme risk is the failure to meet the agreed capital commitments that may mean that there are insufficient school places available and ministers are criticised for non-delivery.

Key factors

A number of factors may affect the EFA's ability to deliver the capital programme:

- lack of market interest in capital projects as more commercially attractive opportunities become available
- increasing costs of construction as a result of both the availability of more commercially attractive opportunities and inflationary pressures

Mitigation

The EFA has explored ways to maximise interest in its capital projects including:

- regrouping schools to create batches that are more attractive to the market
- widening the contractor base by exploring alternative options for delivery
- assessing the balance of risk when asking contractors to fix their prices

We are exposed to risk of non-payment of debts owed by commercial and charitable providers we fund to provide learning. We mitigate this by assessing the provider's financial position before funding them, and by monitoring what the provider delivers with its funding. Provider insolvency accounted for 100% of the £721,599 bad debts incurred in 2014-15 (2013-14: 97.3% of the £138,235 bad debts).

The main challenges we face in 2015-16 and beyond are:

- to make efficient use of our resources so that we can continue to support an ever increasing number of academies
- continuation of the trend of rising construction and land costs combined with reduced market interest in the capital works required to deliver increasing numbers of school places
- the potential deterioration of the financial health of sixth-form colleges, where the need for intervention is expected to increase
- the implementation of the new financial reporting framework for the academies sector

Our programmes have robust, strongly governed arrangements in place to ensure the timely resolution of these challenges as well as the delivery of routine work.

Further information on our response to these challenges can be seen in the section ‘Development and performance of the EFA.’

1.1.4 Going concern

The department’s estimates and forward plans include provision for the EFA’s continuation and it is therefore appropriate to prepare the EFA’s accounts as a going concern.

The EFA funds its academies under a funding agreement subject to 7 years’ notice of termination. EFA funding is for the provision of learning to children and young people who for the very large majority are under the age for compulsory participation in education. The funding also meets the need for such learning in the locality or localities the EFA group’s academies serve. In the event of an academy trust’s educational, financial or other failure, the EFA expects that the academy trust’s learners, publically funded assets and funding would transfer to a successor academy trust or trusts as continuing activity. The EFA considers it is therefore appropriate to treat academy trusts as going concerns.

Furthermore the EFA group considers it appropriate to prepare the financial statements for both the EFA (as an Agency) and for the group on a going concern basis.

1.1.5 Performance summary

This part of the report is about the EFA.

The scale of our operations includes:

- the supply of funding to the EFA, the majority of which is exchequer supply from the department, totalled £55.9 billion
- net operating expenditure was £55.9 billion. Total expenditure was within the budget for the period set by the department of £56.9 billion
- spending £794.4 million with suppliers with an outstanding balance at 31 March 2015 of £16.8 million; this equates to an average of 7.8 creditor days
- responding to a combined total of 1,446 parliamentary office and freedom of information requests
- issuing 3,828 funding allocations to academies and 1,852 to post-16 providers
- making 112,357 BACS payments at a total value of £56.6 billion

- funding 1,007 new academies in the period; the total number of academies at year end was 4,900. There were 83 new free schools, 12 studio schools and 13 university technical colleges

- our academies' enquiry service responding to 25,824 queries, whilst the young people's enquiry service responded to 8,212 queries

- beginning the funding of 373 projects in 84 local authorities to provide over 70,000 places by September 2015 as part of the targeted basic need programme

We provide further information on our performance within section 1.2.2 'development and performance of the EFA'.

1.2 Strategic report

1.2.1 Key organisational performance measures

Our business plan identifies 9 key performance indicators against which we measure our deliverables of allocations, payments, capital and financial assurance. These indicators are at the centre of a performance framework that we use to monitor our performance. The outcomes against our business plan performance indicators are set out below.

Allocations	Outcome 2014-15	Outcome 2013-14	Notes
Proportion of annual revenue and capital allocations made accurately and on time	Accurately 99.9% On time 99.8%	Accurately 99.6% On time 99.9%	Accuracy: accuracy levels are higher than 2013-14 despite volumes increasing dramatically. Timeliness: we made 100% of the annual allocation of revenue funding to post-16 providers, academies and local authorities on time, as they were in 2012-13 and 2013-14.

Payments	Outcome 2014-15	Outcome 2013-14	Notes
Proportion of payments made accurately and on time (The department is legally required to pay correctly submitted invoices within 30 days of receipt from the day of physical or electronic arrival at the nominated address of the department. In addition, it is practice for the department to pay all correctly submitted invoices within 10 calendar days. Criteria used for on time supplier payments are within 10 days. Performance prior to 2014-15 is based on date of receipt and did not differentiate between valid and invalid invoices.)	Accurately 100% On time 99.4%	Accurately 100% On time 98.6%	**Key performance indicator** 99.4% of 112,537 provider payments were made on time (2013-14: 98.7%). 100% of 2,257 supplier payments were made on time (2013-14: 90.1%). In 2014-15 the volume of supplier payments increased by 46%.
Capital	**Outcome 2014-15**	**Outcome 2013-14**	**Notes**
Percentage of free school, university technical college, and studio school projects completed on time	95% (volume: 84)	100% (volume: 107)	**Key performance indicator** All free schools, university technical colleges, and studio schools opened as scheduled in 2013-14. At the end of March 2015, there were 254 free schools, 30 university technical colleges and 37 studio schools open for which we had secured 243 permanent sites, over 175 temporary sites for new free schools and over 60 permanent and

			temporary sites for university technical colleges and studio schools. There are 151 free schools and 43 university technical colleges/studio schools due to open in 2015-18, for which we have already secured over 150 sites.
Progress on delivery of the Priority School Building Programme (PSBP)	Feasibility approval stage: 235 Schools open: 20 Schools on site: 61	Feasibility approval stage: 127 Schools on site: 24	**Key performance indicator** The majority of the schools within the programme will be delivered by the end of 2017, two years earlier than originally planned. The programme reaches a peak of construction activity in the last quarter of 2015. PSBP2 used data from the Property Data Survey to inform expressions of interest. By focusing on the need within individual school buildings rather than just whole schools, we will maximise value for money. We undertook scoping studies for all PSBP2 projects during the summer and communicated the programme of work in December 2015.
Progress on securing up to date information on the condition of the nation's schools	Of the 18,830 surveys required: • all were completed at the end of September 2014 • the number of surveys fell as some schools merged or went out of	Of the 19,080 surveys required, 10,519 were complete at the end of March 2014	**Key performance indicator** In this context a complete survey is one that has been conducted on-site and the data collected has been quality assured and audited. All surveys forming part of the original commission were completed by 2 September 2014. The survey was originally due to be completed in autumn 2013. However, our quality assurance process identified that the data provided by local

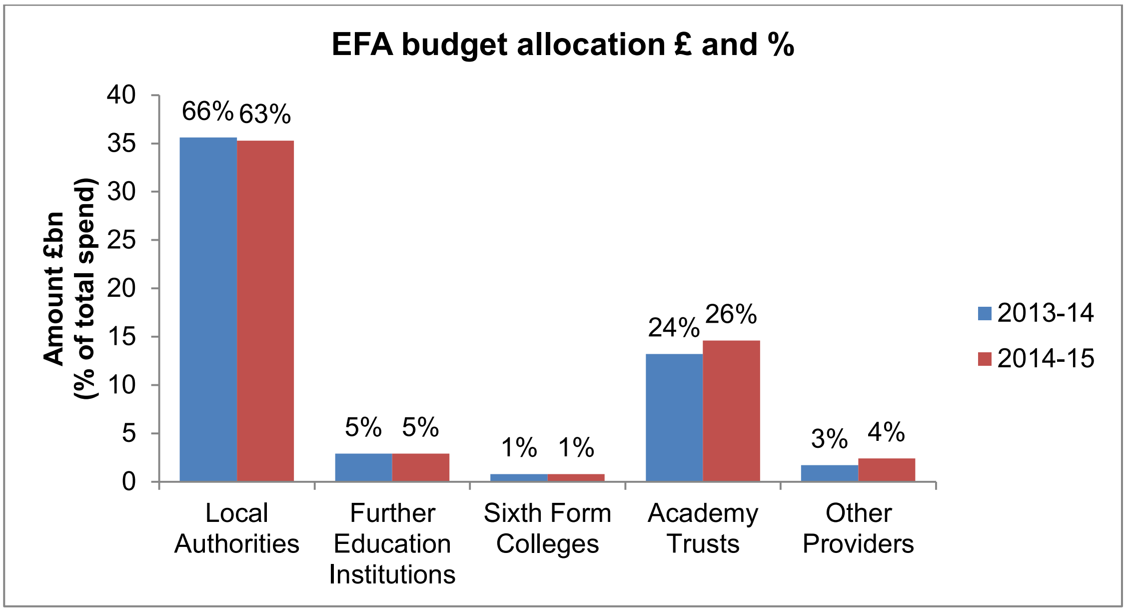
	scope		authorities was inconsistent or was based upon elements that were not compatible with the data being collected by central government. The central survey programme was therefore extended to cover all schools for which local authorities had previously supplied data, which meant undertaking an additional 8,000 surveys. Over 3,300 schools are out of scope as they have received significant investment in their school buildings in the last 10 years or are part of an operational private finance initiative.
Financial assurance	**Outcome 2014-15**	**Outcome 2013-14**	**Notes**
Timely receipt, and where relevant consolidation, of all financial returns from academy trusts, sixth-form colleges and local authorities	Timely receipt: Sixth-form colleges 100% (volume 93) Local authorities 100% (volume 152) Academy trusts 87% (volume due 8,186) Consolidation exercises: (i) Consolidation of academies' budget forecasts in relation to 2014-15. Submitted as part of the department's supplementary	Timely receipt: Sixth-form colleges 92% (volume 93) Local authorities 100% (volume 152) Academy trusts 88% (volume due 7,261) Consolidation exercises: (i) Consolidation of academies' budget forecasts in relation to 2013-14. Submitted as part of the department's supplementary estimates in	**Key performance indicator** **Academies' budget forecast returns 2015/16 (due 31 July 2015):** Due: 4,996 Received on time (by 31 July 2015 deadline): 92%

	estimates in December 2014 – **completed** (ii) Consolidation of academy trusts' accounts into the EFA and departmental accounts 2013-14 – laid before Parliament in January 2015 – **completed** (iii) Consolidation of academy trusts' accounts into the EFA and departmental accounts 2014-15 – commencement of project in 2013, completed in 2015-16 **on track to be completed in April 2016** Receipt of academy trusts' 2014/15 accounts and related statements – 94% of the required 2,888 were received by 31 December 2015	December 2013 – **completed** (ii) Consolidation of academy trusts' accounts into the EFA and departmental accounts 2012-13 – laid before Parliament in January 2014 – **completed** (iii) Consolidation of academy trusts' accounts into the EFA and departmental accounts 2013-14 – commencement of project in 2013, completed in 2014-15 Receipt of academy trusts' 2013/14 accounts and related statements – **completed**	
External assurance visits undertaken to academy trusts and sixth-form colleges in line	177 audit visits there were no support visits conducted as the assurance	255 audit visits - of which 52 support visits (to opening academy	**Key performance indicator** Activity delivered in line with our operational

with the external assurance plan	programme is risk based	trusts)	external assurance plan for 2014-15
Percentage of academy accounts received by 31 December	92% of the 2,691 required were received by 31 December 2014	92% of the 2,259 required were received by 31 December 2013	**Key performance indicator** The percentage returned by the deadline remained consistent.
Percentage of Financial Management and Governance Self-assessments (FMGS) being completed by all new academies within 4 months of conversion	47% (443 out of 928 due) for trusts with FMGS returns due in this year were received by the deadline.	43% (320 out of 742 due) for trusts with FMGS returns due in this year	**Key performance indicator** The number of returns received by the deadline remains low however following a chase for non-returners all due FMGS were received. More information on the assurance provided by the FMGS returns is included in the directors' report

1.2.2 Development and performance of the EFA

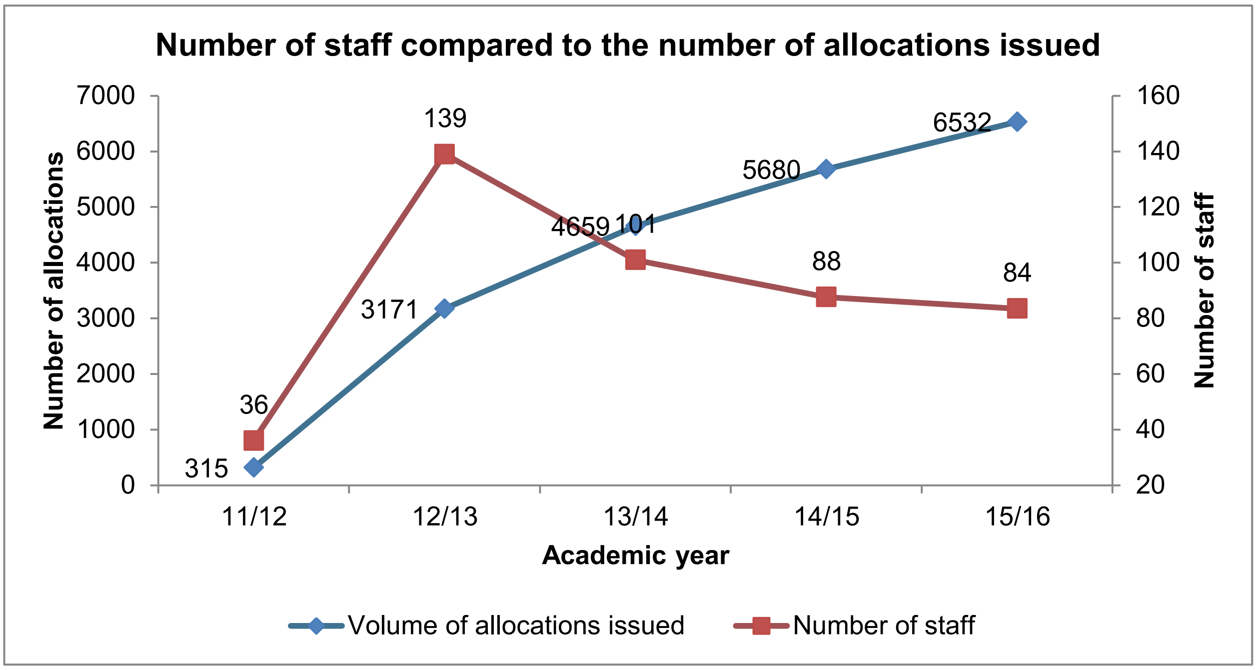
The scope and range of the EFA's operations has grown significantly. This is a result of many more academies requiring funding, financial management and governance oversight.



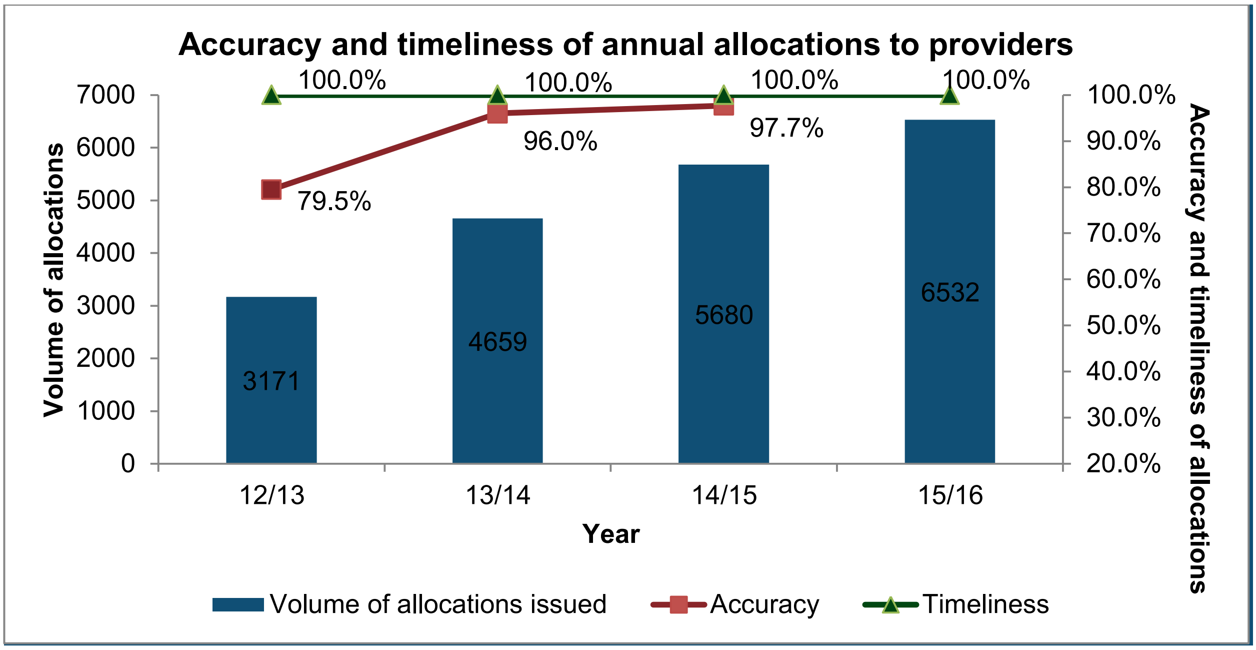
To make sure we can respond efficiently and effectively, we began our change programme Fit for the Future in the summer of 2014. Through Fit for the Future, we have developed new operating models for our main functions, which we are now implementing. The 4 main strands are set out below, each supported by enabling inputs (staff, customers, data and systems, supply chains), to make sure we can deliver the change required.

1) Data, allocations and payments strand: this aims to create a clear, streamlined and accurate allocation process that delivers the right amount at the right time. The main benefits to customers will be transparency and ownership of their 'single account' as we build on the functionality of the Information Exchange; a single portal for exchanging information with our academies and schools in a secure way. This will in turn save them time and money. Increased automation will mean we can continue to score internal efficiencies in our funding operations, increasing productivity rather than staffing inputs.

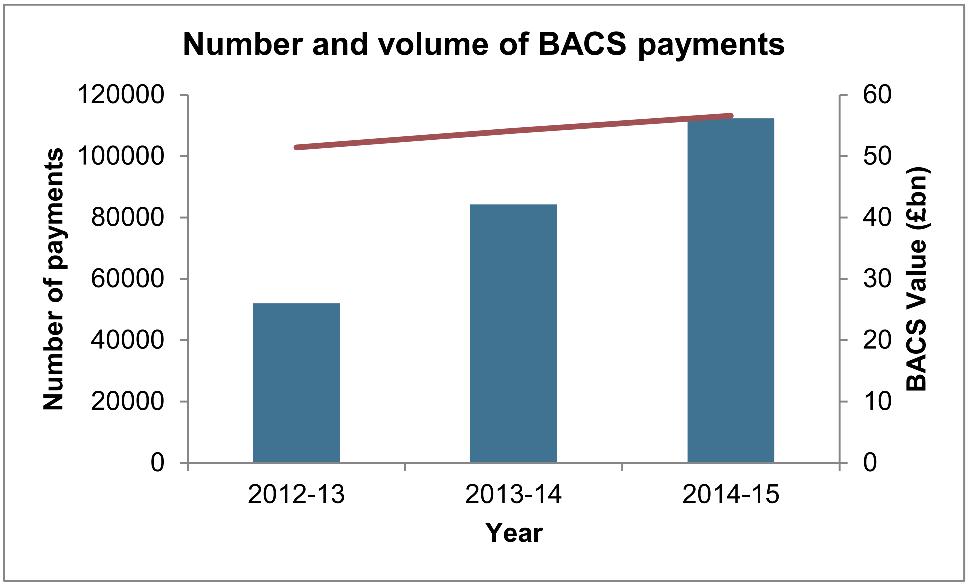
The efficiencies we have achieved so far in revenue funding are set out here: the ratio of the number of staff working in funding compared to the volume of allocations made has improved from 1:9 in relation to funding year 2011/12 (before the EFA was established) to 1:78 in 2015/16 as a result of our investment in new systems.



The quality improvements on revenue funding allocations are set out here:



The number of BACS payments we made rose from 52,013 in 2012-13 to 112,357 in 2014-15 with a corresponding value increase from £51.5 billion to £56.6 billion. In 2014-15 we made 100% of our BACS payments on time (2013-14: 99% on time).



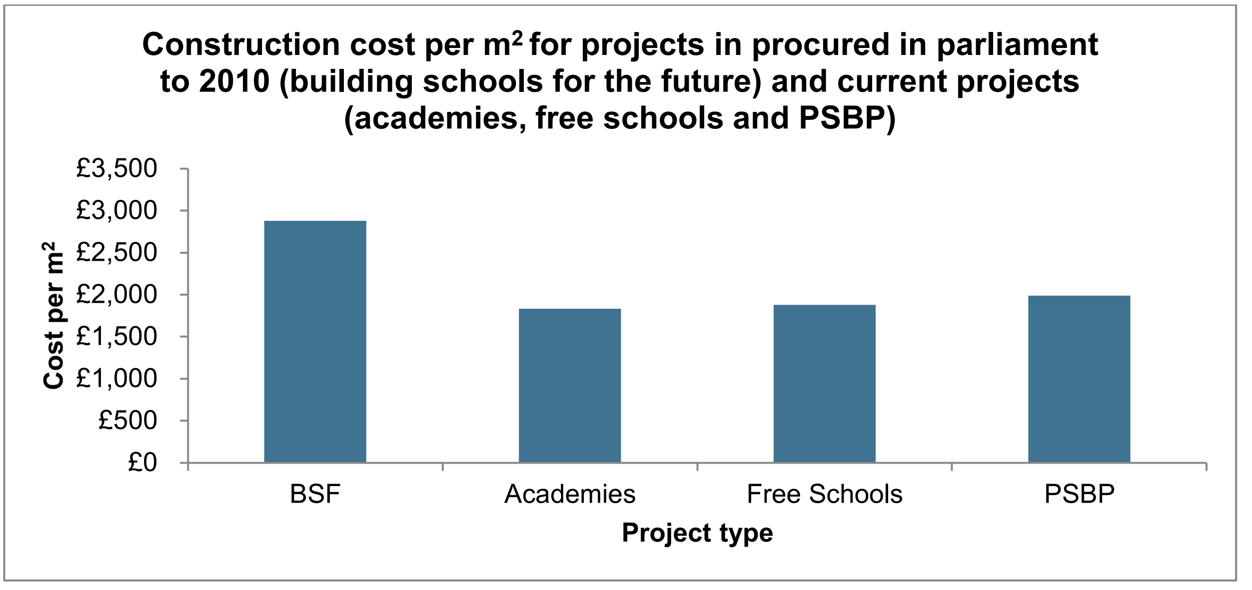
The Late Payment of Commercial Debts (Interest) Act requires government bodies, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services, or the date on which we receive the invoice. The target set by HM Treasury for payments to suppliers within 30 days is 95%. In 2014-15 our finance division processed £56 billion through 112,357 payments. Of these payments, we made 110,100 to learning providers and 99.85% of these payments (2013-14: 98.96%) were in accordance with the dates we publicised. We made 2,257 payments to suppliers of goods and services and 100% of our invoice payments (2013-14: 90.07%) were within HM Treasury's policy of 30 days from our receipt of an undisputed invoice to the date we made the payment to the supplier.

	2014/15				2013/14			
	Learning provider	Supplier Invoices		Total	Learning provider	Supplier invoices		Total
		30 days	10 days			30 days	10 days*	
Accurately	99.997%	100.000%	100.000%	99.997%	100.000%	100.000%		100.000%
On time	99.850%	100.000%	100.000%	99.860%	98.960%	90.070%		99.230%

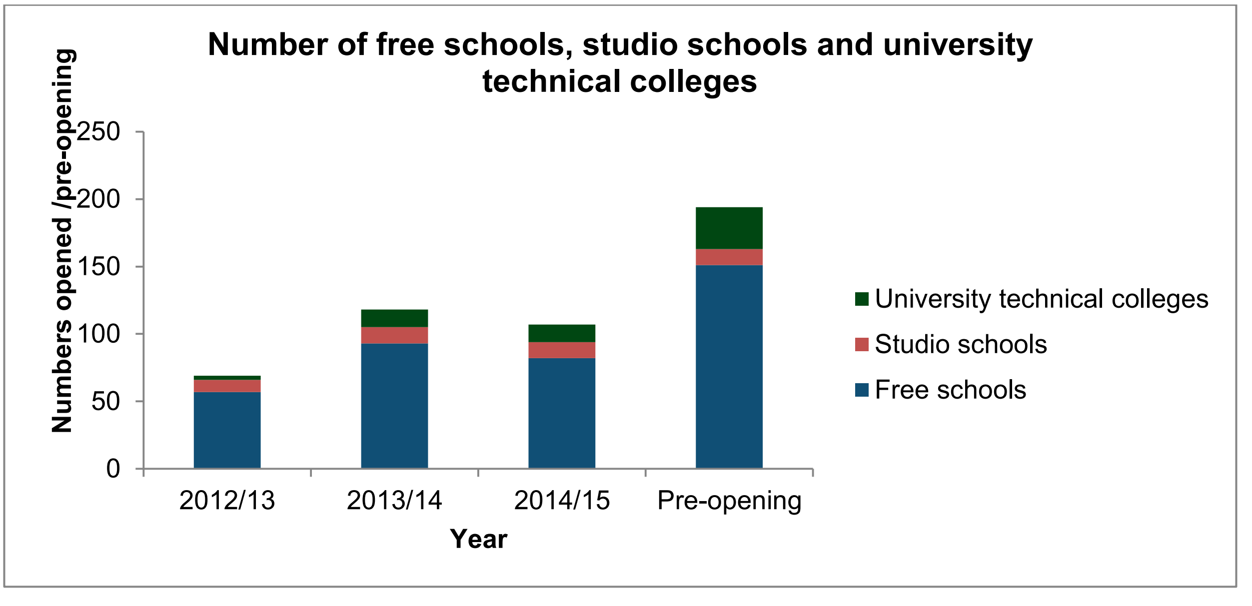
* We did not record supplier invoices within 10 days in 2013/14

2) Building and asset management strand: we now run a large and complex capital programme worth £1.3 billion compared to £275 million in 2012-13. The speed with which we developed our different programmes means that we operate in different ways across them. We want to develop more consistency in our approach to working with suppliers and sourcing, and using scarce professional skills, so that we realise savings and improve effectiveness. We are reviewing our delivery models with the department's capital policy team and this is informing our approach to building and asset management.

We are delivering schools' construction projects at 34% less cost than projects procured during the Parliament to 2010. This equates to a reduction of approximately £1,000 per square metre. In particular, we have made large savings in the on-costs such as preliminaries, overheads and profits and contingencies. Future delivery models will build on this improved value for money.

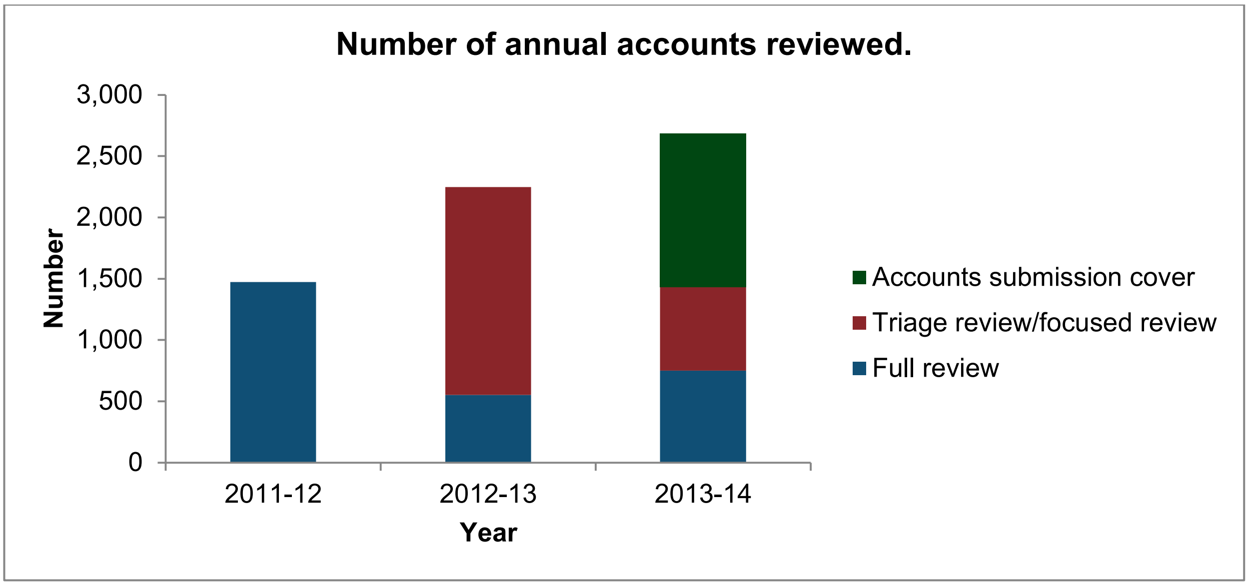


The number of free schools, studio schools and university technical colleges continues to rise. There are currently 321 academies of these types open and a further 194 are in the pre-opening stage.



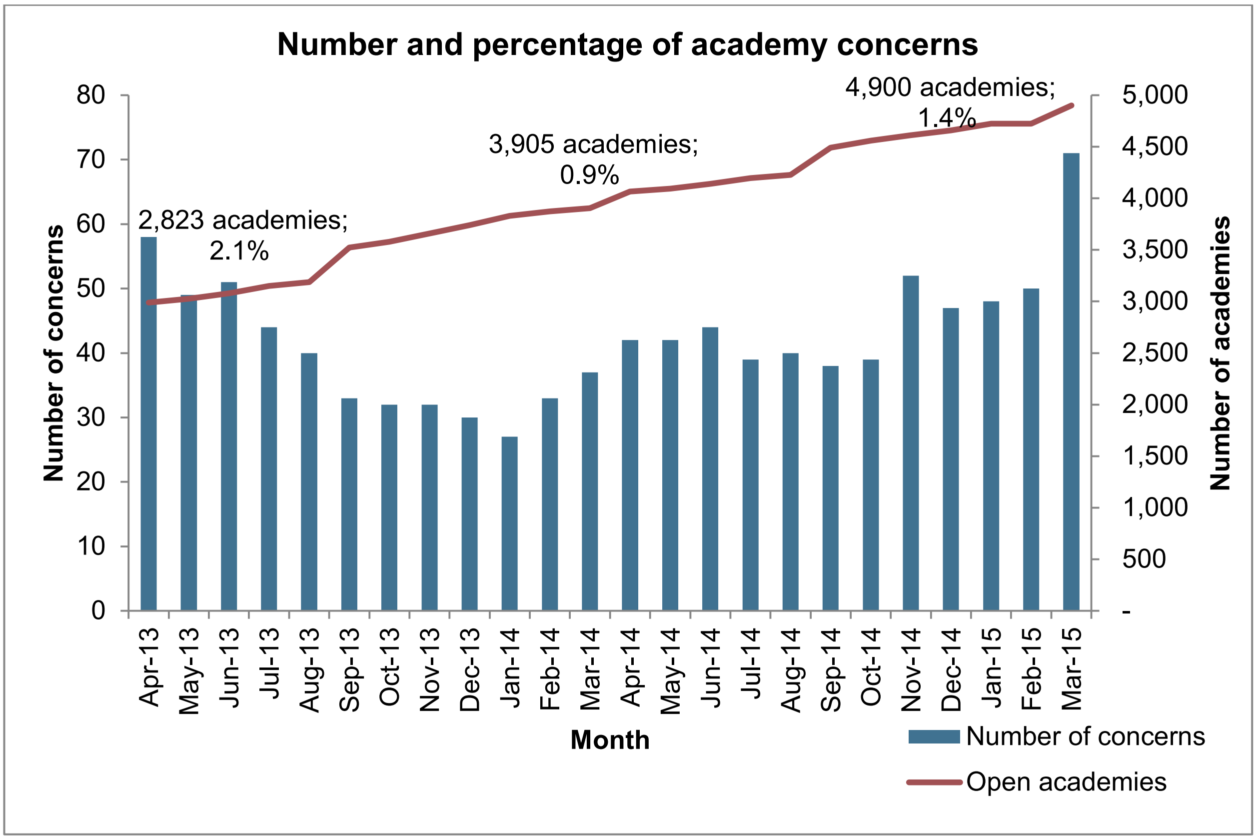
3) Risk assessment and intervention strand: we now have an improving database that allows us to introduce a more nuanced risk assessment and intervention approach, and to manage risk more effectively and efficiently. Our aim is to reflect better the principle of earned autonomy by allowing lower risk institutions more freedom, whilst maintaining sufficient oversight and intelligence to foresee problems before they arise.

Our risk based approach to our oversight releases resources we can redeploy. This year, we used the approach in our review of the annual reports and accounts received from academy trusts. The 2014-15 accounts submission cover sheet is a summary document in which academy trusts detail the key facts relating to their annual report and accounts. These include whether the academy trust's auditors qualified their opinion on the trust's accounts, the level of the trust's governor turnover and the number and value of parties related to the trust's business. The accounts submission cover assisted us in identifying those annual report and accounts which needed a full review and those that needed a focussed review on a high-risk area. We subjected some annual reports and accounts automatically to review including those from large multi-academy trusts, those academies subject to intervention and those whose accounts had been previously qualified. In total, the EFA's Risk Analysis Division dealt with 125% more returns in 2014-15 with 20% fewer staff compared to 2012-13.

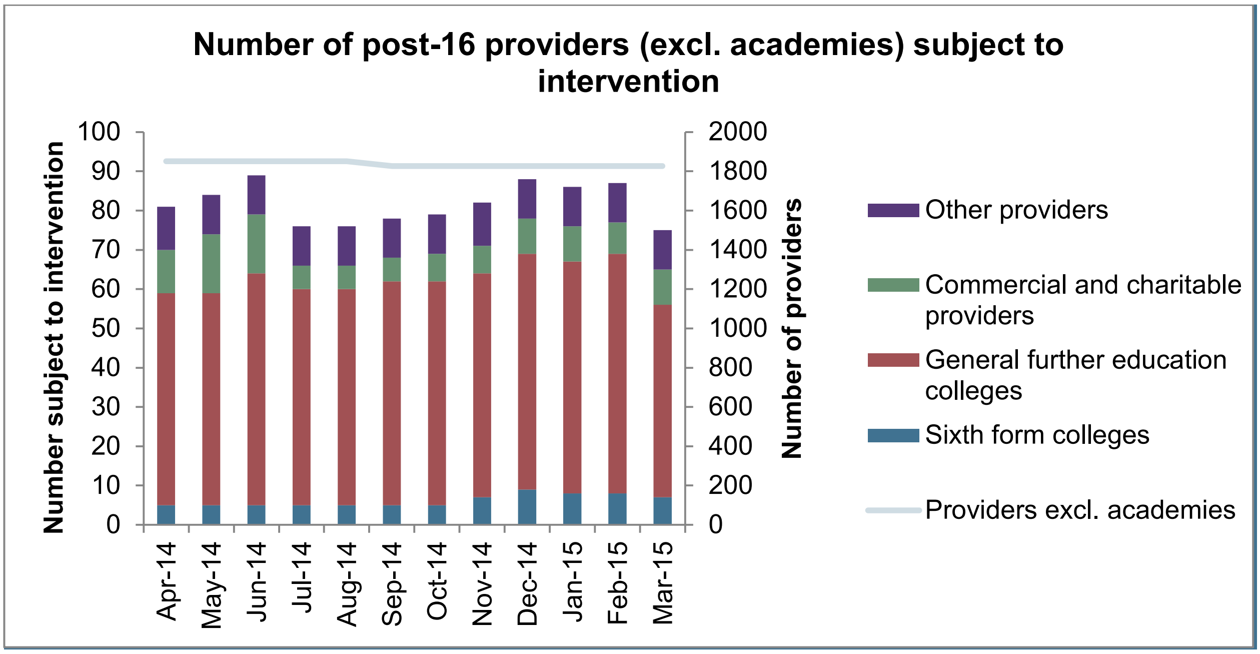


The EFA considers that the vast majority of academy trusts and post-16 providers manage their business well and we have no cause to intervene. However, the risk assessment and intervention work of Fit for the Future has improved our ability to identify potential issues, raise awareness and, where necessary,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

The percentage of academy trusts on the national concerns list has remained relatively stable, fluctuating between 0.9% and 1.4% through 2014-15. March 2015 showed a peak of 1.4% but the figure returned to 1.0% in April 2015. The most common reason for concern is the academy trust being in financial deficit followed by financial management and governance issues. We have taken action where academy trusts submit their financial statements late. This action explains the rise in the number of concerns between December 2014 and March 2015.



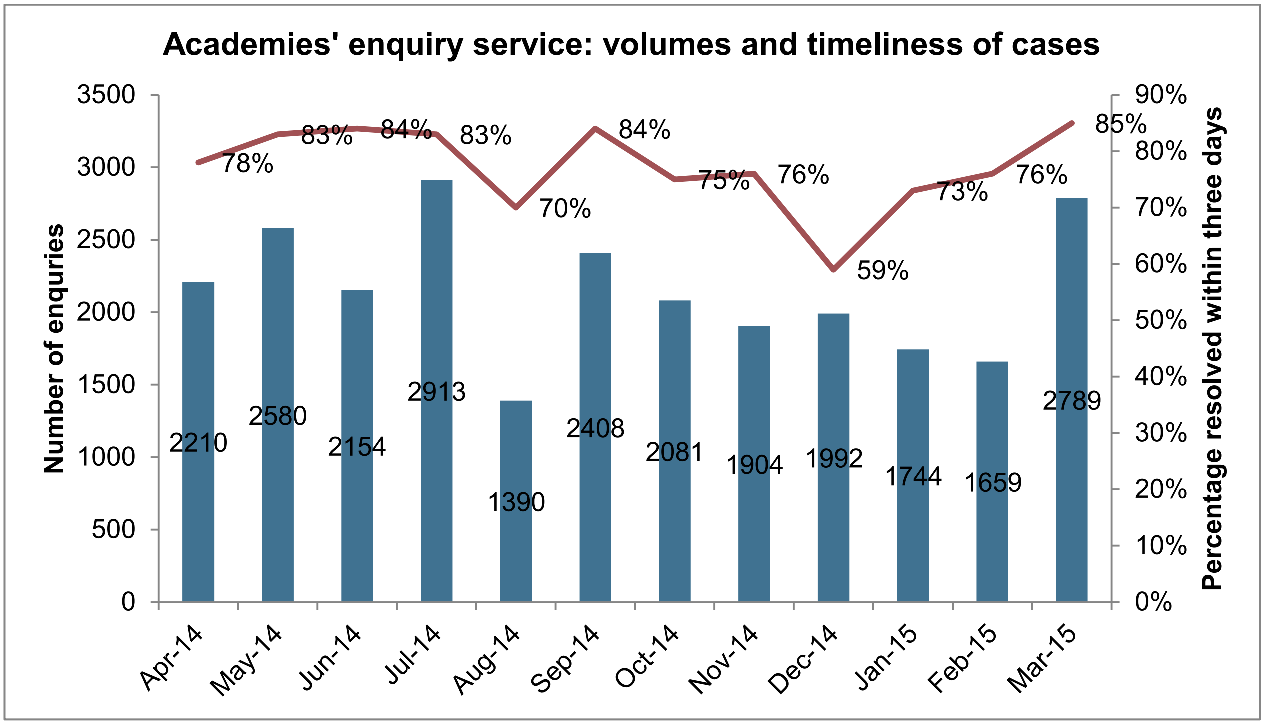
We also monitor the number of post-16 institutions that are subject to intervention. The number of post-16 providers funded remains relatively constant and there are only small fluctuations in the number of institutions that are subject to intervention. We are though seeing an increasing number of post-16 institutions that are reporting deficits and are therefore increasing our monitoring of post-16 providers. We have, with the Skills Funding Agency (SFA), published and started implementing a new early intervention and prevention regime for sixth-form colleges at risk of becoming financially inadequate in the future, with the SFA operating a parallel approach to general further education colleges. The EFA has identified nine sixth-form colleges for early intervention action.



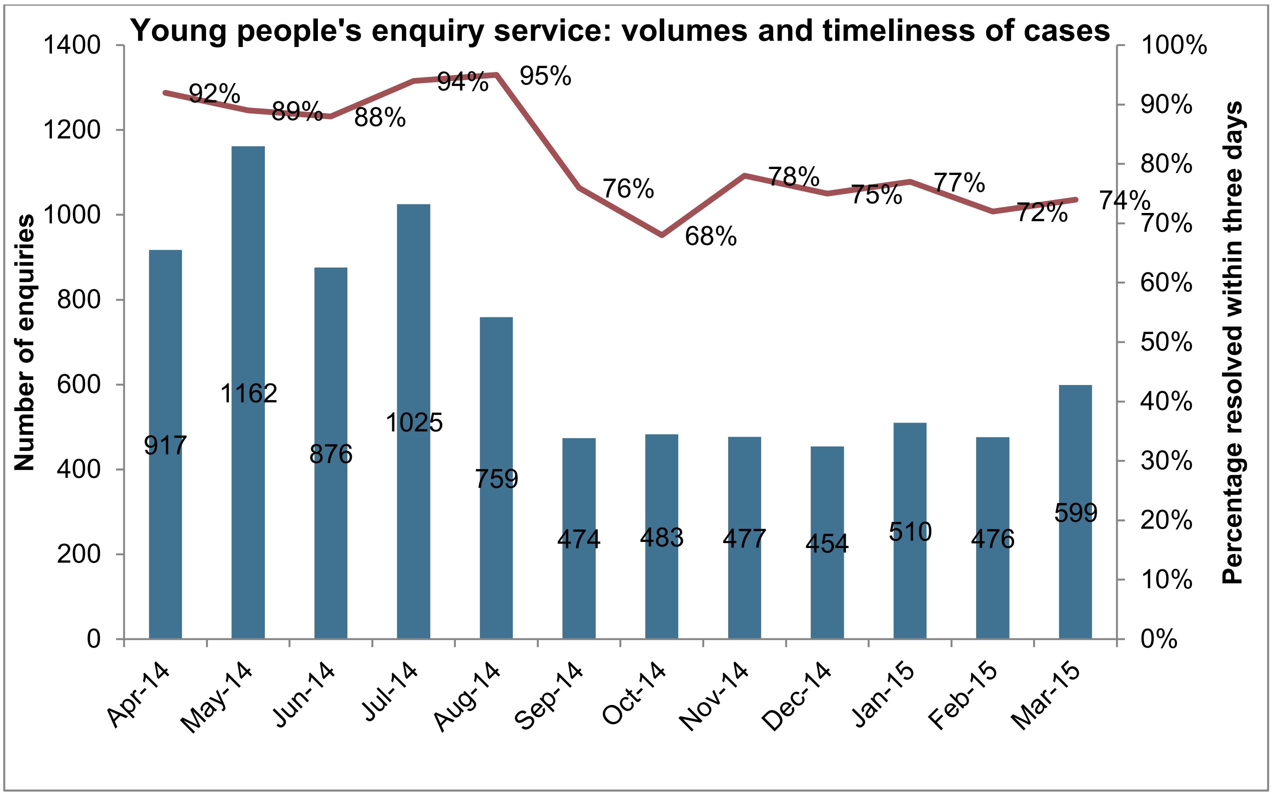
4) Enquiries and case management strand: enquiries and case management require significant resourcing and we have focussed on actions that will cut costs for customers and for us. The Information Exchange allows increasingly our business to be genuinely digital by default. The Information Exchange allows academies, schools and colleges to be more self-sufficient through better access to more robust information and to make on line transactions. In turn, it will allow us to maintain a single enquiry service that satisfies high standards (the percentage of enquiries answered in fewer than three working days rather than a more usual public sector standard of 15 working days) at significantly lower cost.

With the Information Exchange operating we have seen a halving of the numbers of enquiries from academies, colleges and independent providers. The savings from this, along with those scored from our introduction of on-line forms, mean we can redeploy staff to increasing volumes of more difficult casework without an increase in administration budgets.

By the end of 2014-15 two of the main enquiry lines, the academies' enquiry service and the young people's enquiry service were brought together. The tables below show the volumes and response times of enquiries received in the year.



While the number of academies has risen from 3,905 to 4,900 during the period, the number of enquiries per academy has fallen by 7%. The dip in response times in December was due to an upgrade to our Customer Relationship Manager system as well as issues with our document exchange system within the Information Exchange and secure access by our customers to the Information Exchange.



The apparent decline in performance from August 2014 is due to a change in how we measure the time taken to resolve enquiries. We now measure from the date we receive the enquiry whereas previously we measured from when we entered the enquiry on to our Customer Relationship Manager system. This means that whereas previously a delay in entering an enquiry onto the system would not affect our measured response time this would now have an impact.

We also handle a high volume of finance enquiries in addition to the figures we report above. In 2015-16, we will look to integrate our handling of these enquiries into the work of our enquiry services.

1.2.3 Sustainability

We adopt the department's policies on sustainability. We aim to manage our business in an environmentally sustainable way and the department's annual report and accounts describes our performance in this. Our travel costs for 2014-15 were £2.3 million (2013-14: £2.3 million) of which 77% were rail travel costs, 14% were car usage, and 9% were for other transport. Our travel costs have remained in line with 2013-14 despite increases in both the headcount and the cost of travel. Further information on the department's policies on sustainability is contained within their annual report and accounts 2014-15.

1.2.4 Accounts direction

We have prepared these accounts under the Government Resources and Accounts Act 2000. The Secretary of State determines with the consent of HM Treasury the form and the basis of our preparation of these accounts.

1.2.5 Complaints to the Parliamentary Ombudsman

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

In 2014-15 the Ombudsman accepted 3 EFA related complaints for investigation (2013-14: nil); of these 2 were not upheld and 1 was partially upheld. The partially upheld complaint related to the EFA not considering new elements of an ongoing complaint in a timely manner. Our Chief Executive complied with the Ombudsman's recommendation to send a written apology to the complainant.

We have our own complaints policy that can be found on our website [1] and aim to respond to all complaints within 15 working days. We monitor monthly the number and nature of complaints we receive. In 2014-15 we received 26 cases (2013-14: 14 cases)

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[1] The EFA's complaints procedure:https://www.gov.uk/government/organisations/education-funding-agency/about/complaints-procedure

and we responded to 15 of these cases (57%) within the 15 day deadline (2013-14: 12 cases; 86%). We received a number of complex cases in 2014-15 that needed more time for investigation. Although late, we responded to most within 1 or 2 days of the deadline. Where this was the case, we sent a holding response to the complainant within the agreed timescales advising the complainant of a revised deadline.

1.2.6 Social and community issues

Our culture statement is as follows;

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

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

The department encourages its employees to take up volunteering opportunities in line with the Government’s Big Society agenda as well as supporting employees’ continuing professional development. The department awards employees a minimum of three special days leave for volunteering each year.

In addition, the department encourages employees to be reservists for the armed forces. Employees can receive at least 15 days paid special leave a year to fulfil their commitments.

1.2.7 Other areas of required disclosure

The overview section contains information on the EFA and its statutory background, the performance report discloses key issues and risks and the remuneration report discloses people management and equality statistics.

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

Section 2: Accountability report

2.1 Corporate governance report

2.1.1 The directors' report

This part of the report is about the EFA.

Directors

The directors of the EFA are:

Peter Lauener – Chief Executive, appointed 1 April 2012
Peter Mucklow – Director of Young People's Group, appointed 1 April 2012
Sue Baldwin – Director of Academies and Maintained Schools Group, appointed 1 April 2012
Mike Green – Director of Capital Group, appointed 1 April 2012
Simon Parkes – Chief Financial Officer, appointed 15 July 2012

Objectives

The EFA is responsible for implementing the majority of the department's funding of the education system – £56 billion (95% of the department's resources) in 2014-15. This underpins the Secretary of State's priorities and the department's work to achieve a highly educated society in which opportunity is equal for children and young people, no matter what their background or family circumstances. We fund all state-provided education to 8 million children aged 3 to 16 and 1.6 million young people aged 16 to 19, providing additional support for high needs up to age 25 and helping to overcome the effect of disadvantage.

Our objectives are to:

- ensure that we make accurate and timely revenue and capital funding allocations
- ensure that we put in place funding agreements and we make payments accurately and on time
- deliver effective programme management and evaluation of strategic capital programmes that will improve the condition of existing buildings and support the creation of new places for pupils and learners
- ensure the proper use of public funds through financial assurance undertaken by the EFA, or by others
- successfully implement our information technology investment plan to time and to budget to support reduction of operating costs and improved effectiveness

Progress

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

Alongside developing Fit for the Future, we have continued to deliver our business priorities. In 2014-15, we have:

- funded and monitored an increasing number of academy trusts
- funded 3,327 providers of learning to young people aged 16 to 19. This includes school and academy sixth forms, colleges and training providers and institutions providing education and training to young people up to age 25 with learning difficulties or disabilities. We also fund these organisations to provide bursaries to disadvantaged young people
- funded 152 local authorities for their maintained schools and for providing education to children and young people with high needs, and funded directly capital allocations to 2,655 voluntary-aided schools
- managed building and maintenance programmes for schools and sixth-form colleges, including new builds for 20 schools in the PSBP and secured sites and premises for the 83 new free schools, 12 studio schools and 13 university technical colleges that opened in September 2014 and
- responded to an average of 3,872 letters or enquiries each month

The accuracy, security and timeliness of our funding allocations and payments remain vital to enable education providers to adequately plan and deliver learning. We have again issued all annual allocations for 2015/16 academic year before the March deadline and in line with the agreed delivery profiles, 80% of the annual academy allocations and 96% of post-16 allocations to schools, academies (post-16 statements only) and colleges were issued by the end of February, a month earlier than the previous year in some cases. 100% of new academies continue to receive allocations to the published timetable. We have also reduced the time we take to pay our suppliers.

Our capital programmes have continued the significant progress made in 2013-14. The targeted basic need programme, announced by the Secretary of State in July 2014, means that more places will be available at popular and high quality local schools. The programme funded 373 projects in 84 local authorities providing over 70,000 places by September 2015.

We started design development work with all PSBP schools by the end of 2014, a year earlier than we originally planned. The PSBP's first school, Whitmore Park School in

Coventry, opened in April 2014, five months earlier than planned. Under the programme, it took only 1 year for construction work to start, compared to 3 years under the previous initiative, building schools for the future. In addition, the cost of the PSBP's schools is up to 34% less than building schools for the future schools, representing significant cost savings. The PSBP achieved these results by employing a more efficient, faster and a less bureaucratic approach to building schools.

On 27 April 2015, the PSBP opened Montacute School, a special school in Poole, the twenty-fourth school to open under the programme. I am pleased to report that the PSBP hit its public commitment of 24 schools opened before the general election in May 2015. The EFA has now handed over another school, Alice Stevens School (renamed Riverbank Academy), a special school in Coventry, bringing the total of PSBP schools handed over up to 25. The school started to operate from its new building in September 2015.

The PSBP aims to open the majority of schools by the end of 2017, two years earlier than originally planned.

Assurance

For academy trusts submitting audited financial statements we receive assurance on the regularity of transactions at the academy trust from the trust's independent reporting accountant's assurance report. For new academy trusts, which under the academies accounts direction timescales were not required to prepare their first set of financial statements to August 2014 we receive assurance from the Financial Management and Governance Self-assessment (FMGS) returns. The EFA requires academy trusts to submit these returns within 4 months of opening. Trust accounting officers agree the returns and trust boards approve them. We review all FMGS returns submitted and visit a sample of trusts to validate the submission. We are satisfied that we have sufficient assurance regarding the use of funds by academy trusts.

Existing multi-academy trusts have previously submitted audited financial statements so we will already have assurance on the effectiveness of their arrangements. New academies joining existing multi-academy trust submit alternative assurance instead of the FMGS return. The alternative assurance is a statement from the trust's accounting officer confirming that the new academy will comply with the financial management and governance arrangements of the multi-academy trust. We have received all 163 alternative assurance returns expected for academies which have not previously been included in financial statements because they opened after the financial year end of the multi-academy trust. The 163 academies are part of 106 multi-academy trusts which were expected to submit accounts for the period ending 31 August 2015 and were due by 31 December 2015. We have received and reviewed 105 financial statements and confirm that all academies are included in the 2014/15 multi-academy trust financial statements. The remaining one has not yet been received and is being pursued. We found five financial statements where there were exceptions reported in the regularity report but none related specifically to the academies for which alternative assurance had been received. This provides further assurance on financial management and governance.

Our assurance programme includes visits to a sample of multi-academy trusts to validate their arrangements within the trust and to check compliance with the academies financial handbook. These visits include reviewing governance arrangements both at the trust and at an individual academy level. There were 10 multi-academy trust reviews undertaken and some of these reviews included newly opened academies that joined the multi-academy trust.

Our assurance plan for 2015/16 includes additional visits to a sample of 5 new multi-academy trusts to undertake FMGS return validation visits at both the head office and at a sample of academies within the multi-academy trust to gain assurance that both the multi-academy trust and academies within the multi-academy trust are compliant with governance.

Whilst our work on funding institutions accounts for much of what we do, our financial assurance work has put us in the spotlight throughout the last year. I have been impressed with how staff across the EFA have worked together, along with colleagues from other parts of the department and its agencies including the SFA and the Department for Business, Innovation and Skills (BIS), to deal swiftly with a number of high profile cases where we have intervened.

We have developed a Risk Assessment Tool to analyse our improving database of information on our providers. Our use of the Risk Assessment Tool to flag providers that may be of concern to us is now standard practice. In our oversight of academy trusts for example, it supports our awareness and prevention work and, should we need to intervene, it helps to determine our intervention strategy. Our most serious cases of financial management and or governance concerns remain at low levels relative to the size of the programme. These cases have typically made up 1% of all academies across the year. Over the year we issued 16 Financial Notices to Improve to academy trusts and 2 to sixth-form colleges, 3 Financial Notices to Improve which had been issued to academies were lifted.

We make appropriate use of information from whistle blowers and other contacts. Since the EFA started in April 2012, we have received 142 reports concerning allegations of a financial and or governance nature. We always follow up these leads. After initial fact finding, in a number of cases we did not find sufficient evidence to proceed with a formal investigation. Where we investigate formally, we have pledged to publish our reports on the academies investigations' web page[2] and the academies financial management and governance review webpage[3]. We also publish the Financial Notices to Improve that we have issued to sixth-form colleges and academy trusts as well as joint investigation reports where we have lead responsibility. We have developed staff training and clear handling instructions to make sure that we treat whistle blowers professionally and with respect. By the end of 2014-15, we had published reports covering 28 institutions.

Consolidation

We consolidated the financial results of 2,585 academy trusts into our 2013-14 group financial statements. This remains the largest known consolidation of independent organisations' accounts carried out in the United Kingdom.

The consolidation process we used aimed to minimise burdens and additional costs on academy trusts. The burdens include academy trusts preparing financial returns to dates that do not suit the trusts' business and the costs include academy trusts preparing financial returns solely for the purposes of consolidation. The EFA group believed, and believes, that it should take every reasonable step available to it to not impose these burdens and costs on academy trusts. The consolidation process that resulted required us to make complex adjustments at year end. There were no inaccuracies identified in the underlying annual report and accounts of the individual bodies that were material at the EFA group level. However, the consolidation of 3,905 academies using a number of data sources with different reporting periods resulted in a level of uncertainty that the Comptroller and Auditor General as head of the National Audit Office (NAO) considered to be material and pervasive to the group accounts. The Comptroller and Auditor General provided an adverse opinion on our 2013-14 accounts. He noted that the current consolidation methodology was not capable of producing accounts that present a true and fair view. More information on the consolidation of the 2014-15 accounts is included in the 'Parliamentary accountability and audit report section'.

We accepted these findings and, along with the department and HM Treasury, have committed to demonstrating a better approach to Parliament for 2016-17 while continuing with the current approach that we must continue to use for 2014-15 and 2015-16. We set out the approach we have used in preparing the 2014-15 EFA group accounts in section 2.1.3.4 below. The House of Commons Liaison Committee, on the advice of HM Treasury, has given conditional approval for a new reporting framework. We aim to introduce the new reporting framework for financial year 2016-17, covering the academic year 2015/16 results of academy trusts.

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[2] Academies Investigation reports: https://www.gov.uk/government/collections/academies-investigation-reports

[3] Financial management and governance reviews: https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews

Developments

In its report, Performance and Capability of the Education Funding Agency[4], dated 29 January 2014, the NAO recognised the EFA has fulfilled most of its day-to-day funding and assurance responsibilities. It did however also acknowledge there were challenges, including the continued growth in demand for the EFA's services during a period of reducing administrative budget. In 2014-15, we began transforming our organisation to meet those challenges through the Fit for the Future change programme, and through continued investment in IT and data systems. This annual report sets out details of the main components of Fit for the Future in the 'development and performance of the EFA' section earlier.

In the context of ever-increasing numbers of academies and financial constraints, it is vital that we capitalise on and sustain the progress we have made in Fit for the Future. We have identified and are planning for significant benefits realisation that spans: cash savings, increased productivity, improved customer service and staff well-being. Early results have come from work on processes and systems, including data collections, funding allocations, enquiry service and risk assurance to evaluate how we drive out waste and improve productivity, and make sure we provide a high level of service to our increasing number of customers. We have assessed the skills of our staff to make sure they will have what they need to deliver our new model and to identify where we have skills gaps which we need to fill.

Delivering good customer service to enable institutions to be self-sufficient is fundamental to the success of Fit for the Future. We have introduced a customer service standards framework, developed with the customers we fund and serve. We are putting in place new metrics and feedback loops and should report on these next year. I am pleased with the improvements we have made in our communications that are saving both schools and colleges time and money and are achieving better value for money for the public expenditure. Our programme of webinars and online toolkits provide quick, easy and low cost access to important information to providers and partners alike. We have improved our presence on gov.uk and our customers are benefiting from changes to our e-bulletin and the further development of the Information Exchange.

Declaration of interest

I can confirm that there were no conflicts of interest for the directors of the Education Funding Agency. I was appointed as the Chief Executive of the Skills Funding Agency and took up this role on 3 November 2014. I retain my post as the Chief Executive of

[4] Performance and capability of the Education Funding Agency:https://www.nao.org.uk/report/performance-capability-education-funding-agency-2/

EFA and have separate accountability for each agency's budget. Simon Parkes was appointed Chief Financial Officer of the Skills Funding Agency on 1 December 2015. He retains his post as Chief Financial Officer at the Education Funding Agency.

The EFA maintains a register of interests that contains details of company directorships and other significant interests held by executive and non-executive Board members. Anyone wishing to view the register can contact the EFA as follows:

Electronically via	https://www.education.gov.uk/contactus/dfe
By telephone:	0370 000 2288 and;
By writing to:	Chief Executive Team, Education Funding Agency, 53-55 Butts Road, Earlsdon Park, Coventry, CV1 3BH

Report on personal information breaches

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

The Cabinet Office defines a 'personal data related incident' as a loss, unauthorised disclosure or insecure disposal of protected personal data. 'Protected personal data' is data that the department or its delivery partner agrees the release or loss of which could cause harm or distress to individuals, including as a minimum:

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

We had no protected personal data related incidents that we judged significant enough to report formally to the Information Commissioner's Office in 2014-15 (2013-14: one incident).

We had no protected personal data related incidents reported in 2014-15 (2013-14: no incidents) that did not fall within the criteria for reporting to the Information Commissioner's Office, but that were significant enough for the department to record centrally.

Employment opportunities, training and development of disabled employees

We, in line with the department, have an approach to recruitment and promotion that reflects our commitment to equal and fair opportunity for all. All recruitment processes comply with the Equality Act 2010. We use the 'two ticks' Disability Symbol showing we are an employer which has a positive attitude towards applications from disabled people. The EFA also offers a Guaranteed Interview Scheme for all disabled applicants who meet the minimum requirement at sift and test stages. We actively support the use of reasonable adjustments for all stages of the recruitment process as well as for objective setting and managing performance. We monitor declaration rates and actively promote declaration as a means to reducing barriers.

Staff relations and communications

Our people plan outlines the workforce vision and the people priorities that will support us in delivering our objectives for the next two years. Our Executive Management Board agreed the plan and our People Board oversees progress on the plan. Our priorities for change include developing staff to improve both core and specialist skills, promoting a positive culture and supporting line managers. Our work to ensure we are fit for the future underpins our people plan.

As part of the People Strand of Fit for the Future, we have audited our staff's skills to allow us to compare their skills against the skills they will need in the future. Where we have identified gaps in skills we are addressing the gaps through a comprehensive development programme launched in September 2015. At the core of our business is a need to develop a very high skills standard in customer service, communications and writing skills. Other key areas of development to support the business are: use and analysis of data, digital skills, financial awareness and commercial skills, project and programme management, change leadership and management skills and continuous improvement. We will monitor our progress in reducing skills gaps by repeating the skills survey next year as part of our review of the effectiveness of the development programme. We will also use the results of the annual DfE People Survey to monitor the satisfaction levels of our staff in their roles with the development opportunities they have and their wellbeing.

We launched the EFA Culture Statement in July 2015 and are embedding this across the EFA, testing the views of staff at key points through pulse surveys. We developed the Culture Statement through consultation with staff. The statement includes behavioural expectations and aligns well to the newly launched departmental ways of working, departmental standards and operating principles as well as to the existing civil service values and competencies.

We have a talent management programme focusing on developing and challenging staff that have the ability to move up to the next grade. The programme will enable these staff to undertake work projects that allow them to test and evidence their skills and receive mentoring support.

We carried out a review in June 2015 on how we have applied flexible working policies across the EFA to ensure equal access and to determine whether we are meeting the needs of staff. This is part of our strategy to ensure the wellbeing of all staff.

Other areas of required disclosure

Section 2.2.10 of the remuneration report refers to pension liabilities and staff sickness information in section 2.2.6 of the remuneration report.

Auditor

The Comptroller and Auditor General appointed by statue audited these accounts and his certificate and report appear on pages 104 to 115. The notional audit fee incurred for the year was £445,000 (2013-14: £380,000) and relates to the statutory audit of EFA's accounts (including the audit fee for consolidation). The group further incurred audit fees of £23.8 million (2013-14: £25.8 million) in relation to the audit of the academy trusts, payable by trusts to their local auditors. Academies incurred other fees for professional services from their auditors of £9.9 million (2013-14: £10.6 million). The NAO, as the EFA's external auditors, provided no other services to the EFA during the year.

As accounting officer, I confirm that:

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

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

2.1.2. Statement of the EFA's and the Chief Executive's responsibilities

This part of the report is about the EFA group.

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

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

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply consistently suitable accounting policies
- make reasonable judgements and estimates
- state whether the EFA has followed applicable accounting standards as set out in HM Treasury's Financial Reporting Manual
- disclose and explain any material departures from these standards in the accounts and
- prepare the accounts for the EFA group as a going concern

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

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

2.1.3 Governance statement

This part of the report is about the EFA.

Statement

As accounting officer, I have personal responsibility for maintaining a sound system of governance, internal control and risk management to support the achievement of the EFA's policies, aims and objectives, whilst safeguarding public funds and departmental assets.

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

2.1.3.1. Governance, internal control and risk management

I confirm that I have reviewed the effectiveness of governance, internal control and risk management arrangements in operation. I have informed my review by the work of the executive managers who have responsibility for the development and maintenance of these arrangements.

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

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

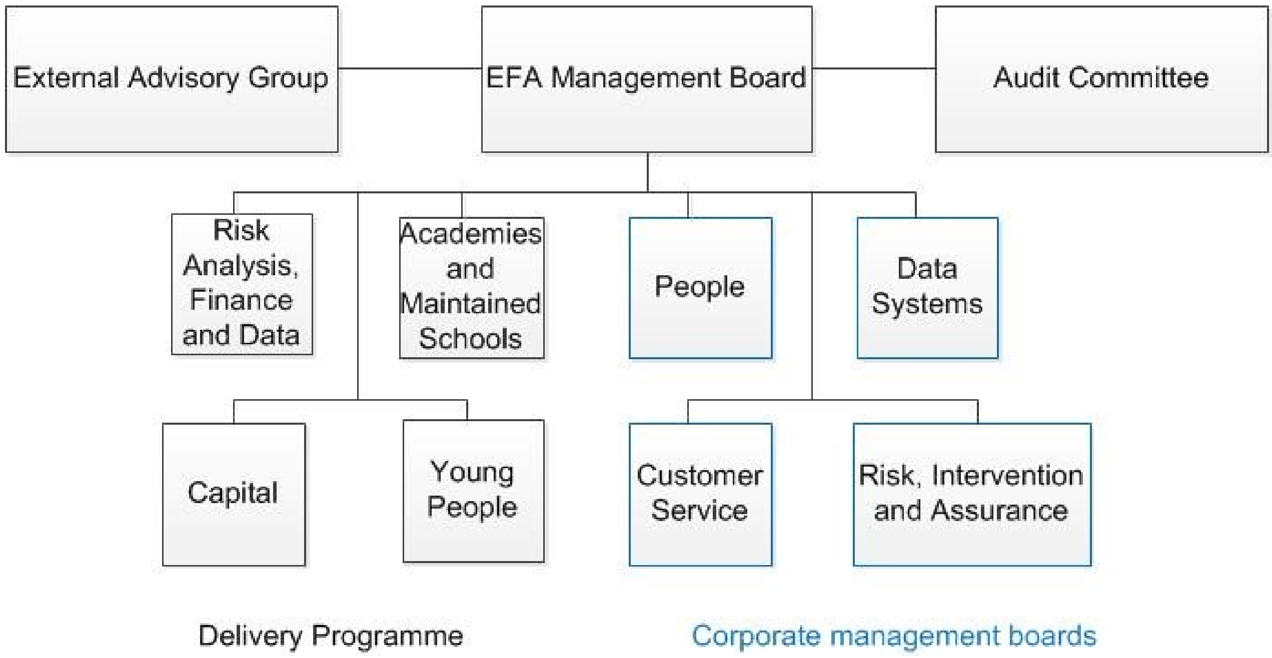
Governance structure

The department's Permanent Secretary as the EFA's departmental sponsor has delegated responsibility for the governance of the EFA to the director general of the Infrastructure and Funding Directorate. The director general sets the EFA's performance framework, business planning and administration budget plans for the Secretary of State's approval, and advises ministers on the EFA's strategic direction. The EFA reports monthly to the director general on its performance and management of its key risks. The EFA also reports quarterly to the director general and the department's non-executive board member responsible for the EFA on these as part of a strategic performance review. The EFA's framework document[5] sets out this structure and my responsibilities as the EFA's accounting officer.

The EFA has 4 delivery programmes and 4 cross-cutting corporate management boards. Each of these groups has a director-level senior responsible owner who advances progress using programme and risk management arrangements. Senior responsible owners submit a monthly progress report for programmes and a quarterly progress report for cross-cutting groups to the executive management board for advice, scrutiny and challenge. The EFA uses these reports to produce a status report for the quarterly strategic performance review with the director general and our non-executive board member. We use additional routes to report to the department, for example reporting to its management committee on strategic risk.

I am content with the effectiveness of the executive management board in its corporate leadership role. The board reviews its effectiveness annually, assessing where it can improve and revising its terms of reference accordingly. This year the secretariat met each director and asked him or her how the board could improve. Feedback showed the board needed to take a horizon scanning role at points in the year, as well as continue with the overall management of delivery. As a result, the board now reviews its priorities quarterly and has an annual 'away day' to look at the longer-term priorities for the EFA. The board has incorporated the results of the review into its business cycle. The board has also recommended a strategic group, made up of deputy directors, to provide a future scanning and planning function that supports it.

[5] EFA Framework document - http://dera.ioe.ac.uk/14102/1/efa%20framework%20document.pdf



The 3 bodies in the top layer of the diagram are:

- the executive management board, whose core members are the EFA's 4 programme directors, provides corporate leadership of the organisation
- the External Advisory Group, whose members are independent from the EFA, and who are drawn from a range of education institutions, supports the executive management board
- the Audit Committee, whose members provide independent scrutiny of our governance, performance and risk management

The executive management board

The executive management board provides me with the opportunity to hold the directors and their programmes to account, along with carrying out forward looking strategic thinking. I continually review the quality of information provided to the board along with peer review challenge from the board members. The EFA also shares a summary of programmes' progress on delivery and their next steps for implementation with the External Advisory Group for review and challenge. As such, the EFA's information is continually and closely scrutinised and built on, improved and amended as required to provide the board with the best quality information available for evidence based decision-making.

During 2014-15, the executive management board met 12 times, and continues to meet monthly. Where members were unable to attend, a suitable deputy attended on their behalf.

Executive management board membership attendance				
Peter Lauener (Chair)	Sue Baldwin	Simon Parkes	Mike Green	Peter Mucklow
9	9	12	11	9

Each director chairs a corporate management board. These boards include senior staff from each group who take forward cross-cutting work that affects all groups. The corporate management boards are the:

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

The boards ensure effective delivery of their programmes by monitoring, reviewing and challenging their performance and risks.

Accountability reviews

In addition to the above, directors and I hold in-depth accountability reviews to scrutinise each programme's specific risks and issues, and hold each director to account for performance in their area. We hold the reviews in April and October of each year, and an independent member from the Audit Committee attends.

The Audit Committee

The Audit Committee reports and advises me, and the department's Audit and Risk Committee, on the adequacy and effectiveness of governance, risk management and internal control within the EFA.

The EFA created the Audit Committee in September 2012 to provide independent scrutiny and a strong strategic overview of, the EFA's business. The membership of the committee remained the same as in 2013-14:

Chair	Members			
Mark Sanders	Stella Earnshaw	Brian Rigby	Jon Gorringe	Suzanne Orr

During 2014-15, the Audit Committee met 5 times, and all of the members attended every meeting. The Audit Committee will continue to meet at least 4 times per year in the future. I attended every meeting along with the EFA's Chief Financial Officer and representatives from the NAO and internal audit. Other members of the EFA's senior management also attended regularly to provide the information needed to allow the committee to discharge adequately its functions. The NAO and internal audit also met with members separately. Each year the Audit Committee review their effectiveness. The committee secretariat sent out a questionnaire to all members asking them to review what they believe the impact of the audit committee to be and how their work is valued. Members completed their returns in October 2015 with the review finalised in November 2015 and consequential changes were made to managing the business and agenda.

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

I received an annual report from the Audit Committee detailing its contributions throughout the year and assurances on the effectiveness of the operation of our system of internal control. Below is a summary of the report:

Summary of the annual report of the Audit Committee

During 2014-15 we have supported the accounting officer by reviewing and providing advice and challenge in a number of areas including:

- evaluating and approving the Risk Analysis Division's and internal audit's 2014-15 work plans to ensure they provided sufficient assurance to the accounting officer, and reviewing progress against these plans in-year
- monitoring progress of financial statement audits and reports issued by the NAO and considering the issues raised
- maintaining oversight of and reviewing the EFA's risk management processes, scrutinising the risks faced by the EFA and ensuring suitable mitigations are in place
- assessing the EFA's anti-fraud policies and processes including the management arrangements in place for whistle blowing
- clarifying the alignment of and relationship between the EFA's Audit Committee and the department's Audit and Risk Committee
- receiving and requesting amendments to and subsequently recommending sign off of the EFA's annual report and accounts 2013-14.

The EFA has consolidated the accounts of academy trusts into its own accounts in a way that minimised burdens on academy trusts, burdens that might divert them from their primary focus of achieving educational excellence. We engaged actively throughout the consolidation process, reviewing and providing advice on the arrangements and monitoring progress. Nevertheless, the scale and complexity of the consolidation process has prevented the EFA meeting its statutory deadline. We are disappointed that it was only made apparent to us at a very late stage of the audit that there were significant issues outstanding that resulted in the delay in the accounts being laid by the statutory deadline. The adverse audit opinion however, was not unexpected as we had consistently requested the parties to review the system as the current approach could not produce unqualified accounts. The Audit Committee is convinced that despite considerable professional effort and expertise, the existing approach is not tenable.

We acknowledge the considerable professional resource that the EFA dedicated to the consolidation, the regular on-going engagement of the NAO, and the focus placed by the EFA on learning lessons to manage and mitigate where possible the reoccurrence of issues from the 2013-14 accounts in the 2014-15 accounts, with the primary approach of improving the process for future periods.

We continue to urge the EFA, the department and HM Treasury to implement alternative approaches and whilst we are pleased to see joint working, we would want this to achieve an unqualified set of financial accounts. We remain extremely concerned that the adverse opinion of the accounts will continue unless the department and HM Treasury's alternative solutions to the existing process can produce relevant financial statements that are useful for Parliament and other users of this information.

We would commend the work that the EFA has undertaken to monitor individual academies' financial health, and the transparency that has provided, which should be further enhanced by the "Sector account".

Taking into account our work during the year, we have concluded that the EFA's accounting officer can take assurance that overall governance, internal control and risk management systems are operating reasonably in the EFA.

In 2015-16, we will continue to undertake the activities outlined above to support and provide assurances to the accounting officer. We will also:

- focus on reviewing the management of the EFA's investment in ICT systems as we regard this as critical for the EFA going forward
- support the accounting officer to undertake thorough and effective accountability reviews
- continue to place emphasis on the EFA's external assurance and financial irregularities of funded institutions, and the processes for controlling, reporting and mitigating risks

Internal assurance

Informed by the work of our executive managers responsible for our internal control framework, I have reviewed the EFA's governance, internal control and risk management arrangements. There has been continuous improvement throughout the year.

I agreed an audit plan with internal audit, including high-level scope and broad timing for each of the reviews. The early identification of issues by internal auditors enables the EFA to manage risks better and to put improved controls in place. Internal audit operated from a risk-based audit plan designed to identify and address potential issues early on. During the year, internal audit carried out 49 cross-group reviews that included aspects of the EFA's work. Internal audit gained further assurance through its direct audit work across the departmental group including the EFA, excluding academy trusts. These audits proved effective in prompting improvements in the EFA's control environment.

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

The report highlighted the following:

- EFA management and oversight of funding risk continues to be effective. All funding audits completed received at least moderate assurance. A key focus of work this year has been the quality assurance frameworks in place for allocations that were reviewed for the Dedicated Schools Grant, 16 to 19 and academies. In all instances, the EFA had robust arrangements in place
- the EFA is taking steps to strengthen further the underlying integration and effectiveness of ICT systems as well as data supporting funding allocations and programme payments.
- the risk to the department and the EFA from failure of governance and financial control within academy trusts remains. Pressures of further rapid expansion of the sector alongside the EFA's capacity to deliver presents further challenges

We are actively managing the risks and issues to which the head of internal audit's assurance report drew my attention, using our risk management arrangements, and our Audit Committee has discussed the risks and issues. We continue to work to improve our progress reporting including ensuring that the EFA defines clearly anticipated project benefits at an early stage. We continue to improve our risk assessment of academy trusts and through Fit for the Future we are aiming to ensure that we can meet the challenges presented through the expansion of the EFA's operations.

Internal audit investigations

We have a zero tolerance approach to fraud and financial irregularity involving EFA funding; and the EFA investigates thoroughly all allegations of fraud or attempted fraud.

Between April 2014 and March 2015, the department's Internal Audit and Investigations Team conducted one investigation on our behalf. This related to allegations surrounding manipulation of attendance figures and safeguarding issues at an academy. The Internal Audit and Investigations Team and an education adviser undertook an initial visit to determine whether there was any substance to the allegations. Further to their confirmation that inaccuracies in reported data had been identified, and owing to the nature of the allegations, the academy was required to commission a full independent review. A neighbouring local authority's education improvement service undertook this review. The academy was also required to develop its own action plan to address the concerns.

The subsequent report and action plan were provided to the EFA for review. Along with disciplinary action taken against 3 staff members, the EFA determined the action plan to be an appropriate way forward. No fraud was proven but the review confirmed evidence of irregularity. The EFA closed the case but external processes are ongoing.

We publish completed reports in line with our publishing policy[6].

The Risk Analysis Division also conducted 15 fact-finding visits to academies, of which 9 cases are on-going, one case we have closed but external processes are on-going and 5 further cases that we have closed. Of the 5 closed cases, we found no evidence of irregularity in 3 cases and evidence of irregularity in 2 cases. In both cases Risk Analysis Division identified inadequate governance and financial control arrangements. The findings were discussed and agreed with the academies, including recommendations to resolve the issues and improve control arrangements. Action was also taken to recover the funds, which though not significant, were identified as irregular. Caseworker colleagues continued to monitor implementation of recommendations to resolution.

From 1 April 2015, responsibility for investigating allegations of fraud and financial irregularity relating to the EFA and education providers transferred from the Internal Audit and Investigations Team to the Risk Analysis Division. This included responsibility for referring cases to the police where considered appropriate. The move of investigations to the Risk Analysis Division has been made possible by the training of 15 members of the team to gain a Certificate in Investigative Practice.

[6] EFA Publishing policy:https://www.gov.uk/government/publications/efa-investigation-publishing-policy/efa-investigation-publishing-policy

External assurance

Assurances on entitlement to, and proper use of, EFA funding

The Risk Analysis Division prepared an assurance statement for me that forms the basis of the assurance I provide to Parliament on the regularity, propriety, and value for money of the funds we pay to providers. The Audit Committee endorsed the assurance plan (which ran from July 2014 to June 2015, previous year July 2013 to June 2014) which formed this comment. In addition to the direct audit work undertaken by the Risk Analysis Division (predominantly visits and reviews of financial returns), and by other funding bodies under the Joint Audit Code of Practice, we continue to work with representatives of academy trusts to refine the frameworks that underpin much of this work; such as the academies accounts direction and the academies financial handbook.

The Risk Analysis Division has been promoting awareness and understanding of the framework through a series of online presentations and webinars. The EFA published the first of these in July 2014 and they have proven to be an effective way of delivering key messages. As the number of trusts has grown, this approach allows us to engage more people at lower cost to both the EFA and trusts. Alongside our normal events programme, in September 2014 we held a workshop for academy trust auditors which was attended by over 150 auditors representing 80 firms. Following the positive feedback received we held a second event in September 2015 which was attended by over 200 auditors representing 98 firms.

Completion of the assurance plan

The Risk Analysis Division delivered its 2014-15 assurance plan in full. The division was able to report substantial assurance across almost all areas. The division's report highlighted some limitations, including several cases of financial irregularity.

The principal limitations are as follows:

1) Several instances of irregularity were identified through our review of academy financial statements and accounts returns. These include:
    - 26 related party transactions where academy trusts were unable to demonstrate full compliance with our requirements. We have written to those academy trusts to ensure they comply with requirements in future
    - 2 severance payments made without prior approval from EFA and HM Treasury as required by Managing Public Money. These payments are awaiting retrospective approval from HM Treasury
2) There were some high-profile cases of irregularity at academies and sixth-form colleges identified through investigation, or fact-finding reviews. The Risk Analysis Division continues to work with each institution in order to reach a satisfactory resolution.

The basic need and local authority capital maintenance funding streams represent approximately 30% of the total capital grant allocations. These funds are not ring-fenced and are not time limited. The terms and conditions of grant for these schemes are so widely drawn that it is not appropriate to perform specific assurance work. Local authorities' section 151 officer returns do not currently cover these funds, although the use of these funds is subject to local authority external audit and the general provisions of Section 31 of the Local Government Act 2003 regarding the limitations on the use of funds for capital purposes. These arrangements have been in place for some years and there is no direct evidence that the EFA's funds have not been applied for the purposes intended.

3) We received all but two financial statements due within the 2014-15 assurance year. One academy trust did not submit their financial statements because the only academy within the trust, Discovery New School, closed in April 2014 and the trust was dissolved. Totton Sixth Form College was the only college that failed to submit financial statements. It was subject to an ongoing Financial Notice to Improve issued in 2013-14 and merged with another provider from 30 November 2015. The college's draft final accounts and auditor's report for 2014-15 do not indicate any issues other than 'going concern' matters related to the merger. We conclude that the risk of there being significant unidentified irregularity at non-returners is low.

4) Our testing of student support funding has produced an error rate of 8.1% for bursary funding (in 19 out of 102 institutions visited), 40% for the new funding stream of free meals in further education (in 4 out of 19 institutions visited) and 22.6% for the new funding stream of Residential Bursary Fund (in 4 out of 7 institutions visited). Therefore the Risk Analysis Division has restricted its assurance opinion in this area of funding. The proportion of institutions with high error rates was not significant for bursary (7%) or free meals (21%). In Residential Bursary Fund, the high error rate relates to incorrect claims for transport costs; hence we will revisit those that still have high transportation claims in 2015-16. In addition the Risk Analysis Division will continue to liaise with the EFA student support team to clarify the guidance issued to institutions. All funding errors identified from the above audits are reported to the EFA Student Support team, who have confirmed that they have already, or are in the process of, recovering the reported funding errors for the 16 to 19 bursary fund. In addition to recovering the funding errors they will consider whether allocations for those institutions need to be adjusted.

The NAO

In March 2015 the NAO published their investigation into government travel expenditure[7]. The EFA was one of 10 government departments selected for review. The report identified several areas of weaknesses in the department's travel policies including:

- lack of checks provided to identify off-policy and/or suspicious bookings
- lack of regular sample checking of expense claims
- all staff being allowed to self-certify claims
- receipts not being retained for all expense claims
- evidence not being kept in all cases where first-class travel was cheaper than standard class

Following the findings of the NAO's report, as part of the DFE, we have introduced a new travel and subsistence policy to address the points raised by the NAO. All claimants must now ensure that their line manager approves any expenses that may be incurred and confirm that the travel arrangements comply with the travel and subsistence guidance, before making a booking or incurring costs for which a claim will be made. The line manager's approval must be in writing and retained by the claimant and line manager for audit purposes. Additionally we audit a random sample of expenses each month to confirm compliance with the travel and subsistence policy.

The NAO published two value for money reports relating to the EFA in 2014-15. The studies were:

- 16-to-18 year old participation in education and training[8]
- Academies and maintained schools: Oversight and intervention[9]

In *16- to 18-year-old participation in education and training*, the report found that, although the percentage of 16-18 year olds in education and training has increased, the Department needs better information on which of its reforms are effective, so that it can decide which to keep, stop or change.

[7] NAO report: Government travel expenditure:https://www.nao.org.uk/wp-content/uploads/2015/03/Investigation-into-government-travel-expenditure.pdf

[8] NAO report: 16-to 18-year old participation in education and training https://www.nao.org.uk/wp-content/uploads/2014/09/16-to-18-year-old-participation-in-education-and-training.pdf

[9] NAO report: Academies Oversight and Intervention:https://www.nao.org.uk/wp-content/uploads/2014/10/Academies-and-maintained-schools-Oversight-and-intervention.pdf

In *Academies and maintained schools: Oversight and intervention*, the NAO concluded that the department's system for overseeing schools is still developing. Whilst national education performance has improved, there are gaps in the understanding of the effectiveness of the different interventions made in underperforming maintained schools and academies. The department agreed with the report's factual accuracy but disagreed with some of the report's conclusions and recommendations.

The NAO also published Investigation into the EFA's oversight of the related party transactions at Durand Academy[10] in November 2014 which is discussed further within the section on operational policy, development and delivery. The investigation examined the nature of the conflicts of interest, the control framework for related party transactions and the EFA's response to issues identified at Durand Academy Trust.

The NAO published Value for Money reports, relating to the EFA, on *Funding for Disadvantaged Pupils* in June 2015[11], and *Overseeing financial sustainability in the further education sector* in July 2015[12].

Fraud and financial irregularity in the EFA group

This part of the report is about the EFA group. I have charged our Anti-Fraud Committee with creating and maintaining anti-fraud culture across the EFA group by:

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

We have developed further our irregularity log that provides summary management information and a single up-to-date position on every case. The log enables us to analyse

[10] NAO report: Investigations into Durand Academy:https://www.nao.org.uk/wp-content/uploads/2014/11/Investigation-into-the-Education-Funding-Agencys-oversight-of-related-party-transactions-at-Durand-Academy.pdf

[11] NAO report: Funding for disadvantaged pupils:https://www.nao.org.uk/wp-content/uploads/2015/06/Funding-for-disadvantaged-pupils.pdf

[12] NAO report: Financial sustainability in the education sectorhttps://www.nao.org.uk/wp-content/uploads/2015/07/Overseeing-financial-sustainability-in-the-further-education-sector.pdf

fraud and irregularity trends, target our resources to the greatest areas of risk, and identify and publicise key lessons in order to promote education provider awareness.

We have committed to publishing investigation reports and have developed a transparent policy for doing so which makes clear that we will publish our investigations into concerns about the use of public funding. We have reiterated our policy in the 2014 academies financial handbook.

Risk management

This part of the report is about the EFA. Each of our 4 programme boards have risk management as a focus, and use a clear, timely route to escalate risks to the executive management board for their information, or to seek advice or action. Each quarter the executive management board scrutinises both programme delivery risks and corporate risks, their countermeasures and contingencies and provides advice and challenge to ensure the EFA is effectively managing the risks. The board also selects risks to escalate to the department's performance and management committee, with the director general's approval, either for action or for information.

To strengthen our risk management framework, this year we refined and focussed our strategic risks to better reflect the key corporate risks we face, and introduced a corporate risk register linked to the themes of the Fit for the Future change programme. We also updated our risk appetite statement for assessing our tolerance to risk, and risk escalation criteria.

Our Audit Committee provides independent review and advice on our risks, how we are managing them, and our system for identifying and reporting on them. The quality of the advice and challenge we receive has led to us developing firm principles to identify our top risks, and scrutinise them in a more targeted way.

Over the year, we have effectively managed the high risks associated with the changes to funding policy led by the department, to deliver a funding system that is accurate and timely. We managed successfully one of the key departmental risks 'that the allocation and distribution of funding to schools and post-16 institutions is not accurate or timely'. We reported progress on managing this risk to the department's management committee in May 2014 and December 2014. In May 2015 we expanded reporting to cover the risk 'that the financial health of the sector adversely affects the supply of high quality learning provision,' and reported on both risks to management committee in May 2015, moving to reporting to performance committee in September 2015.

The executive management board did not escalate any risks to the department's management committee during the 2014-15 year but we continue to manage one ongoing risk:

- There is a lack of market interest in our capital projects as the economy has picked up with a recent boom in the (new build) housing market. We have taken steps to mitigate this risk including increasing rates on primary schools, packaging schemes differently to make them more attractive to the market and setting up a working group with a focus to review the funding rates

During the year, one of the risks we were managing came to fruition and we experienced one near miss.

- Our risk that the EFA's 2014-15 consolidated accounts would attract qualifications from the Comptroller and Auditor General was realised. In 2015-16 we have a related high risk emerging: that working jointly, the department and the EFA are unable to devise and demonstrate a new approach (discussed within the New Reporting Framework section of the governance statement) to the consolidation of academy trusts' forecasts and outturns that meets HM Treasury and Parliament's expectations so that the new approach is in place for 2016-17. Mitigating actions are in place to manage this risk and we continue to work with the department and HM Treasury.

- An attempt in December 2014 to defraud the EFA of £35.4 million failed. The EFA took disciplinary action and set an action plan place to address the security weakness exploited. We reviewed any further exposure to risks, improved the effectiveness of existing controls and introduced additional controls. We have progressed and implemented necessary actions.

Shared services

The department's operating model uses a range of shared services, detailed in the notes to our accounts that provide many of our business systems to protect business continuity. The relevant corporate board reviews and challenges the quality of these services and the board escalates issues to me if required.

Business continuity

We have responsibility for managing our business continuity requirements and plans, aligning with the department's wider arrangements. In March 2015, I published an updated version of the EFA's business continuity plan to provide clear guidance to staff on who they should contact in the event of a range of significant disruptions. The plan outlines the use of accurate call trees by line managers to contact and manage their staff and provides detailed steps to take to ensure continuity of business critical activities. Alongside our business continuity plan, the department's IT group (successors to Delivery Solutions in 2015-16) and the EFA finance division have their own continuity plans due to the critical nature of their work.

We tested the business continuity plan in April 2015 and while the plan was successful in 3 out of the 4 groups, namely the Academies and Maintained Schools Group, the Young

People's Group and the Risk Analysis, Finance and Data Group, it was not successful for the Capital Group. Further, a local site test in the EFA's Earlsdon Park site in July was not successful. We have reviewed the reasons for these testing successes and failures and have learnt valuable lessons on what works well but also how we can improve. We will continue to do cross-group, cross-site testing of the business continuity plan every 6 months with site-specific testing also being completed at a different site every 6 months.

2.1.3.2 Operational policy development and delivery

I am content that the arrangements for governance, internal control and risk management of our capital and revenue programmes provided me with assurance that these are adequate to ensure policies meet ministerial intent. The department aims to develop and appraise policies using the best available evidence analysed using sound methodologies, in conjunction with stakeholders and partners. The department subjects policies to robust deliverability testing. I am content that departmental policies the EFA implements provide good guidance and direction to those delivering services to children, young people and parents, and that the policies link clearly to our core values and objectives.

Further to our strengthening of the academies' framework relating to related parties from November 2013 we published our thematic review[13] of related party transactions in November 2014. We completed a focussed review of academy trusts that reported a high value or high number of related parties in their 2013/14 accounts. This review involved contacting the identified academy trusts to follow-up on the nature of their related party transactions to ensure their compliance with the academies financial handbook.

In January 2015, for the first time, the Parliamentary Committee of Public Accounts called an academy trust's accounting officer to appear alongside me at a hearing. The committee called Sir Greg Martin, the accounting officer of Durand Academy Trust, after the NAO investigated our oversight of the trust's compliance with guidance on conflicts of interest and related party transactions.

We have responded to the committee addressing their concerns. The Permanent Secretary's response[14] was published. The EFA issued a Financial Notice to Improve to Durand Academy Trust in March 2015. The investigation remains ongoing and the Financial Notice to Improve is still in place. Additionally, the Charity Commission continues to investigate the actions of Durand Education Trust for which the EFA has no responsibility and will publish their findings at the conclusion of their investigation.

[13] Review of related party transactions: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/390210/EFA_review_of_related_party_transactions.pdf

[14] Public Accounts Committee - Durand Academy - http://www.parliament.uk/documents/commons-committees/public-accounts/250315-Rt-Hon-Margaret-Hodge-from-Chris-Wormauld-Durand-Education-Trust.pdf

We have established a cross-department steering group including policy teams and the department's Funding Policy Unit for our post-16 provision. The steering group is monitoring the performance and impact of the national funding formula by reviewing data reports, audit feedback, information from stakeholder associations and queries received. This has led to a review of how institutions are delivering on and recording planned hours. The next priorities are to provide options to ministers on how formula protection funding will work from 2016/17 and to implement the large programme uplift.

We planned high needs funding allocations for 2015/16 for our high needs students in conjunction with colleagues across the EFA and the department through the high needs funding coherence programme. This enabled us to present a single set of funding arrangements to our customers that covered all aspects of the funding system. We continued to work with our high needs external user group to ensure that our external customers and stakeholders were engaged in the planning process.

The new property data survey and improvements to the school capacity survey have enabled us to target funding and intervention, to monitor impact of funding, and to plan ahead strategically. Through the PSBP we are directly tackling the condition need of the very worst condition buildings; and through the comprehensive reforms to the condition funding allocations we are ensuring funding is allocated fairly to where it is needed.

2.1.3.3 Programme and project management

Each capital and revenue programme (and sub-programme) the EFA operates has a clear accountability structure. The programme boards receive monthly delivery and risk reports that allow the boards to track progress against delivery plan milestones. The business performance and risk team draw together monthly reports for the executive management board from all of the programme offices. These reporting arrangements also include 3 highlight reports from the EFA's Delivery Solutions division (for 2014-15): customer exchange, operations and other IT delivery.

I use these reports, in meeting with my senior team, to inform discussions on priorities and any emerging high-level risks and issues. These arrangements have enabled programme boards and the executive management board to plan and manage our resources and to mitigate risks efficiently and effectively.

Specific examples of good practice in our programme and project management are:

- the rigour with which the academies programme measures and uses performance and management information, for example to improve our performance in answering correspondence from academies and the public.
- our standardisation of the approval process for the PSBP's capital design and build projects along with the development of guidance has meant that Capital Group has removed the (on average) 2 week delay between the point of a programme capital design and build contract being ready for signature and it being signed. The EFA

has ensured that payments are made in accordance with these contracts thereby avoiding any late payment interest charges. This has enabled Capital Group to deliver on the dates communicated to schools regarding when construction on site will start.

- how the Young People's Group has established the financial awareness priority development project to develop a financial understanding of the institutions we fund. This project aims to allow improved decision making in financial intervention, to improve understanding of provider financial health and to allow better assessment of the impact of funding allocations

2.1.3.4 Financial management

The EFA

This part of the report is about the EFA. I am content that overall processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money. I consider that the EFA's financial management was sound throughout the process of allocating and paying the £56 billion of capital and revenue funding.

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

The work of internal audit identified some weaknesses in the controls in place over accounting policies for capitalisation of IT spend, inconsistencies with the application of budget variance processes and improvements in the payments system. We have agreed appropriate mitigating actions and internal audit will undertake further work in 2015-16 to assess progress with implementation.

The Planning, Performance and Data Analysis division reports monthly, or as requested, to the executive management board and elsewhere as required. The financial reporting covers a range of information including the outturn position to date and year end forecasts. We also complete a monthly expenditure return for the department in line with requirements to ensure our business is transparent.

We managed variances in close cooperation with the Infrastructure and Funding Directorate allowing maximum flexibility in the department's management of public funds. Where we identified significant underspends the department redeployed them to ministerial priorities. Measured against grants paid, the EFA's revenue expenditure was 99% against budget and capital expenditure was 89% against budget for 2014-15.

We assure local authority capital grants by conducting an annual capital grant outturn exercise. This exercise confirms what proportion of the capital grant paid to local authorities was spent within the permitted spending period. We required the local authority's responsible officer to sign a spending return, confirming that the information provided is accurate and that the local authority has spent funds for the purposes intended. Where the local authority has not spent grant we then consider the specific circumstances of the grant and whether we should reclaim it. We request a similar assurance return for all other grants paid to local authorities such as dedicated school grant and pupil premium.

The departmental accountability statement[15] includes information on governance and assurance arrangements with respect to the localism agenda, and how we obtain assurance over funds that local bodies distribute.

Capital projects

The EFA's capital programme operates within a highly commercial context. Acquiring the large number of sites needed in a fast-moving property market for new free schools is both commercially and technically challenging. There are also challenges in attracting and managing commercial contractors to refurbish school buildings under the PSBP. This makes EFA's capital programme inherently different to the activities undertaken in many other parts of government.

The EFA has put in place controls to balance the requirement for public accountability with delivering this challenging programme. At the programme level, free school and PSBP capital activity is governed by programme boards reporting to a Capital Programme Board and ultimately, to EFA's Capital Oversight Board. The Major Projects Authority within the Cabinet Office also subjects the PSBP to scrutiny.

At the project level, the EFA assess all free school applications at the budget approval and change control stages. The EFA capital approvals review panel comprising independent property, technical and financial reviewers scrutinises projects' regularity, probity, value for money, risk and affordability. Independent peer review of the PSBP, establishes whether the scheme fits with the programmes policy and objectives, is technically deliverable and is affordable. The Head of Assurance and Approvals, and both the deputy director and senior reporting owners of the PSBP scrutinise material changes for regularity and propriety.

[15] Departmental Accountability Statement: https://www.gov.uk/government/publications/accountability-system-statement--2

EFA management escalates capital projects to the accounting officer, ministers or HM Treasury if these assessments raise concerns around cost and value for money, risk to public funds, propriety or include unusual characteristics. During the 2014-15, the EFA escalated 105 free school projects and 12 PSBP projects to the accounting officer, 50 free school projects to ministers and 40 to HM Treasury.

The EFA has reviewed these processes as the capital programme has expanded and developed. The EFA considered the NAO's audit of the 2014-15 accounts as part of this review. The audit identified certain capital transactions types that, even if considered prudent, value for money and necessary to deliver the capital programme, may challenge the boundary of compliance with Managing Public Money. There were also some transactions where HM Treasury approval should have been secured (for overage clauses) as well as cases, amounting to £70k, where additional income should have been transferred to the Consolidated Fund. HM Treasury have provided retrospective approval for these transactions.

I am therefore clarifying the current scheme of delegation in place with HM Treasury to ensure that EFA can continue activity essential for expanding and improving the school estate without the risk of impinging on Managing Public Money. The scheme of delegation includes the following transaction types:

- acquiring a site in advance of a specific project being identified where there is high basic need and a clear value for money argument
- entering into transactions with more complex commercial arrangements where such arrangements are value for money and essential – for example purchases including surplus land parcels subsequently leased back to the vendor
- construction of related infrastructure (for example access roads) where essential to the school project
- arrangements for receipt of income from commercial tenants of acquired sites where there are arrangements in place to manage out the tenant

The capital programme is large and complex and there are inherent challenges in accounting for a large number of individual projects. For example, reviewing lease agreements and design and build contracts to assess the existence of contingent liabilities and provisions over 900 individual projects is challenging. It is also difficult to collate the evidence required from third party contactors needed to calculate accruals based on the value of construction work completed at the year-end for each project and we continue to improve our processes for doing so.

Recognising the rapid growth in the scale of EFA Capital activity, I have commissioned a number of improvements to financial management of capital transactions including:

- improvements to documentation and record keeping
- enhancement of training and guidance so that staff responsible for leading capital projects have a sound understanding of Managing Public Money

- revision of internal processes for project approvals to further embed assessments of regularity early on in the cycle
- strengthening of project monitoring to ensure potential losses and write-offs are identified earlier
- further developing policies and processes for capital accounting to minimise errors and misstatements including monthly accrual accounting

More widely, EFA Capital Group has conducted a review of its operating model. The review included financial management arrangements within its scope and considered the results of an internal audit review of financial management within Capital Group. I will ensure that recommendations from that review are fully implemented.

The EFA group

This part of the report is about the EFA group. For 2014-15, the EFA group consolidated the accounts of the 4,900 academies open at 31 March 2015. The group accounts included academies' land and buildings valued at £33.3 billion, their cash holdings of £2.9 billion and pension deficits of £4.0 billion.

The EFA continues to be supported by Deloitte in consolidating academy trusts' accounts, budget forecasts and certain financial reporting activities, including initial drafting of the EFA group financial statements. As in previous years, the EFA is fully accountable and responsible for the outcomes of Deloitte's work and continues to have in place appropriate quality assurance and review processes over that work.

The academies financial framework steering group reporting to the executive management board and supported by a technical panel oversees all aspects of the programme, including the delivery of the annual report and accounts. In particular, that oversight has focussed on updating and improving accounting policies and processes for adjustments related to our use of academy trusts' academic year end accounts, assets under construction, land and buildings and pensions

The challenge of consolidating academy trusts into the EFA group accounts is unprecedented. On the department's behalf, the EFA group consolidates the accounts of thousands of independent bodies, the largest consolidation in the UK and well over four-fifths of the total number of UK public sector bodies. Most academy trusts have converted from local authority maintenance and have not, for the most part previously prepared formal audited financial statements on an accruals basis. While academy trusts strive to prepare financial returns to the EFA group derived from their financial statements to the best of their ability, this is a recent and in many cases new and complex demand on most of them. Legitimate differences between academy trusts' financial reporting framework as charities and the central government framework exacerbate these demands as academy trusts must 'translate' their financial statements into terms the EFA group can consolidate.

The EFA group is acutely conscious of this need to balance its responsibilities against the group's collective resources. We seek to balance our demands of academy trusts against the likely impact on the EFA group financial statements. We could potentially address some of the difficulties in preparing the EFA group's consolidated accounts by requiring academy trusts to make extended and additional financial returns to reporting dates aligned to the government financial year or by requiring academy trusts to changes their year end. While additional requirements may in some cases appear to be the solution they would be at very great and real financial cost to academy trusts and would be considerable additional burdens on academy trusts' limited internal financial resources.

The scale of the consolidation task is increasing and changing year on year. The Comptroller and Auditor General gave an adverse opinion on the EFA group's 2013-14 accounts. The drivers of this opinion were limitations and errors arising from our consolidation methodology as well as on our recognition of £27.1 billion of academy land and buildings. Our focus in 2014-15 was to address the causes of these limitations, errors and uncertainties as far as possible within the existing approach. In doing so we recognised that at best we would minimise, rather than eradicate the limitations and errors whilst the same methodology was in place. We also recognised that the continual increase in the numbers of academy trusts and the complexity of our capital programmes' interactions with academy trusts introduced the potential for new and additional error in our consolidation.

The growing complexity in the consolidation process was a significant factor in the delays to the preparation and audit of the 2014-15 financial statements. The Agency believed that it would be possible to lay financial statements prior to the statutory deadline of 31 January 2016 but, in early January, it became clear that more work would be necessary to enable the Comptroller & Auditor General to come to an opinion on the financial statements. Accordingly, a Statutory Instrument was laid on 29 January to adjust the deadline from 31 January to 29 April 2016.

The additional time has allowed the Comptroller & Auditor General to review the audit trail and satisfy himself that the consolidation has been carried out in accordance with the process we have established. It has also enabled us to make a small number of adjustments to the financial statements which reduced the overall levels of error and uncertainty. Taken together this has enabled the Comptroller & Auditor General to come to an opinion on the financial statements. Nevertheless, there are some very significant complexities in the EFA financial statements.

The complexities are in four main areas:

- opening balances
- use of academy trust accounts to 31 August
- use of unaudited academy trust returns
- recognition and valuation of academy trust land and buildings

Opening balances

A major and continuing area of concern is the accuracy of how opening balances for academy trusts are reflected in the consolidated accounts. To mitigate this we reviewed the range and focus of our validations of academy trusts' annual accounts returns, targeting our work and completing substantive testing on specific and material risks we highlighted. Increased validation testing built into our consolidation system now allows for us to identify errors early on and take corrective action. We also completed a thorough review of our opening balance sheet, posting a number of prior year adjustments in the EFA group accounts to reflect the outcome of that review.

Use of academy trusts' accounts to 31 August

The essence of the EFA group's consolidation approach is that we will use academy trusts' academic year accounts to 31 August, where available, as a basis for the EFA group's 31 March year end. This decision was in the interests of avoiding:

- either requiring academy trusts to prepare a second set of audited accounts to 31 March, simply for the purposes of the EFA group consolidated accounts. This requirement would have imposed a very great financial cost on academy trusts

- or requiring academy trusts to adopt 31 March as their financial year end. This year end would not suit academy trusts' business cycle that follows the academic year. In addition, the later receipt by the EFA group of academy trusts' financial statements to 31 March would make it very unlikely that the EFA group would be able to publish its own financial statements by the following 31 January, the statutory reporting deadline.

Accordingly the EFA group continues to base its consolidation on academy trusts' accounts to 31 August 2014 where available. Where academy trust accounts are to a different year end or for a different period than 31 August we apportion the accounts to an equivalent value for the EFA group's year end. Our approach to this is detailed further in section 2.3.1: Consolidation of annual accounts. We do this, on the assumption an academy trust's financial results for any one month are reasonably constant and can be used as a proxy for the EFA group's financial year.

In using our approach we focus on two main challenges. One of these is for the EFA group to align the opening balances of the EFA group as at 1 April 2014 with those reported at 31 March 2014. We acknowledge that our use of returns to two year ends can cause misalignment of these balances. The other aspect is for us to minimise any double-counting by us of balances reported by those academies making a return to 31 March 2014 that then went on to make a return to 31 August 2014. We address these aspects by processing an adjustment to deduct as a 'carve out' the balances to 31 March from the balances to 31 August and then we create an estimate for the trading activity of this population of academy trusts' results from 1 September to 31 March. These aspects cover a very large number of academy trust financial returns. For 2014-15, we subjected 1,971 returns from academy trusts to the proxy assumption, and 482 to both the proxy assumption and the carve out and pro-rate adjustments.

The EFA group understands that this is an unconventional approach that requires a high standard of proof of its efficacy. Accordingly we tested our approach through a comparison study comparing 170 academy trusts' financial results to August 2014. The EFA funds academy trusts to produce additional returns to inform this study and allocated £2 million to the study for 2014-15. Whilst £2 million to carry out a comparison study is a considerable cost, we recognised at the outset that it was unlikely to be sufficient to remove the limitation of scope on that population of academy trusts. We did consider whether a more substantial sample might materially improve the validity of the study but concluded that the level of uncertainty over the outcome did not justify the disruption to a significant number of academy trusts and the additional cost involved.

We describe both these key assumptions and the comparison study in more detail in the financial commentary in section 2.3: Parliamentary accountability and audit report.

The comparison study showed us that in aggregate there are significant variances between academy trusts' balances at 31 August and the following 31 March. These variances are detailed in section 2.3.1: Consolidation of the annual accounts. The comparison study is by nature a sample and any sample produces uncertainty about how representative its results are of the population sampled. We also accept that, given the limited size of the sample we used in the comparison study, there are material potential extrapolated uncertainties in the EFA group's 2014-15 account arising from our use of two different year ends.

A further complexity relates to large multi-academy trusts that added further academies during the financial year. Depending on when the academy joins the multi-academy trust, the latter may not have included fully the financial results of the new academy or academies in its return to the EFA group to 31 August 2014. The review reassured the EFA group that the sums included in the EFA group accounts for these multi-academy trusts was a reasonable proxy for their actual results but we accept that the sample size was small and with the available data did not meet the threshold necessary for the NAO to place reliance on the results. Accordingly we accept the NAO's decision to limit its scope in relation to these academy trusts.

The EFA group's use of academy trusts' audited accounts to 31 August, with all of its consequences, is a direct result of the EFA group's intent to manage burdens on academy trusts in discharging the EFA group's responsibility to account for a very large sum of public money. We did consider whether it would be possible for the EFA group to require academy trusts to prepare a second set of audited financial statements to 31 March 2015, or whether we could mandate a change in academy trusts' financial year end to 31 March. However, we concluded that we did not have the legal powers to mandate either option and, in any event, the requirement to prepare a second set of financial statements would be prohibitively expensive.

Use of unaudited academy trust returns

While the EFA group does not require all academy trusts to prepare audited accounts to 31 March, the group does ask newly opened academies to do so where these academies are not included in audited accounts to 31 August 2014. This is a continuation of the EFA group's practice in 2012-13 and 2013-14. In respect of 2013-14 the NAO concluded that this practice led to material uncertainty in the EFA group's accounts for that year.

The EFA group accounts for 2014-15 include 469 unaudited accounts returns to 31 March 2015 reporting outcomes of newly opened academies in financial year 2014-15. This is the "consolidation block 2", or "CB2" group of academies). These CB2 returns cover grant and other income of £1.1 billion, fewer than 8% of total academy trust grant and other income of approximately £15 billion in financial year 2014-15.

The EFA group chose not to impose the costs of an audit of these CB2 accounts returns on the academy trusts concerned, instead performing limited validation and sampled assurance visits to a selection of these academy trusts. These academy trusts have gone on to prepare audited accounts for academic year 2014/15, a period overlapping these academy trusts' relevant expenditure contained in their financial year 2014-15 accounts returns.

During the assurance visits, the EFA noted that a number of the academies sampled were preparing their financial results using cash rather than accruals accounting, the latter being the accepted approach. The EFA group has decided to neither require these academies to prepare accruals accounts nor to attempt to adjust for any differences between the actual results in the cash accounts and estimated results in accruals accounts. The EFA group took this decision to avoid further expenditure in preparing revised accounts and in light of the entire CB2 academy grant and other income being fewer than 8% of the total for the EFA Group; making the errors in preparation immaterial to the overall outcome.

Separately, during the validation procedures performed on the CB2 returns the EFA group noted a single instance of an academy which had submitted both an August and March return double counting a building asset. While the EFA group has not adjusted for this in its 2014-15 accounts, the group completed work to determine that any other instances this error by other CB2 academies could not be material to these accounts.

However, as a result of these two issues the NAO considered there is insufficient audit evidence over the unaudited CB2 returns and accordingly are limiting the scope of their work to exclude this population of academies, except for the separately sourced valuations of their land and buildings, and pensions.

In view of the NAO's concerns over the EFA group's inclusion of returns by CB2 academies in the group's 2013-14 accounts, the group carried out additional work on the CB2 returns for 2014-15. This included:

- ensuring that grant income recorded by CB2 academies matched grant paid to them by the EFA
- verifying that the majority of the value of transfers on conversion reported by CB2 academies related to land and buildings transferred to the EFA group
- obtaining independent pension valuations.

As a result of this additional work the EFA group considers that the group's 2014-15 accounts contain uncertainties relating to approximately £300 million of other income, £470 million of staff costs, £300 million of other costs and £135 million of cash. The EFA group has decided not to provide further evidence to reduce the value of these uncertainties.

The EFA will obtain appropriate assurances, including on regularity of spend, from the academic year accounts. The EFA is aware of the total sum it paid the academy trusts and has evidence (from received budget forecast returns) that academy trusts will spend a very high proportion of these sums. The EFA group obtains independent valuations at 31 March 2015 of academy trusts' land and buildings and local government pension scheme liabilities (LGPS) as these are typically academy trusts' major assets and liability classes. Collectively this lagged assurance, evidence of spending and of asset and liability values represents the best available evidence whilst maintaining reasonable burdens and costs to the EFA group under the current approach to consolidation.

Recognition and valuation and of land and buildings

The final key area of uncertainty is the EFA group's ability to evidence its recognition of academy trusts' land and buildings, and for a significant portion of the sector, the valuation of academy trusts' land and buildings.

For land and buildings, we continued using independent valuations we commissioned, valuations that have proven acceptable in preparing our accounts. We continued to find it difficult to identify a suitable index for changes in valuation of academy trust land. By asking academies to give us more information on their land and buildings, we have improved our knowledge of differing models of ownership of land and buildings and our accounting recognition of these different models. We cannot yet claim that this analysis is as robust as the EFA group needs it to be. In large part this is due to many academy trusts' very mixed knowledge of their access to land and building assets from the trust's time under local authority or other control. This mixed knowledge has been a fact for many decades or in some cases longer and it is only the move to increased transparency in government financial reporting that has created an accounting challenge. A similar challenge exists in attempting to report the land and building assets of local authority maintained schools in the Whole of Government Accounts. The EFA group does not anticipate a swift resolution of this issue at an acceptable cost to public funds.

A further issue arose in 2013-14 in respect of the EFA group's valuation of academy trust land and buildings. For 2014-15, as in prior years the EFA group has commissioned independent valuations of newly opened academy trusts' land and buildings and newly constructed buildings using the depreciated replacement cost method. In April 2014, the department published Building Bulletins 102 and 103 (BB102 and BB103), replacing the previously published Building Bulletin 98. BB102 and BB103 revised the size of required school and academy buildings downwards. In line with the EFA group's depreciated replacement cost policy, this new standard had the effect of reducing the whole value of the academy estate in the EFA group's accounts.

In preparing its 2013-14 accounts, the EFA group decided on the grounds of value for money to obtain valuations under BB102 and BB103 only for those academies opening in that financial year, and not to commission retrospective revaluations under BB102 and BB103 of those sites valued in earlier years.

For 2014-15 the EFA group have sought to address the need to adjust retrospective valuations for BB102 and BB103. The EFA group commissioned its external valuer to update values, site by site, for all academies reviewed for the year to 31 March 2013. The EFA group identified that overall the averages from these revaluations for the whole population aligned closely to the requirements of the bulletin.

The EFA group noted however that the most significant variances in valuation were between rural sites compared to urban sites. The EFA group's earliest valuations, to 31 August 2012, had similar proportions of rural and urban sites to the revalued set for 2012-13. The EFA group decided it was better value for money to amend the 31 August 2012 valuations based on averages derived from the 2012-13 revaluation.

The NAO do not believe that EFA Group management have provided sufficient evidence for the use of this extrapolation, and accordingly have limited the scope of their audit work to exclude the £16 billion of total asset value that has been adjusted through this exercise, by £3.42 billion.

Accordingly, the EFA group considers that the consolidated results presented in these accounts through the use of the proxy, of unaudited returns and of the other accounting judgements and policies described in this report are the best possible representation of academy trusts' financial results for the year to 31 March 2015 given the constraints and limitations.

New reporting framework

This part of the report is about the EFA. Following the adverse opinion on the EFA group's 2013-14 accounts and the expectation that material error and uncertainty will continue under the existing reporting approach, the department and HM Treasury committed to work together to find a better solution. HM Treasury undertook to consider alternatives that provide more timely and robust information for use in their fiscal modelling and the Whole of Government Accounts into which the EFA group is consolidated.

The Committee of Public Accounts discussed and welcomed this recommendation to seek an alternative solution at its hearing on 26 January 2015. It has become clear that the current approach is not sustainable and the EFA has been working with HM Treasury to develop a revised financial reporting framework for the EFA and the department, consulting with the NAO as appropriate. A wide number of options for improving on the status quo have been considered. To ensure that Parliament has sufficient transparency and oversight of expenditure by academies the EFA group proposes that:

a) the departmental supply estimate and accounts (for both the departmental and EFA groups) are amended to cover financial year grant funding to academy trusts rather than consolidating the results and balances of academies using the current methodology

b) the EFA produces a new 'sector' report and accounts to show how resources are deployed and consumed within the academy sector by academic year.

If the proposals are accepted by Parliament, the new system will allow the EFA to lay its grant based annual report and accounts before the summer recess (which is not possible under the existing approach). The EFA will then go on to publish an additional audited sector report and accounts in the spring following the academic year end. The sector report will set out the financial performance of the sector aligned with academic outputs to inform better scrutiny and challenge by all stakeholders.

This approach does not fully align with the requirements of Clear Line of Sight (which aims to align budgets, supply estimates and accounts), principally because the sector report and accounts will be by academic year. The approach represents the best way to improve the transparency, clarity and timeliness of reported information for Parliament. The Alignment Review Committee, which advises HM Treasury on Clear Line of Sight issues, has now considered this approach and the committee has endorsed the approach as the best way forward subject to certain conditions being met and further approvals obtained through parliamentary process.

These proposed reforms will improve the accountability to Parliament of the sector, the EFA and the department, supported by more useable information. This approach is also aligned to the EFA's plans to improve financial management across the sector and to help the sector deliver efficiency savings over the next few years.

The EFA has designed this proposal to provide better accountability as the academy sector continues to grow. By avoiding the consolidation of bodies with different year ends the EFA will make a significant step towards improving the quality and transparency of information, as well as to addressing the underlying qualifications on the EFA's and the department's accounts.

The proposals offer improvements to the current arrangements but the proposals will need to be kept under review. Once the number of academy trusts ceases to increase, the EFA may be able to use more accurate data and modelling assumptions to determine academy net expenditure and to return to arrangements more aligned to Clear Line of Sight. The EFA will put in place appropriate governance and review arrangements as part of the package of reforms to ensure that the sector report remains suitable as time goes on.

The government's proposed approach will be sent to the House of Commons Liaison Committee in early 2016 to seek Parliamentary approval to proceed. The Liaison Committee will then consider the proposals with a view to the EFA and the department using the new reporting framework in respect of the 2016-17 financial year, with the first academy sector report and accounts for the 2015/16 academic year to be published in summer 2017.

The reason for the delay in the production of the 2014-15 accounts and the improvements that will be seen as a result of the new sector reporting framework were discussed at an education select committee[16] hearing in March 2016. At the hearing it was confirmed that although the accounts would be produced on the same basis as previously, proposed simplifications should mean that the publication of the accounts would not be delayed in 2015-16.

2.1.3.5 Delivery arrangements and achievements against business plan

Our business plan[17] sets out 18 priorities relating to the services we plan to deliver, how we will lead and govern the EFA, and how we will develop systems to best meet the needs of the government's reform programme. We underpinned this plan by delivery arrangements used to advance progress in each of the programmes, and accompanying delivery plans for each of the divisions. The performance and risk reports I scrutinise regularly and share with the executive management board satisfy me that we are performing well to deliver these plans.

I have set out some priority areas I view as being of notable success include how the Academies and Maintained Schools' Group and the Young People's Group have successfully collaborated to streamline and simplify their process for allocating high need school places and budgets and the merging of their respective enquiry services (in May

[16] Education select committee - http://www.parliament.uk/business/committees/committees-a-z/commons-select/education-committee/inquiries/parliament-2015/dfe-financial-management-15-16/

[17] EFA Business Plan - https://www.gov.uk/government/publications/efa-business-plan-2013-2015

2015). This has facilitated the sharing of best practice and the continued downward trend in the observed cost per enquiry. This allowed for the delivery of accurate and on-time mainstream formula funding allocations for 2014/15 by the Young People's Group and the Academies and Maintained Schools' Group earlier than in 2013/14.

The Risk Analysis, Finance and Data Group processed £56 billion of payments with by number 99.97% on time, 100% accurate and with 99.9975% to their initial intended destination. This is despite a one third growth in volume without a corresponding increase in staffing. The number of supplier's invoices the group paid also doubled while we reduced payment times. The Risk Analysis, Finance and Data Group continues to lead and deliver on the implementation of systems to support the effective operation of the EFA. Programmes such as Information Exchange have introduced an innovative and cost effective way of communicating with our customers while 'The Store' (a system used by the Academies and Maintained Schools' Group and the Young People's Group to calculate allocations for the various education establishments we serve) has allowed for sophisticated funding modelling and data management to industry recognised standards.

Capital group's success of locating sites to open 254 free schools and of completing 24 schools under the PSBP has achieved efficiency savings through economies of scale, more effective use of the existing space within academies and by developing simpler bidding processes. Additionally, the completion of the property data survey for 19,000 schools has allowed for the effective allocation of £4.2 billion funding announced in early 2015. This includes the condition improvement fund which is providing £367 million to improve and expand existing academy and sixth-form college buildings and consists of 1,366 projects.

2.1.3.6 Information: ICT management and data safeguarding

ICT investment plan

Work on the ICT investment plan continued throughout 2014-15 and has contributed to our continuing improved efficiency. A wide range of projects have contributed to this, including:

- Navision, the replacement for Coda, our core payment system, which went live in February 2015 with parallel running, consisting of payments and validation, led by the Risk Analysis, Finance and Data Group's finance division. This enabled the project team to identify any problems prior to the launch on 1 April 2015 and for an actual payment to be made. This reduced operating costs and reliance on third party providers.

- we continued to develop The Store (a system to calculate funding allocations) which successfully transferred over to a new environment in November 2014. This provides a more secure and resilient environment and removes the major risks we were facing on the old servers. Users now experience a faster system as a benefit of being transferred to a dedicated server.

- over 2 years we have invested 77% (£16.9 million) of the £22.0 million budget to deliver these results. During this time EFA's Delivery Solutions has merged with the department's Chief Information Officer's Group to create a new IT group for the department.

Information security

Our annual Departmental Security Health Check that included the EFA was reviewed by the department's Senior Information Risk Owner, the Departmental Security Officer and internal audit. The annual review of security took place between January 2015 and March 2015 and used in-house processes for evidence and assurance gathering and assessment, focussing on the delivery of the 8 security policy framework outcomes. A review of the department's security profile identified gaps in the formal documentation of the department's information risk policy, which the EFA has now addressed. Additionally internal audit conducted 2 audits, one focussing on cyber security and oversight and the other reviewing the department's levels of IT security maturity. The outcome of these audits was the completion of a service improvement and remediation plan to address the recommendations included in the audits. The department's IT group is managing implementation of this plan, with the Senior Information Risk Owner and Departmental Security Officer as key stakeholders. In summary, this plan will encompass:

- publishing and disseminating information risk policy, risk appetite statement and monitoring strategy & policy
- reviewing and improving the identification of critical information assets
- technical enhancements to improve vulnerability scanning, application whitelisting, data loss prevention and remote third party administration
- enhancing functional capacity and capability to improve speed of patch deployment, incident management and operational IT security, capability, training and planning

The EFA did not suffer any information breaches during 2014-15.

2.1.3.7 People management

Our people strategy aims to ensure that we attract, retain, build the capability of and motivate our people to enable them to deliver outstanding performance. In order to achieve this we have:

- introduced an offer of 5 days learning and development a year for all staff
- introduced talent management programmes, including a staff development programme for all staff
- set EFA corporate objectives for all staff for each reporting year

- required staff to produce challenging work objectives for the year, that are moderated by deputy directors to ensure consistency

As part of the work for Fit for the Future we asked all staff to complete a skill survey audit. The primary purpose of this was to make sure that we have the right skills and capabilities to support our future operating model. Individuals are using the results to help inform their personal development plans.

The 2014 people survey reported a 2% point rise in overall engagement across the EFA compared to 2013.

2.1.3.8 Overall assessment

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

Incorporating the accounts of several thousand academy trusts into the EFA group accounts has been exceptionally challenging. It is disappointing that, despite our best efforts, the methodology we adopted for the consolidation process has proven to be incapable of providing a true and fair view of the financial position of the EFA group. The year on year deterioration in the opinion is clear evidence of the excessive complexity and challenge inherent in that approach, I am grateful to HM Treasury and the Comptroller & Auditor General for their support in developing a new methodology for academy trusts, which we will trial for the 2015-16 accounts (alongside the existing approach).

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

2.2. Remuneration and staff report

2.2.1 Chief Executive and executive management board members' remuneration policy

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

As staff employed by an executive agency of the department, the executive management board's performance management and contractual terms are as described in the department's annual report and accounts. As such, the department manages performance management and non-consolidated performance award for members of the senior civil service within the framework set by the Cabinet Office. The contractual terms of executive management board members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the civil service website[18].

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Readers can find further information about the work of the Civil Service Commission on their website[19].

[18] Cabinet Office Framework - https://www.gov.uk/government/organisations/civil-service
[19] Civil Service Commission - http://www.civilservicecommission.org.uk/

2.2.2 Remuneration (salary, bonuses and pensions)

This section of the remuneration report is subject to audit.

Official	Salary (1)		Bonus payments (2)		Pension benefits (3)		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000	£000	£000	£000	£000
Peter Lauener Chief Executive (4)	110-115 (140-145 full year equivalent)	140-145	-	-	10-15	(5)-0	150-155*	135-140
Sue Baldwin Director of academies and maintained schools	95-100	90-95	10-15	10-15	25-30	15-20	140-145	120-125
Mike Green Director of capital	130-135	130-135	-	-	45-50	40-45	180-185	170-175
Peter Mucklow Director of young people	90-95	90-95	-	-	15-20	5-10	110-115	95-100
Simon Parkes Chief Financial Officer	135-140	135-140	-	-	40-45	30-35	175-180	165-170

* full year equivalent

Notes:

(1) 'Salary' includes gross salary; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the EFA and thus recorded in these accounts.

(2) The department awards bonuses as part of the performance management process. The EFA sees effective performance management as key to driving up individual and organisational performance and providing greater value for money to deliver high quality public services. The EFA follows the arrangements for the senior civil servants as set out in the [Performance Management arrangements for the Senior Civil Service][20], and the department's performance management framework for managing and rewarding performance throughout the year. Bonuses relate to the performance in the year prior to that in which they become

[20] Performnace management arrangements for senior civil servants: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446672/PM_Arrangements_SCS_May15_v.22_fv_.pdf

payable to the individual. The bonuses reported in 2014-15 relate to the performance in 2013-14 and the comparative bonuses reported for 2013-14 relate to the performance in 2012-13.

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

(4) Peter Lauener became the Chief Executive of the SFA on 1 November 2014 (whilst retaining his EFA post); it was agreed that the SFA will pay 50% of his costs from that date. Peter Lauener will continue to receive the same remuneration from the EFA; however the EFA will recover the SFA's contribution to his remuneration directly from the SFA.

2.2.3 Fair pay disclosure

This section of the remuneration report is subject to audit.

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

	2014-15	2013-14
Band of highest paid director's remuneration (£000)	140-145	140-145
Median (£000)	41.8	42.3
Range (£)	18,454 – 140,578	18,104-140,578
Remuneration ratio	3.4	3.4

In 2014-15, no employees (2013-14: nil) received remuneration in excess of the highest-paid director**.** Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

A planned change in staff grade mix with more staff of lower grades being employed has seen the average cost of an EFA employee reduce by £4,800 from June 2012 to March 2015.

2.2.4 Pension benefits

This section of the remuneration report is subject to audit.

Civil service pensions

As an executive agency of the department, the EFA's staff are members of the principal civil service pension scheme that provides pension benefits. The department's annual report and accounts provide information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the civil service pensions' website[21].

Cash equivalent transfer values

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

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

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

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

[21] Civil service pension scheme: http://www.civilservicepensionscheme.org.uk/

Officials

	Accrued pension and related lump sum at pension age as at 31 March 2015 £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2015 £000	CETV at 31 March 2014 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Peter Lauener, Chief Executive	65-70 plus lump sum of 205-210	0-2.5 plus lump sum of 2.5-5	1,611	1,524	12	-
Sue Baldwin	15-20 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	240	203	20	-
Mike Green (1)	5-10 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	108	69	24	-
Peter Mucklow	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 2.5-5	597	556	14	-
Simon Parkes	25-30 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	349	301	23	-

1. The disclosure for the CETV for this member of staff at 31 March 2014 has been restated in line with updated information from MyCSP

2.2.5 Staff numbers and staff costs

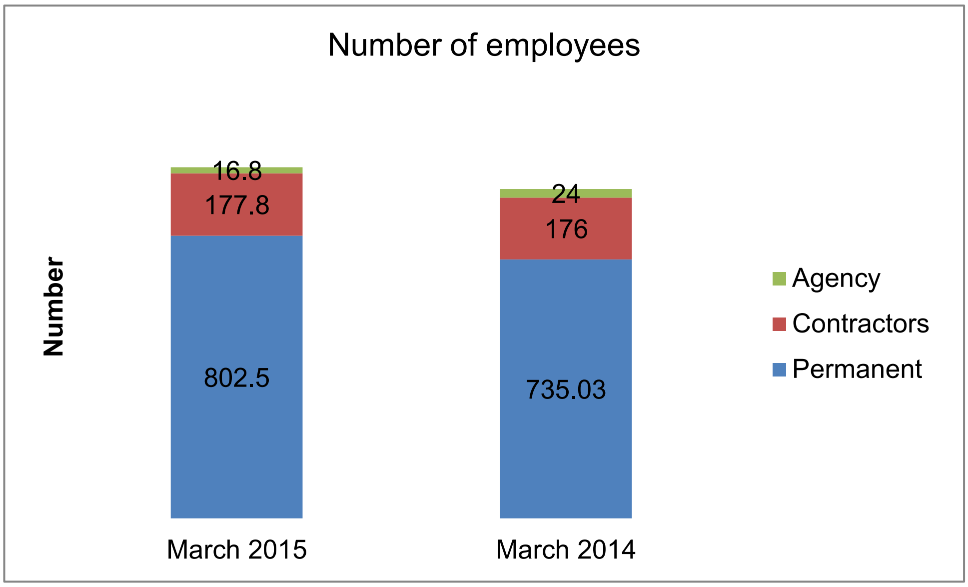
This part of the report is about the EFA group. The staff costs for the EFA group were £12.0 billion (2013-14: £10.1 billion) and the average number of full-time equivalent staff employed during the year was 341,021 (2013-14: 301,327). A breakdown of the figure is included in Note 3.1 of the accounts.

2.2.6 Sickness absence

During the year, we lost 3,875 days to sickness absence (2013-14: 2,426). This equates to approximately 4.7 days sickness absence per employee per year (2013-14: 3.5 days). The average is 15% better than the private sector average of 5.5 days per employee (information from Chartered Institute of Personnel and Development).

2.2.7 People management

Our staff are a mix of civil servants and contractors. Our civil servants are employed by the department on its terms and conditions. Responsibility has been delegated to me for the recruitment of staff within the parameters provided by the department's policies and procedures. Our staff profile, as at 31 March 2015, for full time equivalents, is as detailed;



The department's diversity delivery plan covers the EFA. This plan sets out the department's objective to be an exemplary equal opportunities employer, to create a workplace that values diversity and to be free from unfair discrimination. The department's policies include explicitly the employment of disabled people, women, lesbian, gay and bisexual people and black and minority ethnic staff. Further information regarding our equality and diversity data is shown in the department's 2014-15 annual report and accounts.

At March 2015 our staff headcount figures, for permanent staff, was as follows;

Grade	Male	Female	Total
CEO	1	-	1
Director	3	1	4
Deputy Director	14	9	23
Grade 6	98	77	175
Grade 7	98	95	193
Senior Executive Officer	102	107	209
Higher Executive Officer	31	76	107
Executive Officer	40	73	113
Executive Assistant -Administration Officer	4	19	23
Executive Assistant -Administration Assistant	1	2	3
	392	459	851

We developed a people strategy that supports current and future staff. The strategy outlines our 3 year approach to attracting, retaining, building capability and motivating our people.

Our vacancy rate was 5% at March 2015 and we have not exceeded our agreed establishment figure for the year. We have recruited 161 people and 94 people have left the EFA between 1 April 2014 and 31 March 2015. We have developed our staff and created opportunities for advancement by promoting 48 people in the period 2014 to 2015.

2.2.8 Expenditure on consultancy

We employ contractors who are professionally qualified and are employed on short term contracts. The cost of these contractors in 2014-15 was £7.1 million (2013-14: £13.3 million). Our contractors are mainly, but not exclusively, employed in our free schools programme as project managers. It is the responsibility of the hiring managers to ensure that all contractors comply with their tax obligations. The framework contracts for contingent workers the EFA has placed, or draws upon as part of the department, include provision for workers supplied by these companies to meet their obligations.

2.2.9 Staff exit packages

In 2014-15, the department bore and managed centrally the exit costs of staff in the EFA itself. To aid transparency, the group also reports in its accounts information on departure costs and numbers.

During 2014-15, EFA staff could choose voluntary exit under an early departure programme. As part of this programme, the department meets the additional costs of benefits in respect of employees who retire early and of compensation payments payable to employees who take early severance.

The EFA has paid redundancy and other departure costs in accordance with the provisions of the civil service compensation scheme, a statutory scheme made under the Superannuation Act 1972. The department has accounted for exit costs in full in the year of departure. Where the EFA has agreed early retirements, the EFA has met the additional costs and not the civil service pension scheme. The scheme has met the ill-health retirement costs.

There were 19 individuals from EFA who had agreed departures at a cost to the department of £1,222,000 (2013-14 10 departures total cost £417,000).

Academy trusts meet the exit costs of staff from their central funding. The EFA group had a total number of agreed departures of 3,762 at a cost to the group of £44.0 million (2013-14: 2,732 departures total £31.6 million). A breakdown of these figures can be found in note 3.4 of the accounts.

2.2.10 Pension schemes

This part of the report is about the EFA group that operates a range of pension schemes for its employees, dependent upon the employees’ role: principal civil service pension scheme; LGPS; teachers’ pension scheme; and partnership pension accounts. The notes to the accounts give details.

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

2.3 Parliamentary accountability and audit report

2.3.1 Consolidation of the annual accounts

EFA group financial commentary

This part of the report is about the EFA group. The department has delegated its operational relationship with, and almost all funding of academy trusts to the EFA. The EFA group accounts for its funding of academy trusts in these accounts. For 2014-15, the EFA has for the third year prepared consolidated accounts including the results of all academy trusts with operational academies open by 31 March 2015. This along with the department's consolidation, is unique in government in its scale and complexity. The consolidation includes 2,824 academy trusts operating 4,900 academy schools, making it one of the largest consolidations in the world. This number of bodies is already twice the number of those in the rest of the UK public sector. The EFA group faces an unprecedented challenge in producing group accounts on this scale and of this complexity.

For 2014-15 the department and the EFA have chosen to continue to consolidate academy trusts' results using the audited accounts to 31 August that most academy trusts produce to fulfil their statutory duties. This reporting date is different by seven months to the department's financial year and in itself represents a significant departure from accounting standards and HM Treasury's requirements. The EFA's reporting framework team is developing a sustainable approach to consolidation and reporting for the EFA group in future years. Further details on the new approach are given in section 2.1.3.4 'Financial Management.'

Therefore, the EFA group's approach to 2014-15 is the same as for 2012-13 and 2013-14, for which the Comptroller and Auditor General provided an adverse opinion because of the level of misstatement and uncertainty he considered arose. He also reported that the department did not have sufficient evidence to recognise all academy trusts' land and buildings.

In the 'qualifications of the 2014-15 accounts section', I set out in more detail how the EFA group's approach to 2014-15 sought to address the causes of the adverse opinion and qualifications. I also describe how we are looking to change accounting methods for the EFA group for 2016-17.

As accounting officer, I am responsible for complying with the requirement on the EFA group in preparing accounts. In presenting the EFA group's 2014-15 accounts, I have balanced making every reasonable endeavour to comply with these constraints, against the cost to the EFA group and the burdens on individual academy trusts, typically small organisations dedicated to teaching. I have sought to convey the limitations to the figures in the group accounts and the costs of compliance that result from this balance.

As an executive agency of a central government department we prepare accounts on a different basis to academy trusts, as charities, and we disclose information that they do not. Under the terms of their funding agreements with the Secretary of State, academy trusts submit financial returns to the EFA containing the extra information we need. The academy trust funding agreement also sets out high-level financial relationships including the need for each academy trust to have an accounting officer and makes the academy trust responsible for the proper and regular use of public money. Academy trusts' financial returns to us include significant additional information on their discharge of these responsibilities.

The department underpins academy trusts' accountability within the EFA group by issuing the academies financial handbook (the handbook) under the funding agreement. The handbook sets out in full the financial relationship between the EFA and academy trusts, as well as practical detail on how these relationships should work. The handbook covers the roles of the academy trust's accounting officer and governors, financial oversight, management, planning and monitoring, internal control and other matters. The handbook further sets out a remit for audit covering public interest in regularity and propriety in addition to the academy trusts' statutory audit requirements.

As the EFA group's accounting officer I do not (and practically cannot) exercise my personal responsibilities towards academy trusts in the same way I do for the EFA itself, nor do I routinely check the underlying accounting records each year of the 2,824 academy trusts. Instead, the EFA group has put in place a system of assurance and accountability that places reliance on academy trust principals as accounting officers and on the work of academy trusts' external auditors. The accounting officer in each academy trust gains assurance, through the opinion of its auditors that the trust's accounts provide a true and fair view of its financial position. The EFA group reviews academy trusts' accounts for evidence of their truth and fairness and on the regularity of transactions entered into by these academy trusts. Through the handbook, the EFA group obliges academy trusts to commission their auditors to provide me with an annual opinion on the regularity of academy trusts' expenditure. The EFA group supports this scrutiny by its rigorous investigation of alleged weaknesses and irregularity, which when substantiated will generally result in the publication of EFA group's investigation reports.

Limitations

These accounts as at 31 March 2015 are for the EFA group being the EFA itself and 2,824 academy trusts with 4,900 academies. Relevant academy trusts are all those with open academies during 2014-15. The EFA group's accounts incorporate the expenditure, income, assets and liabilities of academy trusts funded by us. In preparing group accounts, we consolidate the results of academy trusts as the legal entities operating academies.

We developed our approach to the consolidation of academy trusts into our accounts in close consultation with the department, HM Treasury, and academy trusts' representatives and continue to work with HM Treasury on the move towards sector reporting (which is discussed in more detail in the governance statement). We discussed development of aspects of the consolidation methodology with the NAO. We take full responsibility for the methodology and any decisions relating to its implementation. A senior joint steering group of the department and the EFA oversee the work.

Consolidating the accounts of 2,824 organisations would always be a significant undertaking. In the case of academy trusts the EFA group faces some unique challenges including: differing year ends (31 August for academy trusts versus 31 March for the EFA and the department); differing accounting standards (UK GAAP and the Charities SORP for academy trusts versus International Financial Reporting Standards (IFRS) and the Financial Reporting Manual for the EFA and the department) and the variety of ownership structures of the significant estate of academy land and buildings.

In 2014-15, we have faced an additional set of challenges. The increasingly complex, and significant capital investment programme, some of which is privately financed and the creation of a new self-insurance scheme for academies, both represent the EFA's continued commitment to driving value for money, and improving educational experiences. However, both are challenging from an accounting perspective and add to the overall complexity of our financial statements.

EFA capital projects

This part of the report is about the EFA. In the past 18 months, in line with the departmental policy objectives, the EFA Capital Group's extensive programme of capital expenditure has resulted in more than 900 separate capital projects, and capital expenditure to date of £2.4 billion, across the three years 2012-13 to 2014-15.

See commentary in the 'governance statement' for further details of capital projects, controls in place and future plans.

The department has also developed a funding arrangement, and agreed a series of PFI contracts to obtain private sector funding and support for the budgeted capital spend, using a separate legal entity, the 'Aggregator Vehicle plc' (the Aggregator vehicle).

At 31 March 2015, the Aggregator vehicle is outside the departmental and EFA group consolidation boundary. The EFA group's accounts report on transactions with the Aggregator vehicle as for transactions with any other third party.

The EFA group recognises capital assets in accordance with the group's assets under construction recognition policy (see note 1.5 to the accounts).

Due to the scale and complexity of the capital programme, the EFA instigated a full review of its policies and procedures for capturing of information on assets under construction and whether the EFA's previously reported position as at 31 March 2014 was correct.

This identified a number of changes to operational policy and weaknesses in control that we will seek to rectify by the following changes to accounting policy for 2014-15.

The review has focused on assessing whether or not the EFA's previously reported its position correctly at 31 March 2014.

Specifically, the review and changes in accounting policy result in:

- updating the point at which the EFA considers the movement between assets under construction and depreciable categories of assets, from 31 August to 31 March, to bring it in line with its balance sheet date. This has reduced the EFA's opening assets under construction balance
- a review of the costs being incurred to ensure that all are being appropriately capitalised
- amending our assets under construction accounting policy for free schools to base recognition on control of the asset. This has the impact of reclassifying assets under construction between the EFA's accounts and the EFA group's accounts for free schools. Where the recipient of the funding is an academy, the EFA group recognises assets under construction in line with other academy assets.

As a result of the above work, we have restated our comparative figures for 2013-14 assets under construction. Note 2 to the accounts describes the impact. We are continuing to develop the operational and accounting governance and control over these significant programmes of work.

Approach to consolidation

This part of the report is about the EFA group. Preparing these accounts, in such circumstances, is relatively expensive. For 2014-15, the EFA group has spent £6.0 million (2013-14: £5.1 million) to prepare its accounts, of which £5.9 million (2013-14: £5.0 million) relates exclusively to the requirement to consolidate academy trust accounts. This cost is likely to grow as the academy programme continues to expand. These costs include the £2 million (2013-14 £1.4 million) the EFA paid academy trusts to meet their costs of participating in our comparison study.

The conventional approach for dealing with the issue of non co-terminous year ends would be for the EFA group to require all academy trusts to prepare a set of audited accounts as at 31 March each year. Assuming that academy trusts chose to retain their existing year end of 31 August this would mean additional audit fees for academy trusts of up to £30 million a year, and an unreasonable additional burden on the finance and administrative staff in academies. It would, in time, be possible for academy trusts to change their year end to match that of the EFA and the department. This would, however, mean that academy trusts were moving away from a financial cycle that matches their business (and funding) cycle in order to meet our requirements. To date we consider that the additional costs and burdens would not reflect value for money for the taxpayer, or contribute to the effective delivery of educational outcomes in academy trusts.

The EFA group went through a similar process when deciding how to approach the valuation of land and buildings for these accounts. The Comptroller and Auditor General concluded that there was insufficient evidence to support our inclusion of all academy land and buildings in our accounts. We recognise that the ownership and recognition of land and buildings in academies is complex but it is important to note that the Secretary of State retains substantial control over many circumstances in which academy trusts seek to dispose of land and buildings, which protects the taxpayer's interests. To obtain a robust understanding that would be sufficient to remove the qualification would, we estimate, cost at least £20 million with substantial additional costs each year to maintain the database. Given the protections afforded by the Secretary of State's controls over the disposal of land and buildings, we do not consider that this represents value for money for public funds. We have made several improvements since last year including developing our accounting policies in respect of assets under construction (as noted above), improving the underlying data for land and buildings by stratifying the population and improving the assessment of differing ownership and recognition types.

Recognising that our methodology presents substantial challenges to the production of a conventional set of accounts that can be presented as true and fair, we have worked with HM Treasury and the department to find alternative approaches to the consolidation of academy trust accounts. We are currently developing sector accounting methodology, which subject to Parliamentary approval, will be used in 2016-17 and we are working closely with HM Treasury in its implementation.

Our approach to consolidation of academy trusts' financial results

1 - Summary

This section sets out the process by which the EFA group consolidated academy trusts' financial results for 2014-15.

The key issues we considered were:

- non-coterminous year ends (almost all academy trusts have a financial year end of 31 August)
- the validation of, and effect of, including un-audited amounts for academies open at 31 March, that were not included in the reported amounts by academy trusts at 31 August
- academies joining large multi-academy trusts during the year
- reconciling our opening balance sheet, and the differences to the aggregate

position reported by academies

- valuation of academy trusts' land and buildings
- appropriate recognition of assets under construction
- valuation of academy trusts' liabilities associated with their membership of pension schemes
- the quality of some academy trusts' accounts returns
- appropriate inclusion of various prior year adjustments to re-state our opening balance sheet

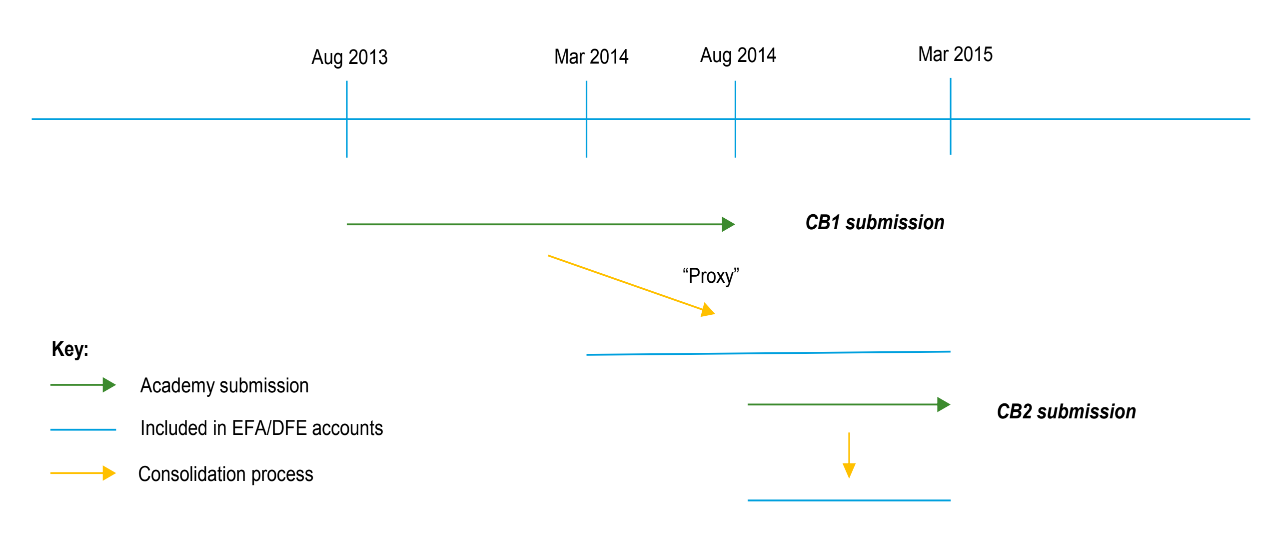
Our full accounting policies are at note 1 of the accounts.

2 - Non-coterminous year ends

For those 2,633 academy trusts that prepared audited accounts as at 31 August 2014, the EFA group has included the financial performance from those accounts as a representation of those academy trusts' results for 2014-15. We call this consolidation block 1 (CB1). We used these accounts to 31 August 2014 as a proxy result for these academy trusts' results to 31 March 2015.

For academies that joined existing multi academy trusts and were not included in those multi-academy trusts accounts to 31 August 2014, or those academy trusts that were open at 31 March 2015 and did not prepare accounts as at 31 August, we collected a second, un-audited financial return to 31 March 2015. We included the consolidated results in these returns alongside those consolidated to 31 August for other academies. We call academies included in this second set of returns consolidation block 2 (CB2). Some academy trusts with open academies as at 31 August 2014 did not produce accounts as at 31 August 2014 because they were barred by statute from producing accounts of fewer than 6 months duration. For academies that only became operational after 31 August 2014 we asked the trust to produce a CB2 return from the academy's opening date to 31 March 2015.

The diagram below sets out this approach.



In using academy trusts' results to 31 August, we make the assumption that for established academy trusts, the majority of their income and expenditure by month for the period 1 September 2013 to 31 March 2015 varies little. Hence we assume academy trusts' income and expenditure for the period from 1 September 2013 to 31 August 2014 will for all academies be materially similar to the period 1 April 2014 to 31 March 2015. The academy trusts' balances for current assets and liabilities will also be materially similar at 31 August 2014 and 31 March 2015. This is the basis of our use of the academy trusts' results at 31 August 2014 as a 'proxy' for their results to 31 March 2015.

We recognise that this is a significant departure from International Financial Reporting Standard 10 (IFRS 10) and the Financial Reporting Manual. This standard permits consolidation of accounts to different year ends provided that they are no more than 3 months apart. Through the department, we made our approach clear to HM Treasury (who acknowledged our intention) when we first proposed this approach for financial year 2012-13.

Our use of the proxy requires us to accept two principal potential errors and areas of uncertainty into the accounts:

- for those reporting to 31 August 2014, inevitable movements over time between income and expenditure totals for the year to that date, and current assets and liabilities at that date, compared to the totals and balances for the academy trusts had they reported to 31 March 2015
- the degree of match between 2,633 academy trusts' recording of the grants they received from the EFA in 2013/14 compared to our records of payment of grants to academy trusts for 2014-15.

One impact of using non-co-terminous year ends between academy trusts and the EFA is that academy trusts' reporting of income they received from the EFA may not match the equivalent expense recorded by the EFA.

As for 2013-14, we identified a mismatch between academy trusts' records of grants received and the EFA's records paid. For 2014-15 we have calculated the difference between the revenue grant paid by the EFA in 2012/13 and the extrapolated revenue calculated from academy trust returns to be £406.4 million. The equivalent figure for capital grant is £39.0 million.

3 - Approach to academies not included in 31 August accounts

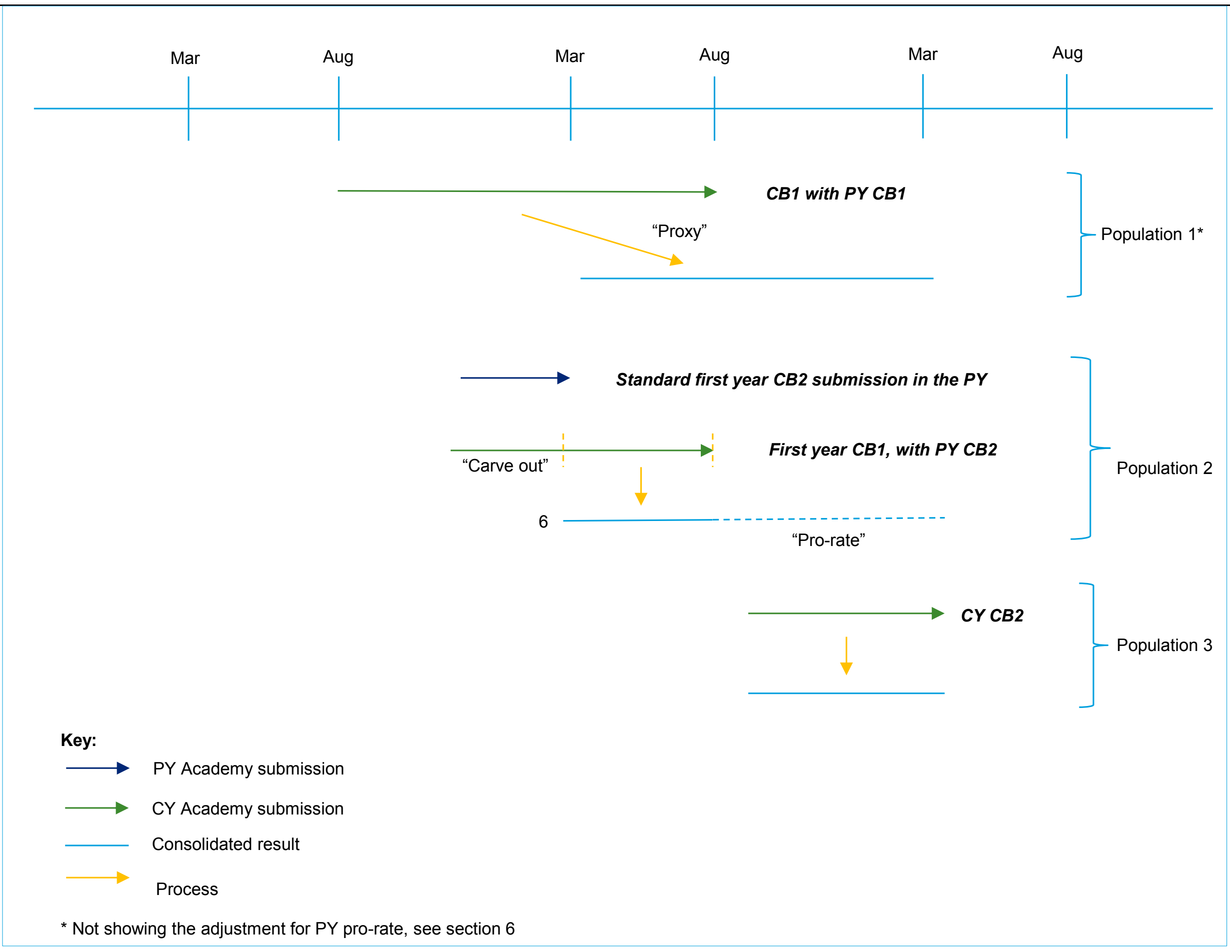
Our use of academy trusts results to both 31 August, and 31 March requires us to accept one principal error, and two key judgements into the accounts:

- differences between opening balances academy trusts reported to us at 31 August 2014 compared to their closing balances at 31 March 2014, for those academy trusts that prepared both returns
- the estimate included by us in pro-rating amounts submitted by academy trusts at 31 August 2014, for those trusts that submitted a return in the prior year to 31 March 2014, following the reconciliation of their opening balances
- all submitted CB2 information is un-audited, and we accept is therefore less robust than the equivalent CB1 returns. As such, inclusion of this information, and reliance on its sufficient validity for these purposes is a key assumption in the approach

The use of the proxy, and the approach to pro-rating certain academy trust balances represent two of the most significant judgements arrived at by the EFA group in applying the consolidation methodology.

The use of results to both 31 August and 31 March in particular incorporates complexity into the ongoing consolidation process. Where from one year to the next academy trusts move from CB2 to CB1, the adjustments the EFA group makes to align the reported opening balances for these trusts (the "carve out"), and estimate the trusts' activity to 31 March introduce ("the pro-rate") a significant degree of estimation in the EFA group accounts. The approach creates a third population of academy trusts that require specific scrutiny.

The diagram below shows the three populations of academies in our consolidated result:



Our approach to testing the returns submitted by academy trusts in CB2 is threefold:

- we performed validation checks on the returns submitted by the academies
- we visited a sample of 44 academy trusts within the CB2 group to seek to agree the balances in the returns they submitted to the EFA group to their books and records
- for the first time for 2014-15 we compared the balances contained in returns by CB2 academy trusts in relation to 2013-14 to the balances reported by the same academy trusts in their returns as part of CB1 this year. We assessed any significant anomalies and found as a result of prior year estimated errors in CB2 submissions, the current year's results contain significant errors

We estimate that, had the EFA group required it, the additional cost of an audit of returns academy trusts in CB2 might be £3 million. In light of the assurance available to the EFA group from other sources, we did not consider this was value for money for public funds.

4 – Academies joining large multi academy trusts

The EFA group made a key assumption and carried out further analysis in relation to these academies joining large multi-academy trusts. The key assumption is that the proportionate effect of the proxy in those academies that report within a multi-academy trust making financial returns to 31 August 2014 and 31 March 2015 is the same as the proxy in all other academy trusts. There are 141 large multi-academy trusts with joining academies within the EFA group's 2014-15 accounts.

The further analysis was of academy trusts' benchmarking returns to the EFA group. These benchmarking returns can allow the EFA group to split out results for the multi-academy trusts affected by new academies opening as part of their submission to EFA is sufficiently robust enough. However the EFA group does not require academy trusts to have their benchmarking returns audited and the EFA group itself carries out limited validation of the benchmarking returns. The EFA group sought to use the comparison study to examine this assumption, and the strength of the further analysis.

During preparation of the EFA group accounts the NAO expressed concerns about the EFA group's key assumption on multi-academy trusts that are affected by the pro-rate adjustment. The EFA group looked for independent assurance that its key assumption was valid. The EFA group predicted the results for key account balances for these 141 large multi-academy trusts using related information and then compared the predictions to the large multi-academy trusts' actual results. For example, the EFA used the value taken from the EFA's own records of the grant income it paid these multi-academy trusts. The table below shows the predictions, the actuals and the variances.

Account balance	Basis of expectation	Expectation £000	Actual £000	Variance £000
EFA/DfE Grant income	Grant payment data	3,969,769	4,677,129	707,360
Other grant income	School increases	208,949	178,070	(30,879)
Other income	School increases	425,096	547,810	122,714
Transfers	Prior year	1,473,920	1,019,133	(454,787)
Staff costs	Staff number changes	(2,957,152)	(3,346,840)	(389,688)
Other costs	School increases	(1,135,341)	(1,005,723)	129,618
Net incoming resources		**1,985,241**	**2,069,579**	**84,338**

Management consider that the net sums included in the consolidated result for these multi academy trusts was a reasonable estimation for their actual results.

5 – Support for the proxy and the pro rate judgements

Use of the proxy and application of the pro-rate are two significant judgements in the consolidation approach.

For 2014-15 the EFA group's use of the pro-rate increased academy trust income by £1.6 billion and expenses by £1.4 billion in the group accounts.

In preparing our 2014-15 accounts, we again used a comparison study of academy trusts' results at different year ends to examine the reasonableness of our use of the proxy and the prorate. For 2014-15 we expanded the comparison study to cover both the risk of misalignment and additionally of double counting of balances. We expanded our study in response to the NAO's limitation of scope in their report on our 2013-14 accounts, as we only covered the first risk in our comparison study for 2013-14. We completed the study to cover both risks at no extra cost, representing a significant improvement in the value for money of the comparison study.

The tables below sets out for key account balances the sums the academy trusts in the comparison study reported for the year ending 31 August 2014, figures the EFA group has used in preparing its 2014-15 accounts. The next column shows the sums the same academy trusts reported to 31 March 2015 in response to the comparison study. The final columns are the sum and the percentage variance between balances at 31 August 2014 and 31 March 2015.

The first table shows the variances revealed by the comparison study in relation to the proxy assumption:

	Per EFA accounts £000 (August 2014)	Per comparison study £000 (March 2015)	Variance £000	%
Cash	2,656,466	2,409,757	246,709	9
Current liabilities	(1,378,442)	(970,746)	(407,696)	30
Other SOFP*	2,028,431	1,924,115	104,316	5
Total SOFP**	3,306,455	3,363,126	(56,671)	(2)
Total Income	15,607,973	15,326,567	281,406	2
Total expenses	14,685,010	14,711,011	(26,001)	0

*Principally made up of other tangible fixed assets, and other current assets

** Excluding land and buildings, pensions and transfers.

The table below sets out the variances noted in relation to the pro-rate assumption:

	Per EFA accounts £000	Per comparison study £000	Variance £000	%
Voluntary income	72,184	339,380	(267,196)	(370)
Capital income	129,724	108,041	21,683	17
Revenue income	1,227,743	965,199	262,544	21
Other income	38,966	49,920	(10,954)	(28)
Transfer on conversion	307,809	353,353	(45,544)	(15)
Transfers	22,515	22,515	0	0
Total income	1,798,941	1,838,408	(39,467)	(2)
Staff costs	868,896	746,498	122,398	14
Other costs	363,446	377,178	(13,732)	(4)
Total expenses	1,232,342	1,123,676	108,666	9
Total SOCNE*	566,599	714,732	(148,133)	(26)

*Statement of comprehensive net expenditure

6 - Reconciling opening balances

The use of two consolidation blocks of academies with August and March reporting periods, and the transition between them creates the challenge of reconciling the opening balances submitted by academy trusts with those closing balances previously reported to the EFA group by the same academy trusts.

A key element of this reconciliation is the requirement to post the ‘carve out’ adjustment.

For 2014-15 this had the effect of increasing the opening balances of the academy trusts affected by £3.5 billion in the group accounts, and reducing their net income (income and expense combined) by the same sum. We justify this the largest element by value of the carve out adjustment by the need to remove the double counting of transfers in for academy trusts’ land and buildings, that are recorded in the affected trusts’ returns in CB2 in their first year and then CB1 in the following year.

The table below sets out the full opening balance sheet reconciliation for 2014-15:

Adjustment and narrative	**Impact on opening funds £million**
Opening net assets reported submitted by academies	25,398
Adjustment through initial validation	(262)
Carve out adjustments	3,436
Impact of prior year EFA group central adjustments	(640)
Amendment to LGPS balances	(226)
Amendments to land and buildings value balances	2,888
Reflecting the prior year net pro-rate adjustment	145
Unreconciled	16
Current year opening balance	30,755
Prior year closing balance reported	30,755

7 - Valuation of academy trust land and buildings

Academy trusts’ land and buildings are potentially the most significant assets by value at £33.3 billion collectively and dominate the EFA group’s statement of financial position. We face four challenges in accounting for these land and buildings: valuation, acquisition and disposal, impairment, and recognition.

Valuation

Academy trusts value their land and buildings using a wide range of methods of their choice, and as above, most report on those values at 31 August, not the EFA group year end of 31 March. Few of the methods adopted by academy trusts comply with HM Treasury’s reporting requirements for such valuations. The EFA group has therefore continued its approach of commissioning valuations of newly opening academies’ land and buildings. We paid an average of £116.00 per valuation for academies opening in 2014-15 and commissioned independent quality assurance of the valuations. Together with valuations we procured for earlier years and have indexed, we have a materially complete set of valuations for all academies that have opened since the inception of the programme, using a method that complies with HM Treasury reporting requirements. Valuations the EFA group received in 2015 were at depreciated replacement cost (DRC) based upon the school or academy footprint set out in Buildings Bulletins 102 and 103 (BB102 and BB103), whereas previous valuations were at DRC with reference to Buildings Bulletins 98 and 99.

The valuations the EFA group procured at 31 March 2014 were made under the updated BB102 and BB103; however, at that point we did not seek to re-value all land and buildings previously valued under earlier versions of the bulletin.

Given its significance to the value of our estate, the EFA group commissioned an estimate on the impact of re-valuing that portion of the estate valued before the issue of BB102 and BB103. We estimated that applying BB102 and BB103 to the portion of the estate valued before issue of BB102 and BB103 would reduce the value of the estate by £3.4 billion. We have recorded this sum in the accounts as a restatement of the EFA group's opening statement of financial position. The EFA group's valuation methodology results in each academy having its land and buildings valued every five years.

In line with our accounting policy and the Financial Reporting Manual we adopt a policy of indexation between valuation points. In prior years the EFA used indices published by BIS to update valuations of buildings, but did not apply indexation to land. For 2014-15 we have moved to using the Office for National Statistics - New Work Output Prices – Public (other than housing) for buildings and the LSL Acadata House Price Index for land.

This approach results in a significant estimation of the value of the estate, but is in line with financial reporting requirements.

In 2014-15 there are two significant impacts on the EFA group's accounts of this policy in the current year:

- Indexing land for the first time is a change in the EFA group's accounting policy, and results in a prior year adjustment, which has increased the EFA group's opening reserves by £545 million and resulted in an in year credit of £424 million, such that the overall impact at 31 March 2015 is an increase in the value of the estate by £969 million

- BIS updated its previously applied indices after the EFA group's published its 2013-14 accounts. As new information received after the filing of the EFA group's accounts, the EFA group does not believe this change requires a prior year restatement, but given its significance, the EFA group has adjusted for this change in the current year. It results in a £1,015 million increase in the value of the academy trust estate.

In addition, the current year “normal” indexation adjustment is a £728 million increase in the value of the academy estate.

Acquisition and disposal

Academy trusts as dynamic organisations acquired and disposed of land and buildings throughout 2014-15 and recorded these transactions in their 2013/14 accounts where they prepared these or their 2014-15 CB2 accounts returns to the EFA where they are newly opened. The EFA group has used academy trusts’ 2013/14 accounts to 31 August 2014 as a proxy for its financial year. The accounts do not, by definition, include land and buildings transactions for the seven months 1 September 2014 to 31 March 2015.

These transactions fall into five types. The first, much the most material, is the addition to land and buildings over the five month period resulting from the EFA’s group review of completion of the assets under construction. The next three types are academy trusts’ acquisitions, disposals and impairments over the period; and the final type of transaction is those acquisitions, disposals and impairments over the period that academy trusts’ accounts reflect but that the EFA group should not reflect in its accounts.

A number of academy trusts acquired or disposed of land and buildings between 1 September 2014 and 31 March 2015 and appropriately did not reflect these transactions in their 2013/14 accounts. We have not included these acquisitions and disposals in the EFA 2014-15 group accounts and state definitively neither the number of academy trusts making these acquisitions and disposals nor the value of these transactions.

Impairment

The EFA group’s accounts include land and buildings valuations for 2,824 academy trusts, operating 4,900 schools in more than 5,000 buildings and associated land. In the normal course of their operations, academy trusts’ land and buildings may suffer some degree of impairment that the academy trusts cannot address during the financial year by either routine maintenance or in some cases at all. Academy trusts will reflect these impairments in their accounts for those land and buildings that the academy trusts recognise on their balance sheets and the EFA group can include the impairments in its accounts.

In some cases, academy trusts may not have accounted for impairments, not least because the academy trust has not recognised the value of land and buildings it considers others to own.

To address this, the EFA group has completed its own impairment review of the estate, taking into account the value of the estate and overall materiality, and does not consider there to be any material impairment to the estate, other than as disclosed.

Recognition

Recognition of academy trusts' land and building assets in the EFA group accounts is contentious. The EFA group has chosen to recognise all academy trusts' land and buildings in its accounts because the trusts are using these specialised assets and have an obligation to maintain their buildings. As was the case last year, the Comptroller and Auditor General does not agree with this accounting treatment, as he considers it does not provide adequate evidence on who owns the these assets. Many academy trusts received, and continue to receive partial information on ownership when they convert from local authority maintenance or other past status. Ownership may differ between buildings the academy trust accesses and the land the buildings stand on and several different owners sometimes claim part of the land. Access is often under complex lease arrangements that may, or may not, constitute accounting ownership. Many academy trusts have established ownership, often at considerable cost and effort; others have relied on information given to them by leaseholders. In preparing its group accounts, the EFA group does not consider it can rely simply on academy trusts' recognition of their land and buildings as disclosed by academy trusts in their own accounts.

As the Permanent Secretary stated in his evidence to the Committee of Public Accounts in March 2014, it would be extremely expensive for the EFA group to establish ownership of every academy trust's land and buildings. The EFA group would need to conduct, or require academy trusts to conduct, legal searches and other work to establish complete title, and then given the likely complexity of ownership, commission a partner to support us in concluding on the appropriate accounting recognition approach. With 5,448 academies now open and a possible cost per academy of £5,000 to £10,000 this exercise may cost £20 to £40 million in the first year and between £5 to £10 million each successive year for newly opened academies and for changes in ownership of existing academy land and buildings. The EFA group does not believe this represents value for money to public funds.

For 2014-15 the EFA group researched academy trusts' ownership of their land and buildings, requesting that trusts making an accounts return to 31 March 2015 also provide information on ownership. This repeats a similar exercise in 2013-14, and we will also ask all academy trusts preparing the accounts return to 31 August 2015 to provide this information. This will provide the EFA group with considerable information on ownership, and will allow us to compile a summary of owned assets and academy trusts' tenure at 31 August 2015 (as we did at 31 March 2015).

While this summary aligns with academy trusts' accounts, the EFA group has not validated it, for instance by requiring academy trusts' auditors to report on the disclosures. Using the information collected so far, the EFA group estimate that the question of recognition may apply to 798 academies within academy trusts at 31 March 2014 (20.4% of all open academies). The EFA group has valued the land and buildings owned by these academies at £2.6 billion, or 9.6% of all land and buildings.

The EFA group reviewed the accounts, and financial returns submitted by academy trusts at 31 August 2014 for any that did not disclose a value for land and buildings. Of the sample reviewed (81% of the CB1 population), 163 trusts recorded no value for their land and buildings down from 183 in 2013-14. The net movement results from 75 trusts that had previously not recognised any value in prior years, recognising some value in the current year against 55 newly reported nil values.

Over 75% of 430 church academies in the population reviewed had recognised value for their land and buildings, with 99 not recognising any value.

The EFA group has better information about free school academy trusts' ownership of land and buildings as the EFA group was involved in most of the acquisitions of these assets.

For 2014-15 the EFA group considers that its inclusion of £34 billion of academy trusts' land and buildings in its accounts best represents the reality of academy trusts' access to these specialised assets without imposing an unacceptable cost of collecting more data.

Valuation of academy trust participation in the local government pension scheme

The most significant liability balance on academy trusts' balance sheets is the net deficit in relation to academy trusts' membership of the LGPS. Academy trusts account for pension scheme disclosures under generally accepted accounting practice in the UK, specifically Financial Reporting Standard 17: Retirement Benefits (FRS 17). The EFA group follows HM Treasury's Financial Reporting Manual that requires adoption of international financial reporting standards, specifically International Accounting Standard 19: Employee Benefits (IAS 19). There is little practical difference between valuations completed under these standards as at the same valuation date.

Only academy trusts that prepared accounts to 31 August 2014 had valuations under FRS 17, and there could have been material changes to these values between this date and 31 March 2015. To address these issues, the EFA group commissioned its own IAS 19 valuations as at 31 March 2015 from the actuarial firms that provide pension valuations to the LGPS. Where possible, these valuations use a common set of assumptions, and we have reviewed these with the department and agreed each key assumption.

8 – The quality of academy trust returns

Key to preparing the EFA group accounts is the accuracy and completeness of returns by academy trusts. The EFA supports academy trusts by issuing guidance, offering training and designing returns so that academy trusts can self-audit as they complete the returns. As noted, we also validate returns at the point at which they are consolidated into the EFA group accounts.

The EFA group requires academy trusts to complete financial returns containing complex information. This is a challenging requirement for all academy trusts and especially those that may have opened as soon as one month before the reporting date of the financial return. The requirement can cause academy trusts to submit returns with errors, despite their best efforts and even when the trust is receiving appropriate professional financial advice. Even with extensive validation work and significant adjustments made to the value of pension deficits and land and buildings, the EFA group recognises that uncertainty remains over the validity of some information submitted by academy trusts making CB2 accounts returns.

In view of this challenge, the EFA group validates the returns submitted by academy trusts to the group in two ways.

The first is extensive validation by a combination of automated tests, additional evidence sought through review of academy trust accounts and where needed personal enquiry to academy trusts.

The second, in addition to this programme of validation, is the EFA group's requirement that academy trusts commission, at their own expense, an audit of their CB1 accounts return to 31 August 2014. The EFA group has not asked academy trusts to disclose the actual cost of commissioning an audit of their CB1 accounts return for 2013/14. However, academy trusts did, disclose in their 2013/14 accounts that they had paid £23.8 million in audit fees and a further £9.9 million in non-audit fees. The EFA group considers that academy trusts will have incurred much of the latter cost as professional help in preparing their 2013/14 accounts and accounts return. Based on these totals we estimate that academy trusts spent in the region of one-fifth of the combined audit and non-audit fees for 2013/14, or £7 million in preparing their CB1 accounts return and commissioning an audit of this return. This is an average of £2,659 for the 2,633 academy trusts that prepared this return. The EFA group considers this cost is proportionate to the EFA group's need.

9 – Inclusion of prior year adjustments in our financial statements

The EFA group continually reviews and considers the appropriateness of the group's accounting policies, and operational procedures that supporting the report of its financial performance.

As a result of some of the issues noted above, some of which are within the EFA group's control, we have concluded that in order to present the most transparent picture of the EFA group's financial performance, we should both restate certain comparative balances in line with updated accounting policies and correct previous estimates we have found to be inaccurate.

Note 2 to the accounts discloses these changes.

Other than in relation to academy trusts' net expenditure, assets and liabilities these accounts present the EFA group's financial results based upon grants paid for learning provision and the running costs of the EFA itself.

Qualifications of the 2013-14 consolidated accounts

The EFA group completed its consolidation of the accounts of the 2,585 academy trusts (3,905 academies) open at 31 March 2014 signing its accounts on 12 January 2015. The 2013-14 group accounts included academy trusts' land and buildings valued at £30.1 billion (now restated to £27.1 billion), their cash holdings of £2.5 billion and pension deficits of £2.4 billion. The Comptroller and Auditor General provided an adverse opinion in 3 key respects:

- a level of misstatement and uncertainty he considered to be material and pervasive to the accounts – this being a result of the EFA group consolidating a number of data sources with different reporting periods
- owing to the EFA group's recognition of all academy trusts' land and buildings in the accounts – he considered that the EFA group was unable to demonstrate that all these met the recognition criteria for a non-current asset under IAS16: Property Plant and Equipment
- the comparative figures for 2012-13 provided in the EFA's group accounts for 2013-14

The Comptroller and Auditor General acknowledged that his decision to provide an adverse opinion on the EFA group's 2013-14 accounts had been based on errors and uncertainties arising from the consolidation methodology that were material and pervasive to the group financial statements.

Qualifications of the 2014-15 consolidated accounts

The significant issues arising from the audit of the EFA group's 2013-14 accounts arose as a result of the complex, and challenging consolidation methodology combined with the large and diverse range of academy trusts' ownership arrangements for their land and buildings. The EFA group's 2014-15 approach remains in line with that applied in 2013-14, and as such those challenges and issues remain. The EFA group's focus in 2014-15 was therefore to try to minimise the impact of the previously noted issues, while spending time developing, and seeking required approvals for a new consolidation approach, as discussed in the new reporting framework section of the governance statement. In order to provide the EFA group the time to develop this innovative new approach, we decided to increase the level of support from the EFA group's accounts service provider, Deloitte, to support us in delivering the existing financial reporting processes.

For the EFA group's opening balances we reviewed the range and focus of validations of academy trusts' annual returns, targeting work and substantive testing on areas where specific and material risks are highlighted, in particular those for new academy trusts. We built increased validation testing into the group's consolidation system to allow early identification and corrective action before the group consolidated academy trusts' returns into the group accounts. We performed a review of all significant judgements in the opening balance sheet, resulting in a number of prior year adjustments as set out in the notes to these accounts.

For land and buildings, the EFA group continued using commissioned asset valuations and sought to improve the underlying data by stratifying the population and improving the assessment of differing ownership and recognition types. As noted previously the EFA also reviewed the group's accounting policies, particularly around assets under construction.

There were a number of concerns over data relating to assets under construction such as a lack of clarity around the de-recognition point for the assets. This led to concerns around both double-counting and potential omission of assets. The EFA group have sought to address this issue by a clarification of its accounting policy. In addition, the EFA group's ability to manage its asset base has considerably improved following the collation of EFA Capital Group's records relating to capital projects into a comprehensive database during 2015-16.

The EFA group revised the academy accounts direction to require academy trusts to recognise a new form of asset known as a 'right of use' asset, even where they occupy land and building assets under peppercorn long leases and or no cost agreements. In the accounts the EFA group takes the value of the right of use asset to be based on commercial equivalents.

The comparison study, discussed in more detail in the governance statement, had a number of weaknesses in 2013-14. Principally, it only sought to support the proxy assertion, and not the pro-rate. It was also limited in the scope of academies it covered.

For the 2014-15 consolidation the EFA improved the study by increasing the sample size, targeting key areas through greater stratification and taking a more risk-based approach to sampling and validation testing. For the first time we used the study to support key management judgements, the application of the proxy, and the calculation of the pro-rate adjustment. However the relatively small sample size caused the EFA group to conclude that both assertions introduce material uncertainty into the financial statements.

2.3.2. Remote contingent liabilities

Saddleworth School is one of six Future Schools Schemes that Interserve Construction Limited (ICL) will deliver. The EFA group intends to build the new school building on land that a private company, WRT Developments Limited (WRT) currently owns. WRT agreed a land swap whereby the EFA group will transfer the current school site to them and the council will obtain the current WRT site. The transfer is conditional on planning permission being granted on the proposed new site. ICL was unwilling to proceed with the development, whilst the risks remain that either Oldham Metropolitan Borough Council (the council) may not obtain the site or that the EFA group may not obtain planning permission. As we identified immediately that land ownership was a risk, the EFA group agreed a deed of indemnity with the council to mitigate the risk of claims brought against the EFA group by ICL as a result of the council failing to acquire the site. The indemnity provided by the council is capped at £450,000. In light of this, the EFA group agreed to issue a letter of comfort to ICL on 23 January 2015 that it would meet any reasonable and identifiable abortive design costs to maximum value of £450,000 incurred up to the date at which the EFA obtains planning permission at the site which is due to be granted in April 2016. The indemnity does not however include costs associated with the EFA's project team (EFA project director, EFA project manager and EFA commercial manager). This should ensure that the EFA group can deliver the project within the originally agreed timescales.

2.3.3 Long term expenditure trends

This part of the report is about the EFA and the EFA group.

The expected continued increase in the number of academies will result in a larger proportionate allocation to academies of the EFA group's total funding.

The government's commitment to deliver 500 free schools over the course of the next 5 years means that our free school programme expenditure will continue to increase. We anticipate that the cost of providing each free school will rise as a result of the continued recovery in the construction market.

We are looking to continue the downward trend of the number of staff working within the EFA's Academies and Maintained Schools Group and Young People's Group compared to the number of providers. We will do this through an increased use of online self-service platforms for our customers.

We are placing continued emphasis on staff to change their ways of working to reduce the travel and subsistence expenditure of the department. We will be conducting more of our work using teleconferencing, webinars, video conferencing, virtual meeting and collaborative software.

We have reviewed our programme spend and anticipate the following future expenditure:

Programme Name	Funding description	Trend from 2013-14 to 2014-15	Future trend
Basic need schools	The EFA allocated basic need funding to local authorities to support them in their statutory duty to ensure that there are sufficient school places where they are needed.	Increase from £1.0 billion to £1.3 billion	The government will increase investment in this programme through to 2017-18.
Formula capital for voluntary aided and local authority maintained schools	Improvements to buildings and other facilities, including ICT, or capital repairs and refurbishment in accordance with priorities set by each school and in line with the local asset management plan.	Decrease from £149 million to £140 million	Spending on this programme will continue to decline as more schools convert to academy status
Modernisation of local authority maintained schools	Funding for modernisation of local authority schools	Increase from £596 million to £677 million	The government will increase investment in this programme to fund maintenance of the school estate
Academies capital maintenance	Funding for maintenance of assets at academies	Increase from £393 million to £516 million	The government will increase investment in this programme to fund maintenance of the academies estate and in line with the increase in the number of academies.
Care to learn	Care to learn provides financial support for teenage parents who want to continue in, or return to learning. It helps with the cost of their childcare and travel.	Decrease from £28 million to £22 million	Take up of this programme has declined from 6,501 to 4,329. The EFA believes the following factors may have caused lower take up: - teenage pregnancy rates are declining so there is a smaller eligible cohort of young parents - recent government policy has seen a

Programme Name	Funding description	Trend from 2013-14 to 2014-15	Future trend
			growth in the provision of free childcare which has the potential to cut across the care to learn scheme - awareness of care to learn is declining.
16-18 apprenticeships	Funding made available to approved providers of apprenticeships	Increase from £728 million to £801 million	We expect the government will increase investment in this programme as we work towards our target of 3 million apprenticeships.
Apprenticeship grant for employers	The apprenticeship grant for employers of 16 to 24 year-olds supports businesses that would not otherwise be in a position to do so, to recruit individuals aged 16 to 24 into employment through the apprenticeship programme.	Increase from £55 million to £66 million	The government will increase investment in this programme as we work towards our target of 3 million apprenticeships.
Additional grant scheme	The EFA has designed the PE and sport premium to help primary schools improve the quality of the PE and sport activities they offer their pupils.	Increase from £105 million to £138 million	This increase represents a due proportion of the remaining value of the £450 million funding for this programme over the three academic years 2013/14, 2014/15 and 2015/16.
Pupil premium and academy pupil premium	The EFA allocates pupil premium to children who are looked after by the local authority and those who have been eligible for free school meals at any point in the last six years and for children whose parents are currently serving	Increase from £1.87 billion to £2.47 billion	We expect the government will increase investment in this programme as the pupil population the premium funds rises.

Programme Name	Funding description	Trend from 2013-14 to 2014-15	Future trend
	in the armed forces.		
Education services grant	The EFA pays this grant local authorities and academies to fund education support services (e.g. welfare services) that local authorities provide centrally to maintained schools but for the most part academies must secure independently	Decrease from £779 million to £720 million	We expect the government to decrease funding of this programme as local authority maintained schools convert to academies.
Local authority maintained schools with sixth forms	Funding for these institutions for provision of sixth form places	Decrease from £838 million to £781 million	This is expected to continue to decrease as more local authority maintained schools become academies.
General annual grant	The main funding received by an academy	Increase from £10.4 billion to £11.7 billion	We expect the government to continue increasing funding in line with the increasing number of academies.
Insurance	In September 2014 the EFA introduced risk protection arrangements (RPA). The RPA for academy trusts is an alternative to insurance where the government funds cover certain categories of losses that arise. The RPA replaces the previous policy of refunding individual academy trusts' insurance premium costs above £45 per pupil.	Decrease from £85 million to £50 million	The 2014/15 funding allocation includes £25 per pupil in GAG towards insurance and does not include an additional insurance supplement of £20 per pupil previously funded. The EFA withdrew the additional insurance supplement paid in 2013/14 from 2014/15, as the RPA scheme provides an option of insurance at a price that does not require this additional supplement. The department agreed that the EFA would reimburse the cost of insurance above £25 per pupil under

Programme Name	Funding description	Trend from 2013-14 to 2014-15	Future trend
			academy trusts' current contracts until the contracts expired. Therefore, for academy trusts that did not opt into the RPA scheme, the EFA reimbursed trusts' costs in excess of £25 per pupil. The decrease from 2013-14 to 2014-15 reflects academy trusts moving to the new RPA from September 2014 onwards and the EFA expects the decrease in costs.

There were several projects which had significant expenditure in the 2014-15 year but which have now ended. These include the 16 to 19 demographic growth capital fund, the sixth-form college building condition improvement fund, the independent specialist providers' programme, the education in youth contract and targeted basic need.

2.3.4 The certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Education Funding Agency (the EFA) and of its Group for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the EFA's and Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the EFA, Chief Executive and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Basis for adverse opinion on the group financial statements

There is a presumption under IFRS 10 *Consolidated Financial Statements* that, in order to present a true and fair view, the date of the financial statements for subsidiaries consolidated into group accounts should be no more than three months different from the date of the group accounts. As described in the accounting policies, the EFA consolidated 2,824 academy trusts (operating 4,900 academies as at 31 March 2015) using a number of data sources with different periods. The majority of academy trusts were consolidated using their 31 August 2014 financial statements audited by academy trust auditors, a seven month difference in reporting date from the Group. 768 newly opened academies were consolidated using returns from the date of opening to 31 March 2015 but these were unaudited. As the EFA has not consolidated academy trusts in accordance with IFRS 10, in my view, this has led to misstatement and uncertainty that I consider to be material and pervasive to the group financial statements. The EFA has not quantified the effect of this non-compliance.

In addition, the Group has recognised academy trust land and buildings of £33 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the Group was unable to demonstrate that these all met the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment.

Finally, I qualified my audit opinion in 2013-14 because I identified a material level of misstatement and uncertainty in the group financial statements. In addition, I have identified a material level of misstatements in the 2014-15 group financial statements that also relate to 2013-14. Therefore, I have qualified my opinion on the comparative figures in the group financial statements.

Adverse opinion on the financial statements

In my opinion, because of the significance of the matters described in the *Basis for Adverse Opinion on the group financial statements* paragraph, the financial statements:

- do not give a true and fair view of the state of the Group's affairs as at 31 March 2015 and of the Group's net operating cost for the year then ended; and
- give a true and fair view of the EFA's affairs as at 31 March 2015 and of the EFA's net operating cost for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

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

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report on these financial statements is on pages 107 to 115.

Sir Amyas C E Morse **Date** 7 April 2016

Comptroller and Auditor General

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

2.3.5 The report of the Comptroller and Auditor General to the House of Commons

Introduction

1 The Education Funding Agency (the EFA) is an executive agency of the Department for Education (the Department). The EFA produces its annual report and accounts in accordance with the Government Resources and Accounts Act 2000 and includes within this the following:

- **The EFA financial statements** comprising the results of the executive agency; and
- **The EFA group financial statements** comprising the result of the EFA and the 2,824 academy trusts that operated 4,900 academies as at 31 March 2015.

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

Scope and purpose of this report

3 The purpose of this report is:

- To explain why the EFA was unable to meet the original statutory reporting deadline for its 2014-15 annual report and accounts and had to request an extension (paragraphs 6-9);
- To explain the qualification of my audit opinion on the group financial statements and comment on developments from the prior year (paragraphs 10-29); and
- To draw attention to the work by the EFA, the Department and HM Treasury to develop an alternative approach to accounting for academy trusts to improve the transparency to Parliament of academy trusts' spending (paragraphs 30-37).

4 The issues raised in this report do not relate to the audit opinions issued on the individual financial statements of the academy trusts. Academy trusts prepare individual financial statements and these are audited by separate auditors. I have not identified material inaccuracies in the financial statements of academy trusts which would have a material impact on the EFA's group financial statements.

5 I have also modified my opinion on the Department's group financial statements for the year ended 31 March 2015 as they consolidate the EFA group financial statements.

Extension to the statutory deadline

6 Under the Government Resources and Accounts Act 2000, the Accounting Officer of the EFA is required to submit to me, as the Comptroller and Auditor General, the signed EFA group financial statements for 2014-15 by 30 November 2015. I am required by the Act to certify these by 15 January 2016 and to send them to HM Treasury. HM Treasury is required to lay the financial statements, along with my audit opinions and report, before the House of Commons by 31 January 2016.

7 The EFA was unable to provide group financial statements supported by sufficient appropriate evidence to enable me to form an opinion within the statutory timetable.This was largely due to the scale and complexity of consolidating 2,824 academy trusts with year-ends that do not match that of the group (paragraphs 13-18), combined with issues relating to the significant expansion of the capital programme within the EFA (paragraphs 25-29). On 29 January 2016 the Department's Accounting Officer wrote to the Chair of the Committee of Public Accounts, and the Chair of the Education Select Committee outlining his intention to delay the laying of the Department's resource accounts. A similar delay was proposed to HM Treasury for the financial statements of the EFA. This was on the basis of the Department's and the EFA's assessment, which I supported, that a delay offered an opportunity to materially improve the quality of the supporting evidence and enable me to form an opinion on the group financial statements to be laid before Parliament.

8 Based on the assurance of improvement and following consultation with me, HM Treasury agreed to an extension of the reporting deadline for the Department and the EFA from 31 January to no later than 29 April 2016. The extension of the statutory deadline for the Department required enactment by an Order under the Government Resources and Accounts Act, and this was laid before the House of Commons on 29 January 2016.

9 As a result of the extension, the EFA was able to provide sufficient, appropriate evidence to enable me to conclude my audit and to form an adverse opinion on the truth and fairness of the EFA group financial statements and an unqualified opinion on the EFA's financial statements.

Adverse opinion on the EFA group financial statements

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

11 For the 2014-15 group financial statements, I have continued to issue an adverse opinion due to a level of misstatement and uncertainty which I consider to be material and pervasive. The key areas of misstatement and uncertainty are:

- the financial statements are not materially compliant with International Financial Reporting Standard 10 *Consolidated Financial Statements*. I have identified increased levels of error and uncertainty arising from the consolidation of academy trust results with a reporting date seven months prior to the EFA's reporting date, as well as the use of unaudited returns for those academies which had recently opened and had not yet produced financial statements;
- a continuing limitation of scope over the academy trust land and buildings recognised in the group financial statements; and
- material and pervasive misstatements in the prior year comparatives.

12 I discuss these matters further in paragraphs 13-24. In paragraphs 30-34, I set out the progress that the EFA and the Department have made towards agreeing an alternative approach for accounting for academy trusts that will, if implemented effectively, provide a solution to some, though not all, of the consolidation methodology issues it faces.

Findings from my audit

(a) Non-compliance with IFRS 10

13 In my previous Reports on the EFA group financial statements for 2012-13 and 2013-14, I set out the significant challenges faced by the EFA in preparing its consolidated financial statements and the approach it has taken to try to address these. The EFA's approach is set out in *Section 2.3.1 Consolidation of the annual accounts* of its annual report.

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

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

- audited academy trust financial statements to 31 August 2014 (my findings on this element are set out in paragraph 16);

- unaudited returns to March 2015 for those academies that had recently opened and had not produced financial statements (paragraphs 17-18); and
- centrally collated information on land and buildings, pension liabilities and assets under construction (paragraphs 19-29)

16 The EFA has used audited academy trust financial statements to 31 August 2014 for 2,634 academy trusts. This approach is not in compliance with IFRS 10. As in previous years, it commissioned a "comparison study" which sought to prove that there was no material difference between the financial information included in the group accounts for these academy trusts and the information which would have been included had financial statements to March 2015 been used instead. I consider that the comparison study has not provided sufficient, appropriate evidence to support this assertion. The results of the study indicate that there is a material difference between academy trusts' financial information for the year ended 31 March 2015 and the information that has been included in the group accounts. I cannot quantify precisely the extent of the difference as limitations in the scope and design of the comparison study make it impracticable to draw valid extrapolations across all academy trusts. However, I consider the impact on the financial statements of this non-compliance with IFRS 10 to be material and pervasive, and as such, the financial statements as a whole do not present a true and fair view

17 Academy trusts that open during the 2014-15 financial year and new academies that join existing academy trusts between 1 September 2014 and 31 March 2015 and have yet to be included with audited academy trust financial statements, are required to submit an unaudited accounts return to the EFA. The financial statements record £662 million expenditure, £622 million income, £364 million assets and £104 million liabilities for this population of 468 academy trusts (excluding land and buildings and pension valuations, which, as noted in paragraph 15 were subject to a central adjustment). There is insufficient evidence to support the accuracy and completeness of these balances.

18 The EFA undertook validation testing and assurance visits to a sample of academies to agree balances in the unaudited accounts returns to books and records. I reviewed the effectiveness of these controls and attended a sample of assurance visits, and concluded that they did not provide sufficient, appropriate evidence of the accuracy and completeness of the unaudited returns. The EFA took the decision not to carry out additional work to validate the unaudited data. Its view was that, in light of the results of the comparison study (discussed above), further work was unlikely to bridge the assurance gap, and so would not provide value for money, as well as placing an unwarranted burden on academies.

(b) Land and buildings

19 In 2012-13 and 2013-14 I limited the scope of my audit opinion in respect of the valuation of land and buildings held by academy trusts and I continue to do so for 2014-15. Academy trust land and buildings with a valuation of £33.3 billion have been recognised as at 31 March 2015.

20 As noted in paragraph 15, the EFA has made a central adjustment for land and buildings rather than consolidating the balances included in the financial statements of academy trusts. This is because academy trusts prepare their accounts in accordance with *Accounting and Reporting by Charities: Statement on Recommended Practice* (the Charities SORP). The criteria for recognising and valuing assets in the Charities SORP are not fully aligned with those in International Accounting Standards and HM Treasury guidance (the basis under which the group accounts are prepared).

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

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

23 The lack of central oversight and records of the academy sector estate has also led to further error and uncertainty in the accounts. This includes double counting of assets, classification errors between land and buildings and assets under construction and the inclusion of some assets on a valuation basis that is not compliant with HM Treasury guidance.

24 In my reports on the 2012-13 and 2013-14 financial statements, I noted that I did not believe that the EFA and the Department would be able to resolve the issues around the recognition of Land and Buildings for a number of years. The EFA stated last year that collecting the required information would be very costly (estimating that this could cost over £20 million to collate the information and between £5 million to £10 million a year to keep this data current) and therefore decided not to collect the information on value for money grounds.

(c) Capital projects

25 The Priority Schools Building Programme (PSBP) is a programme to address the needs of the schools most in need of urgent repair. The aim of the programme is for 260 schools to be rebuilt or have their condition needs met by the EFA over 4 years. In addition, the Government has pledged to open 500 free schools over the next 5 years. As a result, there has been a significant expansion of the capital programme during 2014-15 with over 900 active PSBP and free school capital projects at schools across England during 2014-15, an increase from less than 200 during 2013-14.

26 The expansion of the capital programme within a short timeframe has challenged the EFA's capacity and capability for central record keeping and financial management. My audit identified significant, but not material, uncertainties due to weaknesses in record management and sharing of information between the EFA's capital group and finance team. These included uncertainties on the timing of the acquisition of sites and completion of assets, as well as costs being incorrectly capitalised where the group did not hold the rights to the future economic benefits associated with the assets. Weaknesses in the EFA's method of formally assessing the progress of construction works as at 31 March 2015 led to uncertainty on the value of capital accruals. I also identified a number of clauses in capital contracts which gave rise to provisions and contingent liabilities that had not been recognised in the financial statements.

27 Delays in providing capital project information for audit and the volume of issues noted on capital projects significantly delayed the accounts preparation and audit timetable. Because of inadequate information-sharing across the ~~the~~ EFA, the finance team was not fully prepared for the scale of expansion of the capital activity on free schools and PSBP and the potential financial accounting implications until March 2015. The review of relevant records to derive the accounting treatment for the associated capital projects within the EFA's financial statements was not completed until October 2015, nearly seven months after the financial year-end. Although the additional work on accounting for capital projects was completed by January 2016, the delay it caused to the accounts preparation process, combined with the complexities of the consolidation methodology, was a key factor in the Department seeking an extension to the statutory deadline.

28 The EFA had to seek retrospective approval from HM Treasury for some types of capital transactions, mainly public sector overage arrangements, which my audit identified as being prima facie novel and contentious (as defined by HM Treasury's Managing Public Money, which sets out the rules on how public money can be spent). The EFA has provided details of the relevant projects in its Governance Statement on pages 58 to 60. The EFA should have obtained HM Treasury's approval before signing the contracts to ensure that it only entered into projects where it had the authority to do so. HM Treasury provided retrospective approval in all of these cases.

29 The EFA is taking a number of actions to address the concerns I have raised on capital projects. A number of improvements will be made to the financial management of capital transactions including record keeping, enhanced training and guidance for staff; revision of internal processes; and strengthening of project monitoring. The EFA is also working with HM Treasury to agree a revised framework of delegations for its capital programmes, which will clarify which types of transactions require HM Treasury authorisation.

Alternative approach to accounting for academy trusts' financial results

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

31 The preferred option of the EFA and the Department is to remove the academy trusts' financial results from the group financial statements and to reflect only grants paid to academies in the EFA and the Department. A separate aggregated account for academies as at 31 August (the Sector Report) would then be prepared. As the EFA notes in its Annual Report, an 'in principle' agreement has been received from HM Treasury to develop the proposals for a Sector Report alongside a range of challenging conditions that would have to be met. These proposals have been reviewed and approved by the Alignment Review Committee, Scrutiny Unit, Education Select Committee and Liaison Committee and will therefore proceed, subject to meeting the conditions placed on this approval by these committees.

32 The problems with accounting for academies extend beyond the current consolidation methodology and the issues of non-coterminous year ends, into wider issues of Parliamentary accountability, financial accounting and financial management. The Sector Report option, if implemented effectively, will provide a solution to a number of the consolidation methodology issues faced by the Department and the EFA. It will not, however, address all of the causes of error and uncertainty and limitations which I have detailed in this Report, such as the recognition of land and buildings. The Department and the EFA have not yet fully developed their proposals to allow robust information on the results of academy trusts to be incorporated into the Whole of Government Accounts (WGA) on a more timely basis.

33 The Department and the EFA's policy of autonomy for academies brings with it significant risks if the financial capability of the Department, the EFA and academies are not strengthened; and the financial statements do not present a true and fair view and meet the accountability requirements of Parliament. This will become even more significant in the context of the planned expansion of the academy sector. The Chancellor announced in the Budget on 16 March 2016 that the government expects all schools to become academies by 2020 or to have an academy order in place to convert by 2022.

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

Recommendations

35 As discussed in paragraph 29, the EFA is taking steps to improve the financial management and record keeping in respect of the capital programme. I support these proposed actions, however I consider that the EFA will need to work rapidly to enable improvements to be in place for the 2015-16 financial statements and the proposed dry run Sector report. Senior management leadership and commitment will be vital to their success. I intend to further explore EFA's capital expenditure as part of my Value for Money work programme.

36 In respect of the land and buildings recognition qualification, I previously recommended that the EFA and the Department work with HM Treasury to seek a solution to identify the school estate and appropriate accounting at the Whole of Government Accounts level. I continue to recognise that a centrally coordinated review of all land and building ownership and leasing arrangements would be inefficient and costly. Instead, I recommend that the EFA and the Department establish a longer term plan to investigate the sources of information on the school estate that may already exist within the EFA, the Department, the academy trusts and within local authorities and whether these data sources and processes such as the pre-conversion checks that occur before a school becomes an academy, could be used to begin to establish records of ownership.

37 I have made the following recommendations relating to the preparation of the dry run Sector Report within my separate Report on the Department's financial statements. The EFA will need to work closely with the Department to consider these recommendations and the conditions set out by HM Treasury and Parliament:

- A lack of timely and accurate information on the forecast spend of academy trusts has led to weaknesses in the Department's and the EFA's ability to forecast spend accurately for the group. In order to prevent any erosion of Parliamentary accountability, significant and immediate improvements to forecasts and management information are needed to ensure in-year monitoring of spend in the academy sector is improved.

- The Department's proposals to allow the results of academy trusts to be incorporated into the Whole of Government Accounts on a more timely basis should be developed fully. The EFA will need to work closely with the Department to ensure that the EFA group can provide the information required under the proposals.

- The EFA and the Department should satisfy themselves that they have the capacity to deliver effectively a dry run Sector Report in summer 2016 alongside the existing group financial statements consolidating academy trusts' financial results.

Sir Amyas C E Morse **Date** 7 April 2016

Comptroller and Auditor General

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

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Section 3: Financial statements

Consolidated statement of comprehensive net expenditure

For the year ended 31 March 2015

	Note	2014-15 EFA £000	2014-15 Group £000	2013-14 EFA (Restated) £000	2013-14 Group (Restated) £000
Administration costs					
Staff costs	3	49,599	49,599	42,299	42,299
Other administrative costs	4	54,099	54,099	62,975	62,975
Operating income	6	-	-	(167)	(167)
Programme costs					
Staff costs	3	1,095	11,989,245	15,426	10,057,208
Programme costs	5	55,805,769	45,221,104	54,300,745	48,512,914
Income	6	(16,685)	(2,349,829)	(20,708)	(2,234,484)
Net gain on conversion of non-local authority academies:					
In year conversions	25	-	(911,172)	-	(881,469)
Settlements	25	-	744	-	(47,274)
Corporation tax		-	-	-	12
Net operating costs		**55,893,877**	**54,053,790**	**54,400,570**	**55,512,014**
Non-operating expenditure					
(Gain)/loss on transfer of function		(10,585)	(7,301)	-	-
Net gain on conversion of local authority academies:					
In year conversions	25	-	(2,628,763)	-	(3,309,018)
Settlements	25	-	(78,087)	-	(80,962)
Total non-operating expenditure		**(10,585)**	**(2,714,151)**	**-**	**(3,389,980)**
Other comprehensive expenditure					
Net (gain)/loss on:					
Revaluation of property, plant and equipment	7	(1,964)	(1,820,506)	-	(340,758)
Fair value (gain)/loss on investments	10	-	(2,977)	-	(3,137)
Actuarial (gain)/ loss on defined benefit pension scheme	18	-	954,209	-	(71,863)
Other recognised gains and losses		-	(4,195)	-	2,649
Total comprehensive expenditure		**55,881,328**	**50,466,170**	**54,400,570**	**51,708,925**

All activities are continuing. There are no other gains or losses other than net expenditure for the year. The restatement is discussed in note 2. The notes on pages 122 to 193 form part of these accounts.

The effect of impairment of land and buildings on revaluation within programme costs, and of revaluations gains and losses in other comprehensive expenditure, is discussed in note 1.2 and 1.8.

Consolidated statement of financial position

As at 31 March 2015.

	Note	2015 Group £000	2014 Group (Restated) £000	2013 Group (Restated) £000
Non-current assets				
Property, plant and equipment	7	35,440,401	28,675,772	26,002,979
Intangible assets	8	12,400	4,576	1,999
Financial assets	10	134,967	98,938	55,580
Trade and other receivables	13	216,599	150,544	169
Total non-current assets		**35,804,367**	**28,929,830**	**26,060,727**
Current assets				
Assets held for sale	11	4,195	-	-
Inventories	12	10,181	9,489	7,302
Trade and other receivables	13	815,048	710,552	438,656
Cash and cash equivalents	14	2,949,559	2,552,816	1,986,785
Total current assets		**3,778,983**	**3,272,857**	**2,432,743**
Total assets		**39,583,350**	**32,202,687**	**28,493,470**
Current liabilities:				
Payables	15	(2,163,983)	(1,832,004)	(1,123,285)
Provisions	17	(14,663)	(2,240)	(2,453)
Total current liabilities		**(2,178,646)**	**(1,834,244)**	**(1,125,738)**
Total assets less current liabilities		**37,404,704**	**30,368,443**	**27,367,732**
Non-current liabilities				
Other payables	16	(45,237)	(49,805)	(42,651)
Provisions	17	(609)	(2,745)	(1,993)
Pension scheme deficit	18	(3,965,380)	(2,427,814)	(1,911,299)
Total non-current liabilities		**(4,011,226)**	**(2,480,364)**	**(1,955,943)**
Assets less liabilities		**33,393,478**	**27,888,079**	**25,411,789**
Taxpayers' equity				
General fund		(125,042)	(213,321)	2,319
Revaluation reserve		2,364,081	543,575	202,762
Charitable fund		31,154,439	27,557,825	25,206,708
Total taxpayers' equity		**33,393,478**	**27,888,079**	**25,411,789**

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

The restatement is discussed in note 2. The notes on pages 122 to 193 form part of these accounts.

EFA statement of financial position

As at 31 March 2015.

	Note	2015 EFA £000	2014 EFA (Restated) £000	2013 EFA (Restated) £000
Non-current assets				
Property, plant and equipment	7	132,431	42,322	1,007
Intangible assets	8	8,392	-	25
Investments	9	6,282	-	-
Trade and other receivables	13	13,133	1,335	289
Total non-current assets		**160,238**	**43,657**	**1,321**
Current assets				
Assets held for sale	11	4,195	-	-
Trade and other receivables	13	105,136	65,163	28,344
Cash and cash equivalents	14	147,649	83,818	127,528
Total current assets		**256,980**	**148,981**	**155,872**
Total assets		**417,218**	**192,638**	**157,193**
Current liabilities:				
Payables	15	(530,470)	(404,581)	(152,570)
Provisions	17	(9,217)	(520)	(1,176)
Total Current Liabilities		**(539,687)**	**(405,101)**	**(153,746)**
Total assets less current liabilities		**(122,469)**	**(212,463)**	**3,447**
Non-current liabilities				
Provisions	17	(609)	(858)	(1,128)
Total non-current liabilities		**(609)**	**(858)**	**(1,128)**
Assets less liabilities		**(123,078)**	**(213,321)**	**2,319**
Taxpayers' equity				
General fund		(125,042)	(213,321)	2,319
Revaluation reserve		1,964	-	-
Total taxpayers' equity		**(123,078)**	**(213,321)**	**2,319**

Peter Lauener
Chief Executive and accounting officer, EFA
31 March 2016

The restatement is discussed in note 2. The notes on pages 122 to 193 form part of these accounts

Consolidated statement of cash flows

For the year ended 31 March 2015.

	Note	2014-15 EFA £000	2014-15 Group £000	2013-14 EFA (Restated) £000	2013-14 Group (Restated) £000
Net cash outflow from operating activities	26	**(55,719,405)**	**(53,754,059)**	**(54,108,815)**	**(52,277,655)**
Cash flows from investing activities					
Purchase of:					
property, plant and equipment	7	(95,260)	(1,866,326)	(41,767)	(1,502,236)
intangible assets	8	(8,765)	(9,829)	-	(2,444)
investments	10	-	(65,818)	-	(33,703)
Proceeds of disposal of:					
property, plant and equipment		-	30,161	-	21,718
intangible assets		-	-	-	58
investments		-	32,747	-	9,770
Net cash outflow from investing activities		**(104,025)**	**(1,879,065)**	**(41,767)**	**(1,506,837)**
Cash flows from financing activities					
Exchequer supply from sponsor department		55,886,242	55,886,242	54,106,872	54,106,872
Cash inflow on conversions of academies		-	133,395	-	232,731
Loans received		-	6,504	-	13,444
Borrowings advanced		(1,822)	-	-	-
Borrowings repaid		2,841	-	-	-
Capital element of finance lease		-	3,726	-	(2,524)
Net cash inflow from financing activities		**55,887,261**	**56,029,867**	**54,106,872**	**54,350,523**
Net increase/(decrease) in cash and cash equivalents in the year	14	**63,831**	**396,743**	**(43,710)**	**566,031**
Cash and cash equivalents at 1 April	14	**83,818**	**2,552,816**	**127,528**	**1,986,785**
Cash and cash equivalents at 31 March	14	**147,649**	**2,949,559**	**83,818**	**2,552,816**

The notes on pages 122 to 193 form part of these accounts.

Consolidated statement of changes in taxpayers' equity

For the year ended 31 March 2015.

	Note	General fund (Restated) £000	Revaluation Reserve (Restated) £000	Charitable fund reserve (Restated) £000	Group total (Restated) £000
Balance at 31 March 2013 – as previously stated		**192,340**	**121,804**	**24,975,147**	**25,289,291**
Restatement		(190,021)	80,958	231,561	122,498
Balance at 1 April 2013 – as restated		**2,319**	**202,762**	**25,206,708**	**25,411,789**
Net Parliamentary funding – drawn down		54,106,872	-	-	54,106,872
Comprehensive expenditure for the year		(54,400,570)	343,895	2,347,750	(51,708,925)
Non-cash adjustments					
Salaries paid by the department		42,976	-	-	42,976
Other costs paid by the department		8,920	-	-	8,920
Non-cash balances to be settled by the department		1,057	-	-	1,057
Auditor's remuneration	4	380	-	-	380
Movement in academies reserves		-	(3,082)	3,367	285
Notional shared service recharges	4	24,725	-	-	24,725
Balance at 31 March 2014 - as restated		**(213,321)**	**543,575**	**27,557,825**	**27,888,079**
Net Parliamentary funding – drawn down		55,886,242	-	-	55,886,242
Comprehensive expenditure for the year		(55,883,292)	1,823,483	3,593,639	(50,466,170)
Non-cash adjustments					
Salaries paid by the department		46,544	-	-	46,544
Other costs paid by the department		1,045	-	-	1,045
Non-cash balances to be settled by the department		4,826	-	-	4,826
Auditor's remuneration	4	445	-	-	445
Movement in academy reserves		-	(2,977)	2,975	(2)
Notional shared service recharges	4	32,469	-	-	32,469
Balance at 31 March 2015		**(125,042)**	**2,364,081**	**31,154,439**	**33,393,478**

The notes on pages 122 to 193 form part of these accounts.

Statement of changes in taxpayers' equity

As at 31 March 2015. This statement relates to the EFA.

	Note	General Fund (Restated) £000	Revaluation Reserve (Restated) £000	EFA Total (Restated) £000
Balance at 1 April 2013 – as previously stated		**192,340**	**-**	**192,340**
Restatement		(190,021)	-	(190,021)
Balance at 1 April 2013 – as restated		**2,319**	**-**	**2,319**
Net Parliamentary funding – drawn down		54,106,872	-	54,106,872
Comprehensive expenditure for the year		(54,400,570)	-	(54,400,570)
Non-cash adjustments				
Salaries paid by the department		42,976	-	42,976
Other costs paid by the department		8,920	-	8,920
Non-cash balances to be settled by the department		1,057	-	1,057
Auditor's remuneration	4	380	-	380
Notional shared service recharges	4	24,725	-	24,725
Balance at 31 March 2014 – as restated		**(213,321)**	**-**	**(213,321)**
Net Parliamentary funding – drawn down		55,886,242	-	55,886,242
Comprehensive expenditure for the year		(55,883,292)	1,964	(55,881,328)
Non-cash adjustments				
Salaries paid by the department		46,544	-	46,544
Other costs paid by the department		1,045	-	1,045
Non-cash balances – to be settled by the department		4,826	-	4,826
Auditor's remuneration	4	445	-	445
Notional shared service recharges	4	32,469	-	32,469
Balance at 31 March 2015		**(125,042)**	**1,964**	**(123,078)**

The notes on pages 122 to 193 form part of these accounts.

3.1 Notes to the accounts

1 Statement of accounting policies

The EFA group has prepared these accounts in accordance with the 2014-15 Financial Reporting Manual issued by HM Treasury. The accounting policies contained in the manual apply IFRS as adapted or interpreted for the public sector except for the departure from IFRS10 Consolidated Financial Statements as noted in section 1.3.2. Where the manual permits a choice of accounting policy, the group has selected the accounting policy that the group judged to be most appropriate to the particular circumstances of the group to give a true and fair view. The EFA group describes the particular policies the group has adopted for 2014-15 below. The EFA group has applied these policies consistently in dealing with items considered material in relation to the accounts.

The EFA group has produced these accounts as set out in a statutory accounts direction issued by HM Treasury pursuant to section 5(2) of the Government Resource and Accounts Act 2000. The EFA group has produced the accounts using accruals accounting.

1.1 Accounting convention

The EFA group has prepared these accounts under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, investments and certain financial assets and liabilities.

1.2 Critical accounting judgements and key sources of estimation uncertainty

The EFA group has made judgements, estimates and assumptions in the preparation of these accounts that affect the application of policies and reported values of assets and liabilities, income and expenditure. The EFA group bases these judgements, estimates and assumptions on historic and other factors that the group believes to be reasonable. The EFA group keeps its estimates and underlying assumptions under review. The group has specifically made such judgements on:

- the inclusion of academy trusts in the accounts
- the recognition and valuation of academy trusts' land and buildings
- accounting for capital expenditure and assets under construction
- valuation of academy trusts' pension deficits
- accounting for the migration of academy trust opening balances and pro rating academy trusts' financial results (refer to 2.3.1 Our approach to consolidation of academy trusts' financial results point 3)

The EFA group has not offered any sensitivity analysis for these judgements other than on the use of the proxy (refer to 2.3.1 Our approach to consolidation of academy trusts' financial results point 3) for academy trusts reporting to 31 August 2014.

Inclusion of academy trusts in the accounts

The EFA group has made judgements regarding how it consolidates academy trusts into these accounts, and how to reflect the financial position of the group for the period covered by these accounts. The most significant judgement concerns the lack of coterminous year ends and how to include academy trusts whose own accounts are prepared to 31 August. This issue does not affect the population of academy trusts that have not prepared accounts as at 31 August 2014, as the EFA group have included their unaudited results in the group accounts through an accounting return as at 31 March 2015. The financial management section of the governance statement has more detail on this.

Recognition and valuation of academy trusts' land and buildings

The second significant adjustment made to academy trusts' reported results was for the EFA group to recognise in all instances academy trusts' land and buildings irrespective of what the academy trusts recognised in their own accounts. In accordance with the accounting framework adopted by academy trusts, some academy trusts do not recognise land and buildings the trusts use in their operations. However, the EFA group accounting framework applies different criteria to the recognition (and valuation) of land and buildings. Accordingly, EFA group management decided to recognise all academy trusts' land and buildings to reflect the reality that all academy trusts operate from buildings. The EFA group's omission of such buildings and the land on which they stand from the group's statement of financial position would significantly understate the assets controlled and managed by the group. Therefore, the EFA group commissioned valuations for all academy trusts' land and buildings consistent with the group's accounting policy for property, plant and equipment. Note 7.3 shows the value of land and buildings in at £33.3 billion at 31 March 2015 (31 March 2014 (restated): £27.1billion).

The EFA group holds land and buildings at valuation, which requires the application of estimates and judgements. See note 1.5 for more details about the property, plant and equipment accounting policy and note 2 for details of restatements in respect of valuations and land indexation.

Surveyors perform initial valuations in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Manual and Building Bulletin 102 and 103. In applying this guidance, surveyors have valued sites at DRC for a modern equivalent asset. This valuation involves a judgement that there are not significant instances of non-specialist or surplus assets which might be appropriately otherwise valued. Note 7 shows the valuation of assets on initial recognition in the transfer on conversion lines that totalled £3.8 billion for 2014-15 (2013-14: £4.5 billion).

The EFA group issued Building Bulletin 102 and 103 in 2013-14. The EFA group has reassessed valuations performed in 2012-13 under previous guidance, and recognised a change of estimate in 2013-14 in the statement of comprehensive net expenditure (as restated) for the impact of the change in valuation guidance. Note 2 sets out how the EFA group has restated this prior period adjustment.

The EFA group re-values land and buildings every 5 years from the anniversary of their initial recognition in accordance with the policy. Between quinquennial revaluations, the EFA group updates assets values using indices. The selection of the indices used represents an accounting judgement. In the current year, the EFA group has changed from using indices issued by the Department for Business, Innovation and Skills to the public sector tender prices indices issued by the Office for National Statistics (ONS), as ONS now provides these. The indices used are interim temporary indices as the official indices have not yet been published.

The EFA group performed the 2013-14 indexation of buildings using interim indices. The final indices for 2013-14 showed significant changes. In accordance with IAS 8, the EFA group reflects these movements in 2014-15 as a change in accounting estimate rather than restatement of comparative figures.

As discussed in note 2, the EFA group has indexed land values, using the HPI residential land index issued by LSL Acadata. The EFA group considers that a residential price index is the most appropriate index to use across its portfolio of assets as a large majority of current schools and of potential new sites for schools, are in residential areas. However, this represents a key judgement and uncertainty in valuation of assets.

Accounting for capital expenditure and assets under construction

The structure of the EFA group and the scale of its capital programme, including the EFA's capital programme and activity funded by individual academy trusts, means that accounting for capital expenditure is inherently complex for the group. The accounting involves judgements both over the capitalisation of assets under construction and in alignment of accounting for non-coterminous year ends between academy trusts and the group. As detailed in note 2, the EFA group has reviewed its accounting for assets under construction in the year and restated comparatives.

Pension valuation for the LGPS

The EFA group has recognised academy trusts' LGPS liabilities in the statement of financial position – all other defined benefit schemes are unfunded schemes. Note 18 shows all details of the pension deficit.

All estimates are performed by actuaries in accordance with IAS 19. Under these estimates, all pension assets are held at fair value. The actuaries estimate scheme liabilities using a projected unit method and discounted at their current rate of return on a high quality corporate bond of equivalent term to the liability. The actuarial loss for 2014-15 recognised in other comprehensive expenditure is £954 million (2013-14: gain of £72 million).

The EFA group obtained valuations of academy trusts' defined benefit scheme deficits and has valued these deficits at 31 March 2015 under EFA group accounting assumptions. See note 1.15 for more details. The EFA group has applied all consolidation adjustments consistently across all pension schemes.

Migration of academy trust opening balances and pro rate

For those academy trusts making a first accounts return to the EFA group as at 31 March 2014, the EFA group faced the risk of duplicating these academy trusts' results by consolidating the trusts' subsequent accounts return to 31 August 2014.

Without adjustment, the opening balances for these academy trusts in the EFA group's statement of financial position as at 1 April 2014 will not agree to an academy trusts' closing balances in the previous financial year. There were 580 academy trusts (872 academies) with results included to 31 March 2014 in 2013-14 therefore requiring adjustment for consolidation in 2014-15. To correct this, the EFA group has removed the closing balances at 31 March 2014 from academy trusts' accounts returns to 31 August 2014 to align the opening and closing balances.

The EFA group has then scaled up income and expenditure for the remaining 5 month period April to August 2014 to the full 12 months to 31 March 2015 to include a full year's activity for these academy trusts (the pro rate). The EFA group recognises in its statement of financial position a pro rate debtor for the resultant movement in net assets. The group discloses this debtor in 'other receivables due in more than one year'.

The impact of this adjustment in the current year has been to increase academy trust operating costs by £1.4 billion, resulting in an increase in net assets of £129 million. The EFA group has excluded material one-off transactions (such as recognition of assets and liabilities at conversion) from the adjustment to prevent material distortions to the EFA group's reported results.

The EFA group carries forward the pro rate debtor and adjusts it to reflect the asset impact of movements between August and March each year. The pro rate debtor was £203 million at 31 March 2015 (31 March 2014: £145 million).

1.3 Consolidation approach

1.3.1 Basis for consolidation

These accounts comprise a consolidation of the EFA and its academy trusts with the consolidated result representing the EFA group. The EFA group has eliminated transactions between bodies included in the consolidation.

The Office for National Statistics has classified academies as central government public sector bodies since 2004. The requirement to consolidate academy trusts into the department's accounts is derived from the requirements of IFRS and HM Treasury's Financial Reporting Manual. This is reflected in the inclusion of academy trusts in the department's designation order: The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2014. The departmental group has commissioned the EFA group to consolidate academy trusts' results in the first instance. The departmental group then consolidates the EFA group's accounts along with other departmental bodies, fulfilling the terms of the department's designation order.

The EFA group consolidates academy trusts' accounts reflecting the nature of the relationship between the EFA group and the academy sector, where the EFA group effectively acts as the 'parent' as the EFA group exercises the Secretary of State's control. The EFA group provides academy trusts with the majority of their grant funding and obtains assurance from academy trusts on their financial regularity and performance.

Note 24 lists all entities within the EFA group's accounting boundary.

Throughout these accounts the EFA refers to the core EFA whilst the EFA group refers to the single entity presented in these accounts; this consists of the EFA and academy trusts.

1.3.2 Approach to academy trust consolidation

Academies and EFA do not have coterminous year ends. Academy trusts have financial years ending on 31 August in line with their operational year. By contrast, the EFA's year end is 31 March. IFRS 10 permits the use of data prepared to non-conterminous year-ends only if there is less than three months difference. The EFA group has adopted a twofold approach to include academy trusts based on whether or not an academy trust prepared audited accounts to 31 August 2014.

The EFA group has consolidated all operational academy trusts as at 31 March 2015, including:

- 2,633 academy trusts' results (4,184 academies) for the academy trusts' financial year ending 31 August 2014, where academy trusts have prepared accounts to this date.
- 468 academy trusts' provisional unaudited results (768 academies) from the date of their incorporation to 31 March 2015 where the academy trust has yet to prepare accounts to 31 August, or new academies were opened by existing multi-academy trusts after 31 August.

The EFA group has made adjustments, where required, to the academy trusts' accounts to align their accounting policies to those of the group. The two most significant adjustments are to the recognition and valuation of land and building assets and defined benefit pension scheme deficit valuations, as discussed in note 1.5 and 1.15.

1.3.3 Intra-group eliminations

The EFA group has made adjustments for intercompany transactions with academy trusts by eliminating the income reported by academy trusts against grants paid. The EFA group has eliminated a total of £14,353 million in revenue grants and £1,308 million in capital grants. Because of the EFA group's non-coterminous accounting periods and the use of the proxy, this has resulted in an over elimination of both revenue and capital grants.

1.3.4 Un-validated consolidation returns

In the year to 31 March 2014, EFA Group estimated the impact on the EFA Group results from 37 academy trusts that had not submitted their accounts returns, and included that estimate in the EFA group accounts.

In the year to 31 March 2015, return rates by academy trusts improved. The EFA group did not receive a total of 20 accounts returns to 31 August 2014, and 8 accounts returns to 31 March 2015. These omissions represent less than 1% (by number) of returns. Additionally, the EFA group received 34 accounts returns either received too late to for the group to include the returns, or the returns were of insufficient quality to include in the EFA group accounts. In total therefore, the EFA group has not included 62 accounts returns representing under 2% of the total expected. The EFA group has decided not to include an estimate for these academies' results, as the group does not believe that their exclusion significantly changes the interpretation, or presentation of the EFA group's position or performance.

1.3.5 Consolidation adjustments

Some academy trusts produce accounts for fewer or greater than 12 months due to limits on the length of a company's first set of audited accounts. The Companies Act 2006 allows companies to shorten or extend their first accounting period after incorporation to between 6 and 18 months. Statute has designed the flexibility of the initial accounting period to allow companies to move the initial year end applied on incorporation to a more suitable date for the company's activities. In the case of academy trusts, the preferred date is 31 August to match their operational activities.

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

The EFA group has aligned the results for those academy trusts reporting for other than 12 month periods by adjusting academy trusts' results up or down as appropriate. The EFA group has reduced to 12 months the results of academy trusts reporting long period accounts (more than 12 months) as at 31 August to match the EFA group's accounting period. The EFA group has extrapolated the results of academy trusts reporting short period accounts to 31 August up to 12 months dependent upon the date their academies became operational.

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

1.4 Opening of academies in-year

The opening of academies with academy trusts continued throughout 2014-15. Academies converted from local authority maintained schools, non-local authority schools or newly formed from outside the public sector. Examples of new academies formed from outside the public sector are free schools, studio schools, university technical colleges or ex-private schools that do not have predecessor local authority maintained schools. As such, the EFA group has effectively either brought assets of these types of academies across the private-public sector boundary (ex-private schools) or has acquired assets to support the opening of new free schools etc.

The EFA group has accounted for the values associated with conversions of all local authority maintained schools (whether the EFA group classifies them as convertors or sponsored academies) as non-operating costs. The EFA group has accounted for values associated with opening of academies without predecessor local authority maintained schools as operating costs. We have aggregated and presented all openings occurring during the year as a single business combination.

The EFA group has accounted for the inclusion of academy trusts acquired during the year using absorption accounting as per the Financial Reporting Manual 4.2. The EFA group did not adjust the carrying value of the assets and liabilities of the functions to fair value on consolidation, although the group adjusted valuations to align accounting policies (on pensions and land and buildings), with those of the group. The EFA group has transferred in academy trusts' land, buildings and pensions at the re-valued sum. The EFA group has neither recognised goodwill arising from the business combination nor restated comparatives in the accounts. The EFA group has recognised the net assets or liabilities acquired by the group for nil consideration as either net operating gain (where a transfer is from outside of the public sector) or in other comprehensive income (where the transfer is from a local authority). The EFA group accounts for academy trusts acquired during the year from outside the public sector under IFRS 3. The EFA group reports the gain initially based upon unaudited submissions to 31 March, with any changes to the valuations arising in the submission of audited accounts to 31 August in an academy's second year presented separately as settlements.

Note 25 gives further details of the net assets and liabilities brought into the EFA group.

1.5 Property, plant and equipment

For the EFA group the minimum value of capitalisation for expenditure on property, plant and equipment is £2,500. In the case of ICT equipment and furniture, the group capitalises all items purchased through the capital budget and if an individual item's value falls below the £2,500 threshold, the group aggregates such items and records their value as bulk assets. The EFA group measures the value of assets on capitalisation at cost plus direct costs, such as installation, directly attributable to bringing them into working condition.

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

The EFA group measures the value of assets under construction at cost plus direct costs directly attributable to bringing the assets into working condition in line with IAS 16; Property, Plant and Equipment. Direct costs include all costs associated with purchasing the land and property and bringing the assets into use, and a fair proportion of the EFA's internal costs. The EFA group recognises assets under construction assets where it has control over the asset, and the right to the future economic benefit from that asset. At the time at which either or both is no longer the case, the EFA group removes the asset from the group balance sheet.

In the unlikely situation where circumstances existing prior to the year end indicate that the EFA group cannot transfer assets as intended but instead the group will sell the assets on the open market and is actively marketing the asset, then the EFA group will value these assets under IFRS 5 Assets Held for Sale and Discontinued Operations, and, if lower, recognise any difference between carrying value and fair value as an impairment and the group will present the value of the asset separately.

If a project ceased, or an asset became surplus through circumstances not yet existing at the year end, the EFA group would not change its accounting for the asset until the following financial year.

Upon conversion, the EFA group recalculates the carrying value of academy trusts' land and buildings to depreciated replacement cost in order to comply with group accounting policies. The EFA group does not recognise this as a revaluation adjustment as the valuation was before the assets' initial recognition in the group accounts. As described more fully in the discussion in note 2, the EFA group currently applies the guidance in "Building Bulletin 102: Designing for Disabled Children and Children with Special Educational Needs" for special schools and for the remaining population "Building Bulletin 103: Area Guidelines for Mainstream Schools" in performing revaluations.

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

The EFA group will revalue academy trusts' land and buildings to every 5 years using external professional valuations in accordance with *IAS 16 Property, Plant and Equipment*. For assets held for more than a year, the EFA group has applied the public sector tender prices indices issued by the Office for National Statistics to academy trusts' buildings , and the HPI residential land index issued by LSL Acadata to academy trusts' land.

1.6 Depreciation

The EFA group has provided for depreciation of assets at rates calculated to write off the valuation of buildings by equal instalments over their estimated useful lives. The EFA group depreciates the value neither of land nor of assets under construction. Asset lives are normally in the following ranges:

Buildings	50 years or estimated useful life or the lease term, whichever is shorter.

The group has adopted the following depreciation charges for other asset classes:

- Leasehold improvements 50 years or estimated useful life or the lease term, whichever is shorter
- Furniture & fittings 5 – 10 years
- Plant and machinery 10 – 20 years
- Computer Equipment 3 – 5 years
- Motor vehicles 4 – 6 years

1.7 Intangible assets

The EFA group initially recognises intangible assets at cost, and subsequently at fair value, if it is probable that future economic benefits attributable to the asset will flow to the group and the EFA group can measure reliably the cost of the asset. The EFA group capitalises purchased computer software licences and developed software as intangible assets where the group has incurred expenditure of £2,500 or more. The EFA group amortises intangible assets over their estimated useful economic lives. The exception is assets under construction that the group does not amortise, instead assessing the assets for impairment annually. Intangible asset lives are normally in the following ranges:

- Software licences 2 – 5 years or the licence period, whichever is shorter
- Developed software 5 years
- Trademarks and royalties 3 years

1.8 Revaluation and impairment of non-current assets

The EFA group has credited increases in the value of these assets to the revaluation reserve. The EFA group has applied this policy unless the increase in value is a reversal of a previous impairment, the group credits such an increase in value to the statement of comprehensive net expenditure to the extent of the previous impairment and then to the revaluation reserve, in accordance with *IAS 36: Impairment of Assets*.

The EFA group reviews all non-current assets for impairment if circumstances indicate the carrying value may not be recoverable. The EFA group recognises as a loss the sum that the asset’s carrying value exceeds its recoverable value. The recoverable value is the higher of the asset’s fair value less costs to sell and its value in use.

The EFA group charges any impairment losses that result from a clear consumption of economic benefits to the statement of comprehensive net expenditure. The EFA group transfers any balance on the revaluation reserve, up to the level of impairment, to the general fund to ensure consistency with IAS 36.

The EFA group writes off all impairment losses that do not arise from a clear consumption of economic benefits against the revaluation reserve up to the level of depreciated historical cost. The EFA group charges any excess devaluation to the statement of comprehensive net expenditure.

1.9 Inventory

The EFA group carries inventory at the lower of cost or net realisable value.

1.10 Financial instruments

The EFA group has adopted IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement. The EFA group does not have any complex financial instruments, including embedded derivatives. However, the group recognises financial assets and financial liabilities when the group becomes party to the contractual provisions of the instrument.

1.10.1 Financial assets

The EFA group classifies financial assets where appropriate as investments, loans and receivables, assets available-for-sale and financial assets at fair value through profit and loss. Financial assets include cash and cash equivalents and trade and other receivables.

The EFA group determines the classification of its financial instruments at initial recognition. The EFA group recognises financial assets 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 EFA group's financial assets include available-for–sale assets, trade and other receivables and cash. The subsequent measurement of financial assets depends on their classification, as follows:

Available-for-sale assets

The EFA group holds investments classified as available for sale and the group carries these assets at fair value. The EFA group calculates fair value as the market value at the year end. The EFA group recognises movements in the fair value in its statement of comprehensive net expenditure.

Trade and other receivables

Trade and other receivables have fixed or determinable payments that are not quoted on an active market. Trade and other receivables do not carry any interest and the EFA group recognises them initially at their face value then subsequently measured at amortised cost using the effective interest method. The EFA group recognises appropriate allowances (provisions or write-offs) for estimated irrecoverable sums (bad debts) in the statement of comprehensive net expenditure when there is objective evidence that the asset is impaired. The EFA group measures the allowance recognised as the difference between the assets' carrying value and the estimated future recoverable value.

Loans

On 1 April 2014 the departmental group transferred the academy deficit advances function to the EFA group. This function advances funding to converting academies for the purpose of repaying their local authority deficit and then recovers the funding from the relevant academy, over a period of one to five years. This transfer of function resulted in an academy advances asset valued at £7.3 million being transferred to the EFA group's statement of financial position and the group recognises this as a non-operating gain on transfer of function in the group's statement of comprehensive net expenditure under absorption accounting.

Cash and cash equivalents

The EFA group has included cash and cash equivalents comprising cash in hand and on demand deposits. Where there are restrictions upon the EFA group's ability to access cash, for example through being held in escrow with a solicitor pending a property transaction, the EFA group discloses these restrictions separately in the notes to the financial statements. However, in accordance with IAS 7 the EFA group continues to present balances as cash in the statement of financial position and statement of cash flows.

1.10.2 Financial liabilities

The EFA group classifies financial liabilities, where appropriate, at fair value through profit or loss, or as financial liabilities measured at amortised cost (face value plus any discounts). Financial liabilities include trade and other payables and accruals. The EFA group's 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 the EFA group states them at their face value on initial recognition. Subsequently, the EFA group values them at amortised cost using the effective interest method.

Grant in aid from the sponsoring department

The EFA group has recorded all grant-in-aid by the departmental group as financing as the group regards grant in aid as contributions from the group's controlling party giving rise to a financial interest. The EFA group records grant in aid as financing in the statement of cash flows and the group credits grant in aid to the general reserve.

Loan liabilities

The EFA group is able to take out interest free loans for the purchase cost of solar panels and the group recognises only the sums outstanding at the year end. The EFA group may also take out interest bearing loans with the Secretary of State’s permission. The EFA group states such loans at their face value on initial recognition. Subsequently, the EFA group measures interest bearing loans at amortised cost using the effective interest method.

1.11 Income

Operating income is income that relates directly to the operating activities of the EFA group. Operating income consists of:

- income such as general administration receipts and income from other departments.
- income generated by the EFA group’s academy trusts in the course of their activities in addition to the funding received from the EFA. This income can include income from local authorities and other government departments as well as fund-raising income, sponsorship income and income from the hire of facilities

1.12 Shared services

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

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

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

1.13 Administration and programme expenditure

The EFA group has analysed the statement of comprehensive net expenditure between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition of administration expenditure set out by HM Treasury in its publication Consolidated Budgeting Guidance.

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

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

1.14 Leases

The EFA group classifies leases as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership of the leased assets to the lessee. The EFA group classifies all other leases as operating leases. The EFA group charges operating lease rentals, where the group incurs expenditure, to the statement of comprehensive net expenditure.

1.15 Pensions

The EFA group has adopted IAS 19 Employee Benefits to account for its pension schemes.

For funded defined benefit schemes, the EFA group recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the group has a legal or constructive obligation to make good the deficit in the scheme. The EFA group recognises the pension scheme surplus (to the extent that the group considers the surplus to be recoverable) or deficit in full on the face of the statement of financial position. The EFA group recognises actuarial gains or losses from the scheme in reserves.

Where the EFA group contributes to 'defined contribution' and 'unfunded defined benefit' pension schemes (for which the EFA group's share of underlying assets and liabilities cannot be identified), the group recognises contributions payable in the statement of comprehensive net expenditure.

Notes 3 and 18 provide further details of the EFA group's membership of pension schemes.

1.16 Accounting for programmes

1.16.1 Grant recognition

The EFA group receives a delegation letter from the departmental group annually on 1 April. This breaks down the grant the departmental group transfers to the EFA group into programme budgets that fund learning and the EFA as an agency's administration costs. The EFA group accounts for the majority of grants to education providers as cash. The EFA group considers that cash accounting is appropriate as the group pays education providers at a time and sum that as far as possible matches their underlying activity.

The EFA group has eliminated grants paid to its academy trust at group level and the group does not report the value of these grants in the figures for the group.

The EFA group has made accruals for the cost of delivery within the financial year where payment is either not representative of underlying activity or there are delays in payment due to a delay in signing contracts or in the receipt of claims. Where termly payments cover a period beyond the current financial year, the EFA group makes a prepayment adjustment to ensure that the group's accounts recognise only the cost of provision in the current financial year.

For the academic year ending 31 August 2014 the EFA group paid academy trusts 12% of their funding in September and 8% each month for the remainder of the academic year. The EFA group altered this payment profile for the academic year ending 31 August 2015 and began paying academy trusts their funding in 12 equal monthly instalments.

1.16.2 Time bound capital grants

The EFA group pays a number of capital grants on the condition that recipients will have spent the grants within a specified time limit. The EFA group recovers unspent grants from grant recipients where the recipients have not spent the funds within the time limit specified. Where providers have further time following the end of the financial year to spend the grant the EFA group can neither deem probable the existence of any future economic benefit at the year end, nor measure its extent reliably. The right of recovery does not therefore give rise to an asset eligible for recognition in the statement of financial position as defined by the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. The EFA group therefore offsets any unspent grant returned to it by grant recipients against grant expenditure at the time of receipt.

1.17 Receivables: programme expenditure

The EFA pays education providers according to a profile of payments intended to match as closely as possible their needs for funds. Programme receivables mostly reflect part of the normal operation of the reconciliation process of the respective programmes to ensure that only sums earned by education providers' actual delivery are paid and recorded in the group's accounts.

Where relevant, the EFA group recognises recoveries of grant the group has overpaid when the recoveries are virtually certain to succeed and the group can reliably measure their value. The EFA group recognises the recoveries as reductions in group expenditure of the grant related to the recoveries. In the vast majority of cases, the EFA group offsets programme receivables against future payments to providers.

1.18 Provisions

The EFA group recognises provisions when it is probable that the group will be required to settle a present obligation resulting from a past event and the group can make a reliable estimate of that obligation. The obligation is normally the sum that the EFA group would pay to settle the obligation at the year end or to transfer it to a third party at that time. Where the impact is material, the EFA group discounts expected future cash flows using an appropriate discount rate.

1.19 Contingent liabilities

In addition to contingent liabilities disclosed in accordance *with IAS 37: Provisions, Contingent Liabilities and Contingent Assets,* the EFA group discloses for parliamentary reporting and accountability purposes certain non-contingent liabilities where the likelihood of a transfer economic benefit is too remote for recognition under IAS 37.

The EFA group states as discounted sums those contingent liabilities that the group discloses in accordance with IAS 37, where the time value of the contingent liabilities is material, and the group separately notes the sum reported to Parliament. The group states contingent liabilities that the EFA does not have to disclose under IAS 37 as the sums reported to Parliament.

1.20 Value Added Tax

Most of the activities of the EFA as an agency are outside the scope of value added tax (VAT). The EFA as an agency sits within the department's group VAT registration allowing the appropriate accounting to the Her Majesty's Revenue and Customs (HMRC) as part of the department's overall return. This means the EFA can recover input VAT incurred on contracted out services as defined by HM Treasury. The EFA states sums net of VAT where it charges output tax or recovers input tax.

In general, the EFA group's outputs are not subject to VAT. Where the EFA group makes taxable outputs the group can recover input VAT on purchases related to these outputs. Where the EFA group incurs input VAT on educational delivery at its academies, the group can wholly recover this VAT from the HMRC. The EFA group charges remaining irrecoverable VAT to the relevant expenditure category or includes the VAT in the capitalised purchase cost of property and equipment and intangible assets. The EFA group states sums net of VAT where the group charges output tax or recovers input tax.

1.21 Tax

HMRC considers that the EFA group's academy trusts pass the tests set out in paragraph 1 schedule 6 of the Finance Act 2010 and therefore academy trusts meet the definition of charitable companies for UK Corporation tax purposes. Accordingly, academy trusts are potentially exempt from taxation in respect of income or capital gains received within categories covered by chapter 3 part 11 of the Corporation tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that the EFA group applies such income or gains exclusively to charitable purposes.

However, the EFA group does recognise low levels of corporation tax arising from the small number of trading subsidiaries held by academy trusts that fall outside of paragraph 1 schedule 6 above.

1.22 Segmental reporting

In accordance with IFRS 8: Operating Segments, the EFA group has considered the need to analyse its accounts income and expenditure relating to operating segments. The EFA group has assessed that all lines of operation fall within the same geographical location and regulatory environment as envisaged by IFRS 8. The segmental reporting information disclosed in note 5 reflects the significant programme streams under the remit of the EFA group as detailed in the group's 2014-15 delegation letter from the department, and as such the EFA group's chief operating decision maker, the Chief Executive reviews this segmental information.

The EFA group holds assets and liabilities from its own operations and relating to working capital. The EFA group does not report on these assets and liabilities at programme level in the EFA's management accounts. Hence, for its assets and liabilities the EFA group has adopted the exemption available in IFRS 8 that states that organisations should report segmental information for assets and liabilities only if the organisations report regularly these assets and liabilities to their chief operating decision makers.

Similarly, the EFA group does not report administration expenditure to management at programme level as segmental information. The EFA group does not consider this segmental information to have a material influence on managerial decisions and so the group has not disclosed administration expenditure in the segmental reporting note.

1.23 Accounting developments

In order to comply with the requirements of IAS 8: accounting policies, changes in accounting estimates and errors, the EFA group must disclose where it has not applied a new IFRS that is in issue but is not yet effective. The EFA group has carried out a review of the IFRS in issue but not yet effective, to assess their impact on its accounting policies and treatment, and found that none have a material impact on the group’s accounts. The EFA group, therefore, has chosen not to adopt early requirements of amendments to the following accounting standards and interpretations that have an effective date after the date of these accounts:

Standard	Effective	Financial Reporting Manual application	Impact
IFRS 13 Fair Value Measurement	Accounting periods commencing on or after 1 January 2013.	2015-16	The standard replaces the guidance on fair value measurement in existing IFRSs with a single standard. This standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The standard will not affect the majority of the EFA group's assets held at valuation, but will impact the measurement of in particular: • financial instruments; and • surplus land and buildings assets which it is not intended to bring back into operational use. The EFA group may also need to make additional disclosures. The standard replaces the guidance on fair value measurement in existing IFRSs with a single standard.
IAS 36 Impairment of Assets	Accounting periods commencing on or after 1 January 2014	2015-16 Subject to review	This amendment, that seeks to address the implications of references to IFRS 13 Fair Value Measurement, modifies some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets. It clarifies the scope of certain disclosures and removes burdensome and unintended disclosures requirements without reducing the relevance and cognisance of the financial information. The EFA group does not have many impaired assets so the group does not consider this standard to have a

			significant impact when adopted.
IFRIC 21 Levies	Accounting periods commencing on or after 1 January 2014	2015-16	The EFA group does not anticipate this standard to have a material impact upon the group.
IFRS 15 Revenue for Contracts with Customers	Accounting periods commencing on or after 1 January 2018	Not yet confirmed	The standard provides a principles based model for accounting for revenue, which may impact the timing of recognition of income by academy trusts and lead to additional disclosures. The EFA group does not anticipate this standard to have a material impact upon the group.
IFRS 9 Financial Instruments	Not yet confirmed	Not yet confirmed	The EFA group does not anticipate this standard to have a material impact upon the group.

1.24 Going concern

The departmental group's estimates and forward plans include provision for the EFA group's continuation and it is therefore appropriate to prepare the EFA group's accounts as a going concern.

The EFA group funds its academies under a funding agreement subject to 7 years' notice of termination. EFA group funding is for the provision of learning to children and young people who for the very large majority are under the age for compulsory participation in education. The funding also meets the need for such learning in the locality or localities the EFA group's academies serve. In the event of an academy trust's educational, financial or other failure, the EFA group expects that the academy trust's learners, publically funded assets and funding would transfer to a successor academy trust or trusts as continuing activity. The EFA group considers it is therefore appropriate to treat academy trusts as going concerns.

Furthermore the EFA group considers it appropriate to prepare these accounts for both the EFA (as an Agency) and for the group as going concerns.

2 Restatement

Adjustment 1: Reassessment of 2012-13 valuations on the basis of Building Bulletin 102 and 103

The EFA group applies the guidance in Building Bulletin 102: Designing for Disabled Children and Children with Special Educational Needs and Building Bulletin 103: Area Guidelines for Mainstream Schools in performing revaluations.

The EFA group introduced this guidance in 2013-14 and the EFA group applied the guidance to valuations of academy trusts' buildings performed in that year. However, the previous valuations performed during 2012-13 were not reassessed following the introduction of the new guidance.

The EFA group has concluded that the adoption of the new guidance should have led to a reassessment of the valuation as a change in accounting estimate in 2013-14. As the impact of this is material, as required by IAS 8 the EFA group has restated comparative financial information to adjust the carrying values of schools valued in 2012-13 under the previous valuation guidance. Note 1.2 discloses the uncertainties and judgements in making this estimate.

Adjustment 2: Indexation of land

The EFA group has concluded that adopting a policy of indexation of land, in line with the existing policy for buildings, would provide reliable and more relevant information about the group's financial position.

The EFA group has treated adoption of this policy as a change in accounting policy and the group has restated comparative financial information in accordance with IAS 8 to reflect indexation in 2013-14. The EFA group has applied the HPI residential land index issued by LSL Acadata to academy trusts' land. Note 1.2 discloses the uncertainties and judgements in making this estimate.

Adjustment 3: Accounting for assets under construction and related balances

The EFA group has performed a detailed review in the year of its individual capital projects and whether the group has control of the assets and the right to future economic benefits, including considering observations in the 2013-14 audit on specific projects. This review has concluded that in many cases control rests with the entity on whose behalf the EFA group is funding acquisition and construction of a school. The EFA group has restated the assets under construction, land and buildings, and leasehold improvement balances, to adjust the treatment of individual projects to reflect which party has control of the asset. The table below shows separately the impact on the EFA group.

Adjustment 4: Grant presentation

The EFA group has reviewed the presentation of certain grants received via the department from the Department of Health (DoH) for physical education and sports. The EFA group has adjusted the presentation accordingly to show as grant in aid funding from the departmental group rather than grant income from the DoH as the DoH does not identify this grant separately in transfers to the EFA.

2014 EFA - statement of comprehensive net expenditure

	2014 As previously stated £000	Adjustment 3A AUC adjustment £000	Adjustment 4 EFA – department grant presentation £000	2014 As restated £000
Administration costs				
Staff costs	42,299	-	-	42,299
Other administrative costs	62,975	-	-	62,975
Operating income	(167)	-	-	(167)
Programme costs				
Staff costs	15,426	-	-	15,426
Programme costs	54,317,816	(17,071)	-	54,300,745
Income	(67,708)	-	47,000	(20,708)
Net operating cost	**54,370,641**	**(17,071)**	**47,000**	**54,400,570**
Non-operating expenditure				
Transfer of function (gain)/loss on academy deficit loans and transfer of sites from academies to EFA	-	-	-	-
Net gain on conversion of local authority academies:	-	-	-	-
In year conversions	-	-	-	-
Settlements	-	-	-	-
Total non-operating expenditure	**-**	**-**	**-**	**-**
Other comprehensive expenditure				-
Net (gain)/loss on:	-	-	-	-
Revaluation of property, plant and equipment	-	-	-	-
Fair value gain/(loss) of investments	-	-	-	-
Actuarial (gain)/ loss on defined benefit pension scheme	-	-	-	-
Other recognised gains and losses	-	-	-	-
Total comprehensive expenditure	**54,370,641**	**(17,071)**	**47,000**	**54,400,570**

2014 EFA - statement of financial position

	2014 As previously stated £000	Adjustment 3A AUC adjustment £000	Adjustment 4 EFA – department grant presentation £000	2014 As restated £000
Non-current assets:				
Property, plant and equipment	210,776	(168,454)	-	42,322
Intangible assets	-	-	-	-
Investments	-	-	-	-
Trade and other receivables	1,335	-	-	1,335
Total non-current assets	**212,111**	**(168,454)**	**-**	**43,657**
Current assets				
Assets held for sale	-	-	-	-
Trade and other receivables	65,163	-	-	65,163
Cash and cash equivalents	63,439	20,379	-	83,818
Total current assets	**128,602**	**20,379**	-	**148,981**
Total assets	**340,713**	**(148,075)**	**-**	**192,638**
Current liabilities				
Trade and other payables	(379,707)	(24,874)	-	(404,581)
Provisions	(520)	-	-	(520)
Total current liabilities	**(380,227)**	**(24,874)**	**-**	**(405,101)**
Total assets less current liabilities	**(39,514)**	**(172,949)**	**-**	**(212,463)**
Non-current liabilities				
Provisions	(858)	-	-	(858)
Total non-current liabilities	**(858)**	**-**	**-**	**(858)**
Assets less liabilities	**(40,372)**	**(172,949)**	**-**	**(213,321)**
Taxpayers' equity				
General fund	(40,372)	(172,949)	-	(213,321)
Revaluation reserve	-	-	-	-
Total taxpayers' equity	**(40,372)**	**(172,949)**	**-**	**(213,321)**

2014 EFA group – statement of comprehensive net expenditure

	2014 As previously stated £000	Adjustment 1 BB102 and BB103 £000	Adjustment 2 Indexation £000	Adjustment 3A AUC EFA impact £000	Adjustment 3B AUC – group Impact £000	Adjustment 4 EFA – department grant presentation £000	2014 As restated £000
Administration costs							
Staff costs	42,299	-	-	-	-	-	42,299
Other administrative costs	62,975	-	-	-	-	-	62,975
Operating income	(167)	-	-	-	-	-	(167)
Programme costs							
Staff costs	10,057,208	-	-	-	-	-	10,057,208
Programme costs	45,512,738	3,098,169	-	(17,071)	(80,922)	-	48,512,914
Income	(2,468,342)	-	-	-	186,858	47,000	(2,234,484)
Net (gain)/loss on conversion of non-local authority academies:							
In year conversions	(870,974)	-	-	-	(10,495)	-	(881,469)
Settlements	(47,274)	-	-	-	-	-	(47,274)
Corporation tax	12	-	-	-	-	-	12
Net operating cost	**52,288,475**	**3,098,169**	**-**	**(17,071)**	**95,442**	**47,000**	**55,512,014**
Net (gain)/loss on conversion of local authority academies:							
In year conversions	(3,341,171)	-	-	-	32,153	-	(3,309,018)
Settlements	(80,962)	-	-	-	-	-	(80,962)
Total non-operating expenditure	**(3,422,133)**	**-**	**-**	**-**	**32,153**	**-**	**(3,389,980)**
Other comprehensive expenditure							
Net (gain)/loss on:							
- revaluation of property, plant and equipment	(280,349)	318,824	(464,453)	-	85,220	-	(340,758)

- fair value (gain)/loss on investments	(3,137)	-	-	-	-	-	(3,137)
- actuarial (gain)/loss on defined benefit pensions schemes	(71,863)	-	-	-	-	-	(71,863)
Other recognised gains and losses	2,649	-	-	-	-	-	2,649
Total comprehensive expenditure	**48,513,642**	**3,416,993**	**(464,453)**	**(17,071)**	**212,815**	**47,000**	**51,708,925**

2014 EFA group – statement of financial position

	2014 As previously stated £000	Adjustment 1 BB102 and BB103 £000	Adjustment 2 Indexation £000	Adjustment 3A AUC EFA Impact £000	Adjustment 3B AUC – group Impact £000	Adjustment 4 EFA – department grant presentation £000	2014 As restated £000
Non-current assets:							
Property, plant and equipment	31,697,063	(3,416,993)	545,411	(168,454)	18,745	-	28,675,772
Intangible assets	4,576	-	-	-	-	-	4,576
Financial assets	98,938	-	-	-	-	-	98,938
Trade and other receivables	150,544	-	-	-	-	-	150,544
Total non-current assets	**31,951,121**	**(3,416,993)**	**545,411**	**(168,454)**	**18,745**	**-**	**28,929,830**
Current assets							
Inventories	9,489	-	-	-	-	-	9,489
Trade and other receivables	710,552	-	-	-	-	-	710,552
Cash and cash equivalents	2,532,437	-	-	20,379	-	-	2,552,816
Total current assets	**3,252,478**	**-**	**-**	**20,379**	**-**	**-**	**3,272,857**
Total assets	**35,203,599**	**(3,416,993)**	**545,411**	**(148,075)**	**18,745**	**-**	**32,202,687**
Current liabilities							
Trade and other payables	(1,807,130)	-	-	(24,874)	-	-	(1,832,004)
Provisions	(2,240)	-	-	-	-	-	(2,240)

Total current liabilities	**(1,809,370)**	**-**	**-**	**(24,874)**	**-**	**-**	**(1,834,244)**
Total assets less current liabilities	**33,394,229**	**(3,416,993)**	**545,411**	**(172,949)**	**18,745**	**-**	**30,368,443**
Non-current liabilities							
Other payables	(49,805)	-	-	-	-	-	(49,805)
Provisions	(2,745)	-	-	-	-	-	(2,745)
Pension deficit	(2,427,814)	-	-	-	-	-	(2,427,814)
Total non-current liabilities	**(2,480,364)**	**-**	**-**	**-**	**-**	**-**	**(2,480,364)**
Assets less liabilities	**30,913,865**	**(3,416,993)**	**545,411**	**(172,949)**	**18,745**	**-**	**27,888,079**
Taxpayers' equity							
General fund	(40,372)	-	-	(172,949)	-	-	(213,321)
Revaluation reserve	402,209	(318,824)	545,411	-	(85,221)	-	543,575
Charitable fund	30,552,028	(3,098,169)	-	-	103,966	-	27,557,825
Total taxpayers' equity	**30,913,865**	**(3,416,993)**	**545,411**	**(172,949)**	**18,745**	**-**	**27,888,079**

2013 EFA - statement of financial position

	2013 As previously stated £'000	Adjustment 3A AUC Adjustment £'000	2013 As restated £'000
Non-current assets:			
Property, plant and equipment	191,028	(190,021)	1,007
Intangible assets	25	-	25
Trade and other receivables	289	-	289
Total non-current assets	**191,342**	**(190,021)**	**1,321**
Current assets			
Assets held for sale	-	-	-
Trade and other receivables	28,344	-	28,344
Cash and cash equivalents	127,528	-	127,528
Total current assets	**155,872**	**-**	**155,872**
Total assets	**347,214**	**(190,021)**	**157,193**
Current liabilities			
Trade and other payables	(152,570)	-	(152,570)
Provisions	(1,176)	-	(1,176)
Total current liabilities	**(153,746)**	**-**	**(153,746)**
Total assets less current liabilities	**193,468**	**(190,021)**	**3,447**
Non-current liabilities			
Provisions	(1,128)	-	(1,128)
Total non-current liabilities	**(1,128)**	**-**	**(1,128)**
Assets less liabilities	**192,340**	**(190,021)**	**2,319**
Taxpayers' equity			
General fund	192,340	(190,021)	2,319
Revaluation reserve	-	-	-
Total taxpayers' equity	**192,340**	**(190,021)**	**2,319**

2013 EFA group - statement of financial position

	2013 As previously stated £'000	Adjustment 2 Indexation £'000	Adjustment 3 AUC £'000	2013 As restated £'000
Non-current assets:				
Property, plant and equipment	25,880,481	80,958	41,540	26,002,979
Intangible assets	1,999	-	-	1,999
Financial assets	55,580	-	-	55,580
Trade and other receivables	169	-	-	169
Total non-current assets	**25,938,229**	**80,958**	**41,540**	**26,060,727**
Current assets				
Assets held for sale	-	-	-	-
Inventories	7,302	-	-	7,302
Trade and other receivables	438,656	-	-	438,656
Cash and cash equivalents	1,986,785	-	-	1,986,785
Total current assets	**2,432,743**	**-**	**-**	**2,432,743**
Total assets	**28,370,972**	**80,958**	**41,540**	**28,493,470**
Current liabilities				
Trade and other payables	(1,123,285)	-	-	(1,123,285)
Provisions	(2,453)	-	-	(2,453)
Total current liabilities	**(1,125,738)**	**-**	**-**	**(1,125,738)**
Total assets less current liabilities	**27,245,234**	**80,958**	**41,540**	**27,367,732**
Non-current liabilities				
Other payables	(42,651)	-	-	(42,651)
Provisions	(1,993)	-	-	(1,993)
Pension deficit	(1,911,299)	-	-	(1,911,299)
Total non-current liabilities	**(1,955,943)**	**-**	**-**	**(1,955,943)**
Assets less liabilities	**25,289,291**	**80,958**	**41,540**	**25,411,789**
Taxpayers' equity				
General fund	192,340	-	(190,021)	2,319
Revaluation reserve	121,804	80,958	-	202,762
Charitable fund	24,975,147	-	231,561	25,206,708
Total taxpayers' equity	**25,289,291**	**80,958**	**41,540**	**25,411,789**

3 Staff numbers and related costs

3.1 Staff costs – the EFA group

	Permanently employed staff £000	Others £000	2015 Total £000	2014 Total £000
Salaries	9,409,070	539,308	9,948,378	8,433,752
Social security	697,018	13,644	710,662	620,100
Pension costs	1,355,692	24,833	1,380,525	1,047,973
	11,461,780	**577,785**	**12,039,565**	**10,101,825**
Less recoveries in respect of outward secondments	(641)	(80)	(721)	(2,318)
	11,461,139	**577,705**	**12,038,844**	**10,099,507**
Charged to:				
Administration costs	40,991	8,608	49,599	42,299
Programme costs	11,420,148	569,097	11,989,245	10,057,208
	11,461,139	**577,705**	**12,038,844**	**10,099,507**
Of which:				
EFA – administration	40,991	8,608	49,599	42,299
EFA – programme	156	939	1,095	15,426
Academy trusts	11,419,992	568,158	11,988,150	10,041,782
	11,461,139	**577,705**	**12,038,844**	**10,099,507**

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

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

The EFA has charged its staff costs relating to capital asset new school build and major refurbishment projects to capital grant-in-kind. This totalled £13.63 million (2013-14: £12.36 million) for the free schools programme and £6.94 million (2013-14: £4.23 million) for the PSBP.

3.2 Average number of staff employed

The average number of full-time equivalent persons the EFA group employed during the year.

	Permanently employed staff	Other staff	2014-15 Total	Permanently employed staff	Other staff	2013-14 Total
	Number	Number	Number	Number	Number	Number
Administration	722	99	821	634	46	680
Programme	323,432	16,558	339,990	286,233	14,252	300,485
Staff engaged on capital projects	77	133	210	59	103	162
Total	**324,231**	**16,790**	**341,021**	**286,926**	**14,401**	**301,327**
Of which:						
EFA	799	232	1,031	693	149	842
Academy – teaching staff	160,904	8,443	169,347	144,252	7,260	151,512
Academy – administration and support staff	142,640	7,899	150,539	124,936	6,832	131,768
Academy – management staff	19,888	216	20,104	17,045	160	17,205
Total	**324,231**	**16,790**	**341,021**	**286,926**	**14,401**	**301,327**

3.3 Pension costs

The EFA group operates a range of pension schemes for its employees, dependent upon the employees' role.

Principal civil service pension scheme

The principal civil service pension scheme is an unfunded multi-employer defined benefit scheme. The EFA group accounts for its participation in this pension scheme as if it were a defined contribution scheme. The scheme actuaries carried out a full valuation as at 31 March 2012. The annual report and accounts of the Cabinet Office: Civil Superannuation on the civil service pensions' website[22] gives details of the scheme.

For 2014-15, the EFA group made employers' contributions of £7.19 million to the principal civil service pension scheme (2013-14: £6.61million) at one of four rates in the range 16.7% to 24.3% of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The actuary sets contribution rates to meet the cost of the benefits accruing

[22] Civil Service Pension Scheme - http://www.civilservicepensionscheme.org.uk/

during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees made contributions of between 1.5% and 8.85% based on salary band.

One individual retired early on ill-health grounds (2013-14: one); the total additional accrued pension liabilities in the year amounted to £5,095 (2013-14: £2,912).

Local government pension scheme

The scheme is a funded, multi-employer defined benefit pension scheme. The scheme is available to employees of local government bodies that satisfy the membership criteria. Most academy trusts are members of the LGPS from their time as local authority maintained schools. The scheme's administrators are able to allocate the scheme's underlying assets and liabilities across the separate employers in accordance with IAS 19: Employee Benefits (IAS 19). Consequently, the EFA group recognises its share of the scheme's net asset surplus or deficit on its statement of financial position. See note 18 for further details.

Teachers' pension scheme

For 2014-15, the EFA group was liable to pay employers' contributions of £779.8 million (2013-14: £643.2 million) at a rate of 14.1% of pensionable pay. The scheme is an unfunded, multi-employer defined benefit pension scheme. In accordance with IAS 19, the EFA group accounts for contributions to the scheme as if the scheme is a defined contribution scheme, recognising only contributions payable during the year, as it is not possible to separately identify the assets and liabilities of the scheme held by the EFA group

The Secretary of State sets rates for contributions to the teachers' pension scheme on the advice of the scheme's actuary. The Teachers' Pension Scheme (England and Wales)'s 2014-15 annual report and accounts gives further information about the scheme.

Employees make contributions of between 6.4% and 11.2% based on salary band.

Partnership pension accounts

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. The EFA paid employers' contributions of £105,907 (2013-14: £98,915) in relation to its own staff to one or more of the panel of three appointed stakeholder pension providers.

Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings. In addition, the EFA paid employer contributions of £6,615 (2013-14: £5,278), 0.8% of pensionable pay, to the principal civil service pension scheme 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 £11,836 (2013-14: £8,298). Contributions prepaid at that date were nil.

3.4 Staff exit packages

EFA

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
<£10,000	-	-	-	2	-	2
£10,001 - £25,000	-	-	1	1	1	1
£25,001 - £50,000	1	-	6	4	7	4
£50,001 - £100,000	-	-	8	2	8	2
£100,001 - £150,000	-	-	3	1	3	1
Total number of exit packages	**1**	**-**	**18**	**10**	**19**	**10**
Total cost (£000)	**47**	**-**	**1,175**	**417**	**1,222**	**417**

Group

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
<£10,000	917	701	1,291	906	2,208	1,607
£10,001 - £25,000	369	330	758	476	1,127	806
£25,001 - £50,000	141	91	240	170	381	261
£50,001 - £100,000	11	20	28	31	39	51
£100,001 - £150,000	-	2	7	5	7	7
Total number of exit packages	**1,438**	**1,144**	**2,324**	**1,588**	**3,762**	**2,732**
Total cost (£000)	**15,025**	**12,289**	**29,019**	**19,303**	**44,044**	**31,592**

In both 2014-15 and 2013-14, the department bore and managed centrally the exit costs of staff in the EFA itself.

During both 2014-15 and 2013-14, EFA staff could choose voluntary exit under an early departure programme. As part of this programme, the department meets the additional costs of benefits in respect of employees who retire early and of compensation payments payable to employees who take early severance.

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

Academy trusts meet the exit costs of staff from their central funding.

4 Other administrative costs

	EFA £000	2014-15 EFA group £000	EFA £000	2013-14 EFA group £000
Staff travel and subsistence	2,973	2,973	2,985	2,985
Recruitment and training	298	298	193	193
IT and computer maintenance	18,629	18,629	20,267	20,267
General administration expenditure	7,035	7,035	6,013	6,013
Premises	7,424	7,424	7,866	7,866
Legal and other professional fees	6,133	6,133	5,601	5,601
Managing and supporting capital programmes	10,789	10,789	19,645	19,645
Non-cash items:				
Amortisation	373	373	25	25
External audit fee	445	445	380	380
	54,099	**54,099**	**62,975**	**62,975**

The costs above include notional recharges of £32,469,000 (2013-14: £24,725,000) for the shared services provided by the department.

The notional costs of these services for 2014-15 are as follows:

	EFA £000	2014-15 EFA group £000	EFA £000	2013-14 EFA group £000
Human resources	1,902	1,902	1,874	1,874
Estates and facilities management	7,424	7,424	7,866	7,866
Communications	641	641	703	703
Legal services	1,096	1,096	1,034	1,034
Information and technology services	17,854	17,854	10,347	10,347
Corporate finance and procurement	3,552	3,552	2,901	2,901
	32,469	**32,469**	**24,725**	**24,725**

5 Programme costs

	2014-15 EFA £000	2014-15 EFA group £000	2013-14 EFA (Restated) £000	2013-14 EFA group (Restated) £000
Revenue grant expenditure				
Learning by young people aged under 16 years at academies	12,502,467	(406,422)	11,083,663	92,337
Learning by young people aged under 16 years at local authority maintained schools	31,190,595	31,190,595	31,450,046	31,450,046
Local authority maintained schools with sixth forms	781,317	781,317	856,371	856,371
Academies with sixth forms	1,444,183	-	1,385,814	-
Young people aged 16-19 years in further education	3,802,221	3,802,221	3,854,886	3,854,886
16-18 apprenticeships	801,148	801,148	728,049	728,049
Learners with learning difficulties and/or disabilities	4,808	4,808	74,670	74,670
Core maths	2,524	2,524	-	-
Youth contract	23,043	23,043	11,399	11,399
Free school meals (post 16)	29,009	29,009	-	-
Bursary fund for young people aged 16 to 19 years	180,208	180,208	179,096	154,008
Learner support for young people aged 16 to19	34,951	34,951	38,619	38,619
Other programme costs	3,448	3,448	28,354	28,353
Private finance initiative special current grant	743,796	743,796	733,478	719,778
	51,543,718	**37,190,646**	**50,424,445**	**38,008,516**
Capital grant expenditure				
Capital for young people aged 16-19 years	101,626	94,965	87,585	83,596
Capital for young people aged under 16 years	4,140,820	2,755,741	3,767,554	2,921,746
	4,242,446	**2,850,706**	**3,855,139**	**3,005,342**
Other expenditure funded by other government departments				
Residential support scheme funded by BIS	-	-	14	14
Personal career development loans helpline and payment body funded by BIS	946	946	835	835
Dance & drama awards for young people aged 19 years and over funded by BIS	7,886	7,886	7,880	7,880
Education in youth custody funded by the Ministry of Justice	7,853	7,853	11,980	11,980
	16,685	**16,685**	**20,709**	**20,709**
Academy operational costs				
Travel and subsistence	-	23,800	-	20,998
Training and recruitment	-	152,052	-	119,431
Educational activities	-	890,233	-	775,202
Information technology costs	-	206,433	-	168,994
Premises costs	-	1,343,365	-	1,175,075
Operating lease costs – land and buildings	-	22,229	-	18,661
Operating lease costs – other	-	33,335	-	26,830
Legal and professional fees costs	-	58,274	-	52,595
Auditors' fees:				
- audit work costs	-	23,755	-	25,762
- non-audit work	-	9,850	-	10,637
Finance cost	-	84,718	-	54,537
Other costs	-	1,142,554	-	939,733
	-	**3,990,598**	-	**3,388,455**

	2014-15 EFA £000	2014-15 EFA group £000	2013-14 EFA (Restated) £000	2013-14 EFA group (Restated) £000
Non-cash charges:				
- depreciation	-	971,314	-	871,576
- amortisation	-	1,481	-	1,182
- impairment	2,920	164,979	452	3,159,288
(Gain)/loss on disposal of				
- property, plant and equipment	-	34,588	-	57,776
- intangible assets	-	10	-	-
- investments	-	96	-	70
	2,920	**1,172,469**	**452**	**4,089,892**
Total programme expenditure	**55,805,769**	**45,221,104**	**54,300,745**	**48,512,914**

Note 2 discloses this restatement. The EFA group has revised the presentation of this note to simplify the disclosures made by combining related grant lines.

The Learning by Young People aged under 16 years line includes the revenue over-elimination, discussed further in note 1.3.3.

6 Income

	2014-15 EFA £000	2014-15 EFA group £000	2013-14 EFA (Restated) £000	2013-14 EFA group (Restated) £000
Administration income:				
Sundry sales income	-	-	167	167
	-	**-**	**167**	**167**
Programme income:				
Education in youth custody programme income	7,853	7,853	11,980	11,980
BIS income for adult learner programmes	8,832	9,164	8,728	8,728
Voluntary income	-	611,128	-	751,792
Activities for generating funds	-	617,564	-	515,451
Investment income	-	11,897	-	14,349
Government revenue grant income	-	63,576	-	54,728
Government capital grant income	-	416	-	40,615
Other income	-	1,028,231	-	836,841
	16,685	**2,349,829**	**20,708**	**2,234,484**
	16,685	**2,349,829**	**20,875**	**2,234,651**

7 Property plant and equipment

As detailed in note 2, the EFA group has restated carrying values of assets under construction, land and buildings, and leasehold improvements. The detailed impact of these restatements is shown in 7.1 for the EFA and 7.2 for the EFA group.

7.1 The EFA

	Land and buildings	Assets under construction	2014-15 Total	Land and buildings	Assets under construction	2013-14 Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April, as previously stated	-	210,776	210,776	-	191,028	191,028
Restatement	-	(168,002)	(168,002)	-	(190,021)	(190,021)
At 1 April (restated)	**-**	**42,774**	**42,774**	**-**	**1,007**	**1,007**
Additions	3,597	91,663	95,260	-	41,767	41,767
Revaluations	1,964	-	1,964	-	-	-
Reclassifications	10,538	(14,733)	(4,195)	-	-	-
At 31 March	**16,099**	**119,704**	**135,803**	**-**	**42,774**	**42,774**
Depreciation						
At 1 April, as previously stated	-	-	-	-	-	-
Restatement	-	(452)	(452)	-	-	-
At 1 April (restated)	**-**	**(452)**	**(452)**	**-**	**-**	**-**
Depreciation charge	-	-	-	-	-	-
Impairment charge		(2,920)	(2,920)	-	(452)	(452)
At 31 March	**-**	**(3,372)**	**(3,372)**	**-**	**(452)**	**(452)**
Carrying value at 31 March	**16,099**	**116,332**	**132,431**	**-**	**42,322**	**42,322**

All EFA assets are owned assets.

£690,000 (2013-14: £454,000) for the free schools programme staff costs have been included in the value of assets under construction as they are directly attributable to these capital projects.

£4.2 million has been reclassified as an asset held for resale (see note 11).

7.2 Impact of restatement on the EFA group

	Land and buildings	Leasehold improvement	Plant & machinery	Furniture & equipment	Computer equipment	Vehicles	AuC	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost at 1 April 2013 as previously stated	25,642,178	9,115	17,022	425,187	317,361	12,224	252,845	26,675,932
Restatement	78,311	(8,563)	-	-	-	-	52,750	122,498
Cost at 1 April 2013 as restated	**25,720,489**	**552**	**17,022**	**425,187**	**317,361**	**12,224**	**305,595**	**26,798,430**
Depreciation at 1 April 2013 as previously stated	(616,470)	(552)	(1,285)	(76,077)	(98,509)	(2,558)	-	(795,451)
Restatement	-	-	-	-	-	-	-	-
Depreciation at 1 April 2013 as restated	**(616,470)**	**(552)**	**(1,285)**	**(76,077)**	**(98,509)**	**(2,558)**	**-**	**(795,451)**
Carrying value at 1 April 2013 (as previously stated)	25,025,708	8,563	15,737	349,110	218,852	9,666	252,845	25,880,481
Carrying value at 1 April 2013 (restated)	**25,104,019**	**-**	**15,737**	**349,110**	**218,852**	**9,666**	**305,595**	**26,002,979**
Cost at 31 March 2014 as previously stated	30,238,413	221,754	40,587	607,677	512,854	18,644	592,616	32,232,545
Restatement	6,996	(92,056)	-	-	-	-	126,054	40,994
Cost at 31 March 2014 as restated	**30,245,409**	**129,698**	**40,587**	**607,677**	**512,854**	**18,644**	**718,670**	**32,273,539**
Depreciation at 31 March 2014 as previously stated	(118,945)	(8,084)	(13,031)	(159,890)	(225,827)	(6,107)	(3,598)	(535,482)
Restatement	(3,062,231)	398	-	-	-	-	(452)	(3,062,285)
Depreciation at 31 March 2014 as restated	**(3,181,176)**	**(7,686)**	**(13,031)**	**(159,890)**	**(225,827)**	**(6,107)**	**(4,050)**	**(3,597,767)**
Carrying value at 31 March 2014 (as previously stated)	30,119,468	213,670	27,556	447,787	287,027	12,537	589,018	31,697,063
Carrying value at 31 March 2014 (restated)	**27,064,233**	**122,012**	**27,556**	**447,787**	**287,027**	**12,537**	**714,620**	**28,675,772**

7.3 The EFA group 2015

	Land and buildings £000	Leasehold improvement £000	Plant & machinery £000	Furniture & equipment £000	Computer equipment £000	Vehicles £000	AuC £000	Total £000
Cost or valuation								
At 1 April (as restated)	30,245,409	129,698	40,587	607,677	512,854	18,644	718,670	**32,273,539**
Additions	516,580	73,841	16,806	132,683	158,540	4,224	963,652	**1,866,326**
Transferred in on conversion during the year:								
LA	2,677,213	137	4,638	51,977	16,486	929	-	**2,751,380**
Non-LA	920,982	83	491	5,513	6,711	62	92,885	**1,026,727**
Transferred in on conversion settlement balances:								
LA	90,317	(704)	2,786	(5,106)	4,815	264	(32,892)	**59,480**
Non-LA	24,027	(2,697)	(315)	(8,143)	(4,633)	(30)	11,133	**19,342**
Donations	406,679	2,028	3,306	8,574	4,103	206	5,540	**430,436**
Disposals	(48,805)	(388)	(245)	(6,191)	(13,330)	(464)	(13,092)	**(82,515)**
Revaluations	822,638	(431)	-	436	803	53	1,080	**824,579**
Reclassifications	694,848	(11,243)	(114)	4,357	2,790	(10)	(699,596)	**(8,968)**
At 31 March 2015	**36,349,888**	**190,324**	**67,940**	**791,777**	**689,139**	**23,878**	**1,047,380**	**39,160,326**
Depreciation								
At 1 April (as restated)	(3,181,176)	(7,686)	(13,031)	(159,890)	(225,827)	(6,107)	(4,050)	**(3,597,767)**
Charged in year	(677,021)	(11,115)	(14,771)	(107,915)	(156,186)	(4,306)	-	**(971,314)**
Disposals	427	388	108	4,869	11,675	289	-	**17,756**
Revaluations	998,673	-	-	(1,332)	(1,358)	(56)	-	**995,927**
Reclassifications	(1,151)	1,250	(2,300)	(2,663)	5,321	(4)	-	**453**
Impairment	(153,745)	-	-	(134)	(365)	(22)	(10,714)	**(164,980)**
At 31 March 2015	**(3,013,993)**	**(17,163)**	**(29,994)**	**(267,065)**	**(366,740)**	**(10,206)**	**(14,764)**	**(3,719,925)**
Carrying value at 31 March 2015	**33,335,895**	**173,161**	**37,946**	**524,712**	**322,399**	**13,672**	**1,032,616**	**35,440,401**

The EFA group has included £11.16 million (2013-14: £11.54 million) for the free schools programme and £126,000 (2013-14: £nil) for the PSBP of EFA programme staff costs in the value of assets under construction as they are attributable directly to these capital projects. The EFA group has not included the cost of the time spent by academy trusts' staff.

The EFA group has reclassified £4.2 million as an asset held for resale (see note 11).

7.4 The EFA group 2014

	Land and buildings £000	Leasehold improvement £000	Plant & machinery £000	Furniture & equipment £000	Computer equipment £000	Vehicles £000	AuC £000	Total £000
Cost or valuation								
At 1 April 2013 (as restated)	25,720,489	552	17,022	425,187	317,361	12,224	305,595	**26,798,430**
Additions	396,190	71,449	14,290	106,088	141,741	4,229	768,249	**1,502,236**
Transferred in on conversion during the year:								
Local authorities	3,426,986	(4,474)	2,332	39,774	21,510	1,300	33,541	**3,520,969**
Non-local authorities	921,118	120	692	11,564	7,206	80	5,397	**946,177**
Transferred in on conversion settlement balances:								
Local authorities	(1,965)	24,086	(6,893)	(5,910)	1,873	612	15	**11,818**
Non-local authorities	2,726	20,701	(107)	56	2,153	59	-	**25,588**
Donations	388,069	4,810	797	21,952	13,697	47	8,273	**437,645**
Disposals	(84,351)	(320)	(95)	(6,449)	(12,505)	(405)	(33)	**(104,158)**
Revaluations	(890,730)	1,184	710	10,227	13,548	734	1,294	**(863,033)**
Reclassifications	366,877	11,590	11,839	5,188	6,270	(236)	(403,661)	**(2,133)**
At 31 March 2014	**30,245,409**	**129,698**	**40,587**	**607,677**	**512,854**	**18,644**	**718,670**	**32,273,539**
Depreciation								
At 1 April 2013 (as restated)	(616,470)	(552)	(1,285)	(76,077)	(98,509)	(2,558)	-	**(795,451)**
Charged in year	(643,529)	(6,283)	(9,928)	(80,045)	(128,456)	(3,335)	-	**(871,576)**
Disposals	8,323	233	53	5,059	10,797	198	-	**24,663**
Revaluations	1,224,756	(808)	(74)	(8,738)	(10,872)	(473)	-	**1,203,791**
Reclassifications	971	(276)	(1,797)	(78)	1,213	61	-	**94**
Impairment	(3,155,227)	-	-	(11)	-	-	(4,050)	**(3,159,288)**
At 31 March 2014	**(3,181,176)**	**(7,686)**	**(13,031)**	**(159,890)**	**(225,827)**	**(6,107)**	**(4,050)**	**(3,597,767)**
Carry value at 31 March 2014 (as restated)	**27,064,233**	**122,012**	**27,556**	**447,787**	**287,027**	**12,537**	**714,620**	**28,675,772**

Included within the closing value of land and buildings is £8.5 billion (2013-14: £7.1 billion) of land held by academy trusts.

As discussed in note 2, the EFA group's appointed surveyors revalue land and buildings in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual and Building Bulletin 102 and 103.

Assets under construction relate to school building construction projects.

8 Intangible assets

8.1 The EFA 2015

	Development expenditure £000	Information technology £000	Benchmarking system £000	Finance system £000	Total £000
Cost or valuation					
At 1 April 2014	-	-	50	50	**100**
Additions	8,765	-	-	-	**8,765**
Reclassifications	(2,500)	2,500	-	-	**-**
At 31 March 2015	**6,265**	**2,500**	**50**	**50**	**8,865**
Amortisation					
At 1 April 2014	-	-	(50)	(50)	**(100)**
Charged in year	-	(373)	-	-	**(373)**
At 31 March 2015	**-**	**(373)**	**(50)**	**(50)**	**(473)**
Carrying value at:					
31 March 2015	**6,265**	**2,127**	**-**	**-**	**8,392**
31 March 2014	**-**	**-**	**-**	**-**	**-**
Asset financing					
Owned	6,265	2,127	-	-	**8,392**
Finance leased	-	-	-	-	**-**
Carrying value at 31 March 2015	**6,265**	**2,127**	**-**	**-**	**8,392**

8.2 The EFA 2014

	Development expenditure £000	Information technology £000	Benchmarking system £000	Finance system £000	Total £000
Cost or valuation					
At 1 April 2013	-	-	50	50	100
At 31 March 2014	-	-	**50**	**50**	**100**
Amortisation					
At 1 April 2013	-	-	(50)	(25)	(75)
Charged in year	-	-	-	(25)	(25)
At 31 March 2014	-	-	**(50)**	**(50)**	**(100)**
Carrying value at:					
31 March 2014	-	-	**-**	**-**	**-**
31 March 2013	-	-	**-**	**25**	**25**
Asset financing					
Owned	-	-	-	-	**-**
Finance leased	-	-	-	-	**-**
Carrying value at 31 March 2014	-	-	**-**	**-**	**-**

8.3 The EFA group 2015

	Software £000	Goodwill £000	Trademarks, licenses, royalties etc. £000	Development Expenditure £000	Other £000	Total £000
Cost or valuation						
At 1 April 2014	6,552	3	129	-	291	**6,975**
Additions	1,216	-	41	8,765	(193)	**9,829**
Transfers in (local authorities)	(22)	-	11	-	21	**10**
Transfers in (non-local authorities)	203	-	(22)	-	-	**181**
Donations	52	-	-	-	-	**52**
Disposals	(41)	-	-	-	-	**(41)**
Revaluations	(252)	-	-	-	150	**(102)**
Reclassifications	3,016	-	45	(2,500)	(45)	**516**
At 31 March 2015	**10,724**	**3**	**204**	**6,265**	**224**	**17,420**
Amortisation						
At 1 April 2014	(2,312)	-	(49)	-	(38)	**(2,399)**
Charged in year	(1,813)	-	(29)	-	(12)	**(1,854)**
Disposals	40	-	-	-	-	**40**
Revaluations	69	-	-	-	(18)	**51**
Reclassifications	(830)	-	(14)	-	14	**(830)**
Impairment	-	-	(28)	-	-	**(28)**
At 31 March 2015	**(4,846)**	**-**	**(120)**	**-**	**(54)**	**(5,020)**
Carrying value at:						
31 March 2015	**5,878**	**3**	**84**	**6,265**	**170**	**12,400**
Asset financing:						
Owned	5,878	3	84	6,265	170	**12,400**
Finance leased	**-**	**-**	**-**	**-**	**-**	**-**
At 31 March 2015	**5,878**	**3**	**84**	**6,265**	**170**	**12,400**

8.4 The EFA group 2014

	Software £000	Goodwill £000	Trademarks, licenses, royalties etc. £000	Other £000	Total £000
Cost or valuation					
At 1 April 2013	1,303	-	1,133	147	2,583
Additions	2,219	-	-	225	2,444
Transfers in (local authorities)	(173)	-	-	(47)	(220)
Transfers in (non-local authorities)	174	-	22	(9)	187
Donations	22	-	-	-	22
Disposals	(68)	-	-	-	(68)
Revaluations	209	(2)	-	-	207
Reclassifications	2,866	5	(1,026)	(25)	1,820
At 31 March 2014	**6,552**	**3**	**129**	**291**	**6,975**
Amortisation					
At 1 April 2013	(75)	-	(477)	(32)	(584)
Charged in year	(1,138)	-	(29)	(15)	(1,182)
Disposals	10	-	-	-	10
Revaluations	(66)	2	-	-	(64)
Reclassifications	(1,043)	(2)	457	12	(576)
Impairment	-	-	-	(3)	(3)
At 31 March 2014	**(2,312)**	-	**(49)**	**(38)**	**(2,399)**
Carrying value at:					
31 March 2014	**4,240**	**3**	**80**	**253**	**4,576**
Asset financing					
Owned	**4,240**	**3**	**80**	**253**	**4,576**
Leased	**-**	**-**	**-**	**-**	**-**
31 March 2014	**4,240**	**3**	**80**	**253**	**4,576**

9 Financial Instruments

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

Credit risk

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

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

Overdue debts	2015 £000	2014 £000
<30 days overdue	3,196	2,657
30-60 days overdue	4,719	2,603
60-90 days overdue	3,092	1,690
90-180 days overdue	8,728	3,746
>180 days overdue	4,686	1,626
	24,421	**12,322**

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Market risk

There is some market risk in the fair value investment held by academy trusts but the group is unable to quantify a value for the risk.

9.1 Financial assets by category:

	2015 EFA £000	2015 EFA group £000	2014 EFA (Restated) £000	2014 EFA group (Restated) £000
Cash	147,649	2,949,559	83,818	2,552,816
Receivables	118,269	1,031,647	66,498	861,096
	265,918	**3,981,206**	**150,316**	**3,413,912**

9.2 Financial liabilities by category:

	2015 EFA £000	2015 EFA group £000	2014 EFA (Restated) £000	2014 EFA group (Restated) £000
Trade payables	-	(379,776)	-	(312,702)
Other payables	(18,405)	(551,758)	(4,999)	(443,130)
Accruals	(512,065)	(1,277,686)	(399,582)	(1,125,977)
	(530,470)	**(2,209,220)**	**(404,581)**	**(1,881,809)**

9.3 Investment in other public sector bodies

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Loans to academy trusts	6,282	-	-	-
Total	**6,282**	**-**	**-**	**-**

9.3a Investment in other public sector bodies - Maturity Analysis

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Within 1 year	1,890	-	-	-
Between 2 - 5 years	1,880	-	-	-
Greater than 5 years	2,512	-	-	-
Balance at 31 March 2015	**6,282**	**-**	**-**	**-**

9.3b Investment in other public sector bodies – Movement in Asset

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Asset balance at 31 March 2014	7,301	-	-	-
Repayments received in year	(2,841)	-	-	-
Additional loans in year	1,822	-	-	-
Balance at 31 March 2015	**6,282**	**-**	**-**	**-**

10 Non-current financial assets

10.1 The EFA group 2015

	Valued at cost				Valued at fair value					
	Subsidiaries £000	Securities £000	Investment property £000	Other investments £000	Securities £000	Managed funds £000	Investment property £000	Financial Instruments £000	Other investments £000	Total £000
As at 1 April 2014	87	1,000	8,440	1,147	843	54,258	508	-	32,655	**98,938**
Additions	(11)	218	-	3,408	5,738	4,146	96	-	52,223	**65,818**
Disposals	(30)	137	-	(630)	(4,858)	(1,908)	-	-	(25,458)	**(32,747)**
Reclassifications within non-current assets	730	2,203	(8,440)	17,080	24,657	(30,897)	(508)	2,042	(6,886)	**(19)**
Fair value gain/(loss)	-	-	-	-	1,074	1,471	-	269	163	**2,977**
Impairment	-	-	-	-	-	-	-	-	-	**-**
As at 31 March 2015	**776**	**3,558**	**-**	**21,005**	**27,454**	**27,070**	**96**	**2,311**	**52,697**	**134,967**

10.2 The EFA group 2014

	Valued at cost				Valued at fair value				
	Subsidiaries £000	Securities £000	Investment property £000	Other investments £000	Securities £000	Managed funds £000	Investment property £000	Other investments £000	Total £000
As at 1 April 2013	25	-	-	2,697	35,858	-	-	17,000	**55,580**
Additions	12	-	-	2,323	-	17,640	233	13,495	**33,703**
Reclassifications from current assets	-	-	-	-	-	3,719	-	7,160	**10,879**
Transfers in local authorities	-	-	8,301	-	137	1,775	-	4,148	**14,361**
Transfers in non-local authorities	50	-	-	-	-	11	275	1,595	**1,931**
Disposals	-	-	-	(1,433)	(97)	(3,978)	-	(4,332)	**(9,840)**
Reclassifications to current assets	-	-	-	-	(31,284)	(763)	-	(7,160)	**(39,207)**
Reclassifications within non-current assets	-	1,000	135	(2,440)	(3,771)	32,686	-	718	**28,328**
Fair value gain/(loss)	-	-	4	-	-	3,168	-	31	**3,203**
As at 31 March 2014	**87**	**1,000**	**8,440**	**1,147**	**843**	**54,258**	**508**	**32,655**	**98,938**

11 Assets held for sale

	2014-15 EFA £000	2014-15 EFA group £000	2013-14 EFA £000	2013-14 EFA group £000
As at 1 April	-	-	-	-
Additions	4,195	4,195	-	-
Disposals	-	-	-	-
Impairments	-	-	-	-
	4,195	**4,195**	-	-

Where a development project ultimately does not proceed, or where there are surplus elements of properties acquired and the sites are actively marketed, the EFA group classifies these as ‘held for sale’. The EFA group reclassified one project to held for sale during the year, namely the Wren School.

12 Inventories

12.1 The EFA group

	2015 £000	2014 £000
Uniform	6,033	5,563
Catering supplies	1,126	1,112
Grounds maintenance	14	19
Stationery	1,385	1,254
Other	1,623	1,541
	10,181	**9,489**

12.2 The EFA

The EFA had no inventory at 31 March 2015 or at 31 March 2014.

13 Receivables

13.1 Analysis by type

	EFA £000	2015 Group £000	EFA £000	2014 Group £000
Sums falling due within 1 year				
Trade receivables	-	36,155	-	48,908
Revenue programme receivables	13,770	13,770	7,664	2,242
Capital programme receivables	69,594	69,594	48,991	570
VAT receivables	1	265,561	331	174,134
Other receivables	191	104,509	93	142,902
Prepayments and accrued income	21,580	325,459	8,084	341,796
	105,136	**815,048**	**65,163**	**710,552**
Sums falling due after more than 1 year				
Trade receivables	-	26	-	5,490
Revenue programme receivables	13,133	13,133	1,335	-
Other receivables	-	203,190	-	145,014
Prepayments and accrued income	-	250	-	40
	13,133	**216,599**	**1,335**	**150,544**

Trade receivables for the EFA include a provision for doubtful debts of £561,824 at 31 March 2015 (2013-14: £929,207).

The EFA group has not required academy trusts to provide information on provisions for doubtful debts.

13.2 Intra-government balances

	EFA £000	2015 EFA group £000	EFA £000	2014 EFA group £000
Sums falling due within 1 year				
Local authorities	10	108,621	95	79,355
Other central government bodies	12,246	301,693	54,959	234,334
Balances with other government bodies	**12,256**	**410,314**	**55,054**	**313,689**
Balances with non-governmental bodies	92,880	404,734	10,110	396,863
	105,136	**815,048**	**65,164**	**710,552**
Sums falling due after more than 1 year				
Local authorities	-	282	-	1,847
Other central government bodies	13,133	16,867	1,335	406
Balances with other government bodies	**13,133**	**17,149**	**1,335**	**2,253**
Balances with non-governmental bodies	-	199,450	-	148,291
	13,133	**216,599**	**1,335**	**150,544**

14 Cash and cash equivalents

	2015 EFA £000	2015 EFA group £000	2014 EFA (Restated) £000	2014 EFA group (Restated) £000
Balance at 1 April	83,818	2,552,816	127,528	1,986,785
Net change in cash and cash equivalent balances	63,831	396,743	(43,710)	566,031
Balance at 31 March	**147,649**	**2,949,559**	**83,818**	**2,552,816**

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
The following balances are held at:				
Cash at bank and in hand:				
Government Banking Service	62,777	62,777	63,439	63,439
Solicitor funds	84,872	84,872	20,379	20,379
Commercial banks	-	2,801,910	-	2,470,591
	147,649	**2,949,559**	**83,818**	**2,554,409**
Overdrafts:				
Government Banking Service	-	-	-	-
Solicitor funds	-	-	-	-
Commercial banks	-	-	-	(1,593)
	-	**-**	**-**	**(1,593)**
Balance at 31 March	**147,649**	**2,949,559**	**83,818**	**2,552,816**

15 Payables

15.1 Analysis by type

	2015 EFA £000	2015 EFA group £000	2014 EFA (Restated) £000	2014 EFA group (Restated) £000
Loans	-	10,286	-	11,002
Trade payables	-	379,776	-	312,702
Revenue programme payables	2,746	2,746	3,113	3,113
Capital programme payables	10,193	10,193	62	62
Tax and social security payables	1,025	177,235	937	148,355
VAT payables	3,523	29,291	-	1,933
Corporation tax	-	9	-	12
Finance leases	-	2,656	-	1,100
Other payables	918	274,105	887	227,748
Accruals and deferred income	512,065	1,277,686	399,582	1,125,977
	530,470	**2,163,983**	**404,581**	**1,832,004**

15.2 Intra-government balances

	2015 EFA £000	2015 EFA group £000	2014 EFA (Restated) £000	2014 EFA group (Restated) £000
Local authorities	4	176,055	53,319	201,548
Other central government bodies	211,136	476,720	235,673	420,440
Balances with other government bodies	**211,140**	**652,775**	**288,992**	**621,988**
Balances with non-governmental bodies	319,330	1,511,208	115,589	1,210,016
	530,470	**2,163,983**	**404,581**	**1,832,004**

16 Non-current liabilities

16.1 Analysis by type

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Loans	-	27,045	-	29,825
Finance leases	-	5,361	-	4,291
Other payables	-	12,831	-	15,689
Deferred tax	-	-	-	-
	-	**45,237**	**-**	**49,805**

16.2 Intra-government balances

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Local authorities	-	20,647	-	22,933
Other central government bodies	-	5,338	-	286
Balances with other government bodies	**-**	**25,985**	**-**	**23,219**
Balances with non-governmental bodies	-	19,252	-	26,586
	-	**45,237**	**-**	**49,805**

17 Provisions for liabilities and charges

17.1 Analysis

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Provision balance at 1 April	1,378	4,985	2,304	4,446
Additional charge in year	8,844	15,163	250	2,684
Provision utilised in year	(343)	(1,603)	(1,106)	(1,222)
Provision unused and reversed during the year	(53)	(3,273)	(70)	(923)
Balance of provision at 31 March	**9,826**	**15,272**	**1,378**	**4,985**

17.2 Analysis of expected timing of discounted flows

	2015 EFA £000	2015 EFA group £000	2014 EFA £000	2014 EFA group £000
Within 1 year	9,217	14,663	520	2,240
Between 2 - 5 years	609	609	858	961
Greater than 5 years	-	-	-	1,784
Balance of provision at 31 March	**9,826**	**15,272**	**1,378**	**4,985**

17.3 Analysis by provision type for the EFA group 2015

	Education maintenance allowance (EMA) closure £000	Church schools (RPA) £000	Academy closure £000	Sixth-form college dissolution £000	Property £000	Early departure costs £000	Retirement compensation £000	Other £000	Total £000
Provision balance at 1 April 2014	1,128	-	250	-	1,041	60	1,097	1,409	4,985
Additional charge in year	310	250	732	7,552	(498)	8	(53)	6,862	15,163
Provision utilised in year	(270)	-	(73)	-	(148)	-	-	(1,112)	(1,603)
Provision unused and reversed during the year	-	-	(53)	-	-	(60)	(227)	(2,933)	(3,273)
Balance of provision at 31 March 2015	**1,168**	**250**	**856**	**7,552**	**395**	**8**	**817**	**4,226**	**15,272**
Not later than 1 year	559	250	856	7,552	395	8	817	4,226	14,663
Later than 1 year and not later than 5 years	609	-	-	-	-	-	-	-	609
Later than 5 years	-	-	-	-	-	-	-	-	-
Balance of provision at 31 March 2015	**1,168**	**250**	**856**	**7,552**	**395**	**8**	**817**	**4,226**	**15,272**

17.4 Analysis by provision type for the EFA group 2014

	EMA closure £000	Sixth-form college dissolution £000	Academy closure £000	Property £000	Early departure costs £000	Retirement compensation £000	Other £000	Total £000
Provision balance at 1 April 2013	1,504	800	-	364	-	971	807	4,446
Additional charge in year	-	-	250	1,153	60	339	882	2,684
Provision utilised in year	(376)	(730)	-	(112)	-	(4)	-	(1,222)
Provision unused and reversed during the year	-	(70)	-	(364)	-	(209)	(280)	(923)
Balance of provision	**1,128**	**-**	**250**	**1,041**	**60**	**1,097**	**1,409**	**4,985**
Not later than 1 year	270	-	250	681	60	-	979	2,240
Later than 1 year and not later than 5 years	858	-	-	-	-	-	103	961
Later than 5 years	-	-	-	360	-	1,097	327	1,784
Balance of provision	**1,128**	**-**	**250**	**1,041**	**60**	**1,097**	**1,409**	**4,985**

17.5 Provision summaries

Education maintenance allowance closure

The government's announcement on the closure of the education maintenance allowance programme has resulted in the EFA group implementing clause 21 of the contract with the EFA group's contractor. The clause covers the cost of the system required to store the data from the education maintenance allowance applicants safely and securely. The costs include the system infrastructure, support and on-going maintenance.

Sixth-form college dissolution

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

Academy closure

This provision covers the costs of redundancy, write-off of potential funding clawbacks, transfer of leases or capital assets and other costs involved in an academy closure as a result of the Secretary of State terminating the funding agreements of the Discovery New School and Hackney UTC.

Church academy trusts' insurance reimbursement

This provision covers the cost of meeting the obligation to reimburse church academy trusts who had renewed their commercial insurance arrangements prior to the decision of both the Catholic Education Service and the National Society of the Church of England to join the RPA. The Secretary of State's letter dated 27 February 2015 set out the obligation.

Property

The property provision relates to the academy trusts and the EFA group will apply the provision over the next year on maintenance of buildings.

Early departure costs

The early departure provision relates to costs that academy trusts will pay out over the next year under their severance schemes.

Retirement compensation

The retirement compensation provision relates to academy trusts that have agreed enhanced pension contributions as part of their severance schemes.

Other

The other provision is sundry provisions set up by academy trusts and the majority of it by value relates to equal pay claims.

18 Pension scheme disclosures

As detailed in note 3.3 the EFA group which operates a range of pension schemes for its employees. Of these, only the LGPS is open to non-teaching staff in academy trusts is a funded defined benefit scheme. This is therefore the only scheme operated by the EFA group for which the scheme administrators can allocate the underlying assets and liabilities to the employing organisations.

The LGPS is a single national scheme that is administered at a local level by fund units that in many, but not all, cases approximate to local authorities. Whilst the scheme is national, funds accrue benefits locally.

The scheme provides funded defined benefits based on final pensionable salary. The scheme administrators hold assets separately from those of the EFA group and invest these assets in managed funds. Employer contribution rates are determined by an actuary based on triennial valuations.

The EFA group procured valuations of all academy trusts' membership of the LGPS as at 31 March 2015. The EFA group procured valuations in accordance with IAS 19 from the four scheme actuaries, AON Hewitt, Barnett Waddingham, Hymans Robertson and Mercer.

The employer pension contribution for 2014-15 is £423 million (2013-14: £346 million). The EFA estimates expected regular employer contributions for 2015-16 to be £405 million.

The sums the EFA group has recognised in the accounts in respect of the LGPS are set out in the tables below.

18 Pension scheme disclosures (continued)

	2014-15 £000	2013-14 £000
Analysis of non-interest costs charged to statement of comprehensive net expenditure:		
Current service cost	537,361	397,789
Past service cost or (gain)	411	-
Loss or (gain) on curtailments and settlements	135	274
Total cost	**537,907**	**398,063**
Analysis of interest costs charged to statement of comprehensive net expenditure:		
Expected return on scheme assets	(155,034)	(118,521)
Interest on scheme liabilities	267,493	211,702
Net (benefit) or cost	**112,459**	**93,181**
Analysis of amounts in other comprehensive (income)/expenditure:		
Total actuarial (gains) or loss	954,209	(71,863)
Net (benefit) or cost	**954,209**	**(71,863)**
Sums recognised in the statement of financial position:		
Present value of defined benefit obligations	8,203,600	5,472,662
Fair value of scheme assets	(4,238,220)	(3,044,848)
Pension liabilities recognised in the statement of financial position	**3,965,380**	**2,427,814**
Movements in the present value of defined benefit obligations:		
Balance brought forward at 1 April 2014	5,472,662	4,110,430
Liabilities assumed on conversion:		
In-year conversion of academy trusts	604,824	728,929
Current service cost	537,361	397,789
Interest cost	267,493	211,702
Employee contributions	125,685	103,007
Past service cost	411	-
Actuarial (gain) or loss	1,238,491	(50,202)
Benefits paid	(43,462)	(29,267)
Losses or (gains) on curtailments	135	274
At 31 March	**8,203,600**	**5,472,662**

18 Pension scheme disclosures (continued)

	2014-15 £000	2013-14 £000
Movements in the fair value of scheme assets:		
Balance brought forward at 1 April 2014	3,044,848	2,199,131
Liabilities assumed on conversion:		
Pre-1st April conversion of academy trusts	-	-
In-year conversion of academy trusts	248,792	285,479
Employer contributions	423,041	346,316
Employee contributions	125,685	103,007
Actuarial gain or (loss)	284,282	21,661
Benefits paid	(43,462)	(29,267)
Interest on scheme assets	155,034	118,521
At 31 March	**4,238,220**	**3,044,848**
Reconciliation of deficit:		
Balance brought forward at 1 April 2014	2,427,814	1,911,299
Liabilities assumed on conversion:		
Pre-1st April conversion of academy trusts	-	-
In-year conversion of academy trusts	356,032	443,450
Current service cost	537,361	397,789
Employer contributions	(423,041)	(346,316)
Past service cost	411	-
Net interest cost	112,459	93,181
Settlements	-	-
Curtailments	135	274
Actuarial loss or (gain)	954,209	(71,863)
At 31 March	**3,965,380**	**2,427,814**
Sensitivity analysis		
Impact on the defined benefit obligation for changes of:		
Discount rate +1.0%	(1,690,935)	(1,145,635)
Discount rate -1.0%	2,145,548	1,450,651
Mortality rate 1 year increase	236,851	50,151
Mortality rate 1 year decrease	(232,681)	(47,589)
Consumer prices index rate +1.0%	1,449,987	1,007,941
Consumer prices index rate -1.0%	(1,189,356)	(816,259)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2014-15	2013-14
Equities	67.10%	67.99%
Gilts	9.97%	9.03%
Corporate bonds	8.21%	8.20%
Property	7.95%	7.58%
Cash and liquidity	2.87%	2.99%
Other	3.89%	4.21%

Scheme assets: The administrators value scheme assets at “fair value” as the administrators do not intend to realise the assets in the short term and the assets' value may significantly change before they are realised. The administrators value liabilities based on the present value of the scheme’s obligations, obligations derived from cash flow projections over long periods and are thus inherently uncertain.

EFA group	2014-15 £000	2013-14 £000
Defined benefit obligations	(8,203,600)	(5,472,662)
Scheme assets	4,238,220	3,044,848
Deficit	**(3,965,380)**	**(2,427,814)**
Expected return on assets	155,034	118,521
Actuarial gain or (loss) on assets	284,282	21,661
Actual return on assets	**439,316**	**140,182**
The major financial assumptions used in the valuation were:		
	2014-15	**2013-14**
Rate of inflation	2.4%	2.8%
Expected return on plan assets	3.4%	4.5%
Rate of increase in salaries	3.7%	4.1%
Rate of return on pensions	2.4%	2.8%
Discount rate	3.4%	4.5%

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

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

The EFA group has set assumptions used in valuing inherited LGPS benefits for academy trusts whose member academies convert in-year at appropriate values for the date of conversion. The group's closing valuations as at 31 March 2015 use the assumptions disclosed in the table above.

Analysis of sums recognised in other comprehensive net expenditure	2014-15	2013-14
Difference between the expected and actual return on scheme assets (£000)	220,364	21,661
Percentage of scheme assets	5.20%	0.71%
Experience gains and losses on scheme liabilities (£000)	4,397	57,348
Percentage of present value of the scheme liabilities	-0.05%	-4.5%
Total sum recognised in other comprehensive expenditure (£000)	**224,761**	**79,009**
Percentage of present value of scheme liabilities	**2.74%**	**1.44%**

19 Capital and other commitments

19.1 Capital commitments

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

	EFA £000	2015 EFA group £000	EFA £000	2014 EFA group £000
Free schools	1,897,743	1,897,743	795,332	795,332
Priority school building programme	1,651,731	1,651,731	-	-
Tangible fixed assets	-	405,852	-	410,008
Intangible assets	-	12	-	80
	3,549,474	**3,955,388**	**795,332**	**1,205,420**

These capital commitments do not include the cost of contract workers engaged in the delivery of the free school programme. The restatement of the disclosure reflects the review of capital projects and associated restatement discussion in note 2.

19.2 Commitments under operating leases

The tables below gives total future minimum lease payments under operating leases for each of the following periods.

	Land £000	Buildings £000	Other £000	2014-15 Total £000
Not later than 1 year	851	16,441	52,183	69,475
Later than 1 year and not later than 5 years	2,340	53,716	72,444	128,500
Later than 5 years	7,562	220,059	23,127	250,748
	10,753	**290,216**	**147,754**	**448,723**

	Land £000	Buildings £000	Other £000	2013-14 Total £000
Not later than 1 year	922	24,562	66,677	92,161
Later than 1 year and not later than 5 years	2,723	89,522	84,782	177,027
Later than 5 years	16,810	473,897	21,470	512,177
	20,455	**587,981**	**172,929**	**781,365**

The EFA had no commitments under operating leases a 31 March 2015 or at 31 March 2014.

19.3 Commitments under finance leases

The table below gives total future minimum lease payments under finance leases for each of the following periods.

	Land	Buildings	Other	2014-15 Total

	£000	£000	£000	£000
Not later than 1 year	149	485	750	1,384
Later than 1 year and not later than 5 years	715	1,735	838	3,288
Later than 5 years	688	3,388	405	4,481
	1,552	**5,608**	**1,993**	**9,153**

The EFA had no commitments under finance leases at 31 March 2015 or at 31 March 2014.

	Land £000	Buildings £000	Other £000	2013-14 Total £000
Not later than 1 year	77	253	495	825
Later than 1 year and not later than 5 years	308	1,029	204	1,541
Later than 5 years	584	2,337	12	2,933
	969	**3,619**	**711**	**5,299**

19.4 Commitments under private finance initiative contracts

	2015 EFA £000	2015 EFA group £000	2014 EFA group £000
Not later than 1 year	66	35,099	34,895
Later than 1 year and not later than 5 years	109,395	231,094	141,989
Later than 5 years	781,197	1,338,992	714,493
	890,658	**1,605,185**	**891,377**

19.5 Other financial commitments

EFA and EFA Group	2015 Total £000	2014 Total £000
Non-cancellable contracts		
Not later than 1 year	17,459	41,322
Later than 1 year and not later than 5 years	12,695	8,999
Later than 5 years	3,743	559
	33,897	**50,880**

19.6 Education grant funding commitments

	2015 EFA £000	2014 EFA £000
Private finance initiative grants to local authorities and voluntary-aided schools		
Not later than 1 year	749,160	745,062
Later than 1 year and not later than 5 years	3,007,022	3,003,300
Later than 5 years	10,515,503	11,265,969
	14,271,685	**15,014,331**

19.7 Other education grants

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

20 Contingent liabilities

20.1 The EFA 2015

	At start of period £000	Increase in period £000	Liabilities crystallised in year £000	Obligation expired in period £000	At end of period £000	Sum notified to Parliament by departmental minute £000
In respect of lease arrangement with Church Commissioners for England	5,000	-	-	-	5,000	5,000
Tenant default agreements (2)	2,501	-	-	-	2,501	-
In respect of lease arrangement with Tottenham Hotspur Property Company (1)	12,500	-	-	-	12,500	-
In respect of commercial lease of Free School Norwich (1)	110	-	-	-	110	-
East London UTC design and build project (1)	16,500	-	-	(16,500)	-	-
East London UTC indemnity to Tottenham Hotspur (1)	467	-	-	(467)	-	-
East London UTC indemnity in respect of design & build contract (1)	5,300	-	-	(5,300)	-	-
Total	**42,378**	**-**	**-**	**(22,267)**	**20,111**	**5,000**

20.2 The EFA 2014 (restated)

	At start of period £000	Liabilities transferred from department £000	Increase in period £000	Liabilities crystallised in year £000	Obligation expired in period £000	At end of period £000	Sum notified to Parliament by departmental minute £000
In respect of lease arrangement with Church Commissioners for England	-	-	5,000	-	-	5,000	5,000
Tenant default agreements (2)	-	-	2,501	-	-	2,501	-
In respect of lease arrangement with Tottenham Hotspur Property Company (1)	-	12,500	-	-	-	12,500	-
In respect of commercial lease of Free School Norwich	-		-	-	-	110	-

(1)		110					
East London UTC design and build contract (1)	-	16,500	-	-	-	16,500	-
East London UTC indemnity to Tottenham Hotspur (1)	-	467	-	-	-	467	-
East London UTC indemnity in respect of design & build contract (1)	-	5,300	-	-	-	5,300	-
	-	**34,877**	**7,501**	**-**	**-**	**42,378**	**5,000**

20.3 The EFA group 2015

	At start of period £000	Increase in period £000	Liabilities crystallised in year £000	Obligation expired in period £000	At end of period £000	Sum notified to Parliament by departmental minute £000
COGA conditions on children centre and playground (3)	416	-	-	(39)	377	-
Fees that may not be recovered following supplier dispute (3)	500	80	-	-	580	-
In respect of lease arrangement with Church Commissioners for England	5,000	-	-	-	5,000	5,000
Tenant default agreements (2)	2,501	-	-	-	2,501	-
In respect of lease arrangement with Tottenham Hotspur Property Company (1)	12,500	-	-	-	12,500	-
In respect of commercial lease of Free School Norwich (1)	110	-	-	-	110	-
East London UTC design & build contract (1)	16,500	-	-	(16,500)	-	-
East London UTC indemnity to Tottenham Hotspur (1)	467	-	-	(467)	-	-
East London UTC indemnity in respect of design & build contract (1)	5,300	-	-	(5,300)	-	-
Total	**43,294**	**80**	**-**	**(22,306)**	**21,068**	**5,000**

20.4 The EFA group 2014 (restated)

	At start of period £000	Liabilities transferred from department £000	Increase in period £000	Liabilities crystallised in year £000	Obligation expired in period £000	At end of period £000	Sum notified to Parliament by departmental minute £000
Asbestos exposure (3)	318	-	-	(251)	(67)	-	-
COGA conditions on children centre and playground (3)	575	-	-	-	(159)	416	-
Disputed invoice for shared maintenance costs (3)	300	-	-	-	(300)	-	-
Contract termination costs (3)	-	-	634	-	(634)	-	-
Fees that may not be recovered following supplier dispute	-	-	500	-	-	500	-
In respect of lease arrangement with Church Commissioners for England	-	-	5,000	-	-	5,000	5,000
Tenant Default Agreements (2)	-	-	2,501	-	-	2,501	-
In respect of lease arrangement with Tottenham Hotspur Property Company (1)	-	12,500	-	-	-	12,500	-
In respect of commercial lease of Free School Norwich (1)	-	110	-	-	-	110	-
East London UTC design & build contract (1)	-	16,500	-	-	-	16,500	-
East London UTC indemnity to Tottenham Hotspur (1)	-	467	-	-	-	467	-
East London UTC indemnity in respect of design & build contract (1)	-	5,300	-	-	-	5,300	-
	1,193	**34,877**	**8,635**	**(251)**	**(1,160)**	**43,294**	**5,000**

(1) Transfer of contingent liabilities from the departmental group to the EFA group at 1 April 2014. The departmental group disclosed these contingent liabilities in 2013-14. The departmental group transferred the liabilities to the EFA group as at 1 April 2014, as the activities of the EFA group give rise to them.

(2) The EFA group has restated the tenant default agreement in relation to Reach Free School from £534,000 to £267,000.

(3) The EFA group stated incorrectly disclosures in relation to four EFA group contingent liabilities in the 2013-14 annual report and accounts and the EFA group has been restated these liabilities accordingly in the 2014-15 annual report and accounts.

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

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

Fees that may not be recovered following supplier dispute

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

Indemnity provided to the Church Commissioners for England

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

Tenant default agreements

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

In respect of lease arrangement with Tottenham Hotspur Property Company

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

In respect of commercial lease of Free School Norwich

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

East London University Technical College indemnity to cover lease and aspects of the design and build contract

The contingent liability is in relation to a lease arrangement for an academy site. There are further contigent liabilities relating to aspects of the design and build contract for the capital projects at this site.

21. Contingent assets

Horncastle Group Plc. is required by an S106 planning obligation from East Riding council, to build a primary school in relation to its South Brough development. The EFA group has estimated the cost of construction of the primary school at £2.3 million and

Horncastle Group Plc. will be required to fund the primary school's construction once 200 houses have been sold from the South Brough development.

22 Losses and special payments

22.1 Losses statement

Number of cases	EFA	2015 EFA group	EFA (Restated)	2014 EFA group (Restated)
Cash losses	4	12	6	8
Claims abandoned	-	4	4	5
Administrative write-offs	-	13	-	7
Fruitless payments	39	43	17	19
Store and stock losses	-	6	-	3
	43	**78**	**27**	**42**

Value	EFA £000	2015 EFA group £000	EFA (Restated) £000	2014 EFA group (Restated) £000
Cash losses	722	879	135	1,341
Claims abandoned	-	59	50	53
Administrative write-offs	-	437	-	19
Fruitless payments	5,630	5,717	452	462
Store and stock losses	-	59	-	103
	6,352	**7,151**	**637**	**1,978**

Details of cases over £300,000

The EFA

The EFA incurred cash losses where it has not been able to claw back funds from underperforming commercial and charitable education providers. As part of the EFA’s contract management of these providers the EFA regularly and frequently reconciles the payments the EFA has made on profile to actual sums earned by these providers to minimise the risk of potential loss. The EFA offsets recoveries where, possible against future profiled payments. However, debts can arise where sum the provider can earn under the remaining funding agreement is not sufficient to cover the sum the EFA has to recover. In these cases, the EFA invoices the provider for any outstanding balance.

Scientiam Limited

In February 2013 one of the EFA's commercial and charitable education providers, Scientiam Limited, went into administration owing the EFA £328,789. Following the liquidation of its remaining assets the EFA received a final payment of £10,614 from the appointed liquidator Mazars LLP. As a consequence the EFA has had no choice but to write off the remainder of the debt (£318,175). HM Treasury approval has been obtained for this loss.

Tauheedul Islam Boys High School

Blackburn with Darwen Council challenged and overturned local authority planning permission granted in relation to the original site acquired for Tauheedul Islam Boys High School by. Whilst it is possible for the EFA group to appeal against this decision, the EFA group has taken advice that any new planning consent granted is highly likely to be challenged and overturned on the same grounds. For this reason the EFA group is seeking currently an alternative permanent site for the school and the group has written off costs of £1,560,919 incurred in developing the original site as a fruitless payment. HM Treasury approval has been obtained for this loss.

Durham Free School

After five terms Ofsted judged Durham Free School’s overall effectiveness to be inadequate. Having considered the academy trust’s representations, the Secretary of State decided that there was not sufficient evidence that the academy trust had the capacity or a suitable strategy to bring about the necessary improvements needed and their funding agreement was terminated. The EFA group incurred unrecoverable costs of £376,852 in relation to this project. Additionally non-current assets worth £28,110 acquired for Durham Free School were gifted to the local authority, by the EFA group, at the point of closure. HM Treasury approval has been obtained for this loss.

Manchester Studio School

The EFA group developed this early studio school project jointly with Manchester College, with the EFA group incurring £458,507 in relation to the project. Low pupil numbers made the school potentially financially unsustainable and the minister and the academy trust agreed to terminate the funding agreement in August 2014. HM Treasury approval has been obtained for this loss.

Liverpool LowCarbon and SuperPort University Technical College

The EFA group incurred unrecoverable costs including surveys, property agent fees, fees for technical and legal advice and initial works on a site totalling £882,379 in relation to the one viable site identified for Liverpool LowCarbon and SuperPort UTC. That site subsequently became unviable when one leaseholder pulled out of the sale and the EFA group has not been able to find an alternative site for the project. HM Treasury approval has been obtained for this loss.

22.2 Special payments

	2015 EFA	2015 EFA group	2014 EFA	2014 EFA group
Total number of cases		108		35
	£000	£000	£000	£000
Total		**3,007**		**820**

Academy trusts have the delegated authority to make special severance payments under £50,000. Payments over this value require prior approval from HM Treasury via the EFA group. The EFA group discloses two special severance payments above this limit above. In both cases the academy trusts have applied for retrospective approval and both cases are under review by HM Treasury. If HM Treasury does not approve the payments the EFA group will work on a solution with the academy trusts, including possible recovery of funds.

23 Related party transactions

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

In addition, the EFA group has had a number of transactions with other government departments and central bodies. Most of these transactions have been with the SFA, the Ministry of Justice and the DoH. The EFA group's academy trusts had extensive transactions with HMRC and the various pension schemes as part of their payroll services.

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

- Peter Lauener is the joint chief executive of the Skills Funding Agency and a Trustee of Educators International.
- Sue Baldwin is a member of the board of governance for Barnet and Southgate College.

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

	2014-15 Payments £000	2014-15 Receipts £000	2013-14 Payments £000	2013-14 Receipts £000
Skills Funding Agency	779,772	-	652,910	-
Educators International	-	-	-	-
Barnet and Southgate College	17,938	-	18,961	-

The EFA group looks to individual academy trusts to disclose related party transactions within their individual accounts.

24 Entities within the group boundary

All academy trusts, as established under the Education Act 2010, with open academies as at 31 March 2015 are entities within the EFA group. A list of all operational academy trusts and their open academies is available on the department's annual reports and accounts website[23].

[23] The department's annual reports and accounts are published on - https://www.gov.uk/government/collections/dfe-annual-reports

25 Transfer of academy trusts

25.1 The EFA group

	2014-15 Local Authority £000	2014-15 Non-Local Authority £000	2014-15 Total £000	2013-14 (Restated) Total £000
In year				
Non-current assets				
Property, plant and equipment	2,751,380	1,026,727	3,778,107	4,467,146
Intangible assets	10	181	191	(33)
Investments	-	-	-	16,292
Trade and other receivables	1	1	2	149
	2,751,391	**1,026,909**	**3,778,300**	**4,483,554**
Current assets				
Inventories	169	13	182	642
Trade and other receivables	36,591	74,890	111,481	34,795
Investments	-	-	-	-
Cash and cash equivalents	92,096	23,909	116,005	145,251
	128,856	**98,812**	**227,668**	**180,688**
Current liabilities				
Trade and other payables	(360)	(105,912)	(106,272)	(30,076)
Financial liabilities	(773)	-	(773)	-
Provisions	-	-	-	-
	(1,133)	**(105,912)**	**(107,045)**	**(30,076)**
Non-current liabilities				
Other payables	(615)	(3)	(618)	(229)
Financial liabilities	(1,466)		(1,466)	-
Provisions	-	(872)	(872)	-
Pension scheme deficit	(248,270)	(107,762)	(356,032)	(443,450)
	(250,351)	**(108,637)**	**(358,988)**	**(443,679)**
Net asset/(liability) transferred on conversion	**2,628,763**	**911,172**	**3,539,935**	**4,190,487**
Net adjustment for conversion				
Settlements	78,087	(744)	77,343	128,236
	78,087	**(744)**	**77,343**	**128,236**
Net assets	**2,706,850**	**910,428**	**3,617,278**	**4,318,723**

The EFA group has recognised in non-operating costs the gain on transfer of the net assets and liabilities brought in from local authorities to reflect the nil consideration paid. The EFA group has recognised in operating income the net assets and liabilities brought in from outside the public sector to reflect the accounting gain or loss to the public sector from the conversion of non-local authority maintained schools.

26 Cash flows from operating activities

	Note	2014-15 EFA £000	2014-15 EFA group £000	2013-14 EFA Restated £000	2013-14 EFA group Restated £000
Cash flows from operating activities:					
Net operating income/(cost)		(55,893,877)	(54,053,790)	(54,400,570)	(55,512,014)
Adjustments for non-cash transactions		91,906	815,187	78,535	3,739,130
Gain on conversion of non-local authority schools		-	(911,172)	-	(881,469)
Settlement loss on conversion of non-local authority schools		-	744	-	(47,274)
Non cash pension transaction		-	649,820	-	490,970
Decrease/(increase) in inventory	12	-	(692)	-	(1,396)
(Increase)/decrease in trade and other receivables	13	(51,771)	(170,551)	(37,865)	(431,332)
Increase/(decrease) in trade and other payables	15,16	125,889	327,411	252,011	712,814
Use of provisions	17	8,448	11,890	(926)	(1,042)
Employers' pension contributions	18	-	(423,041)	-	(346,316)
Gains on curtailments		-	135	-	274
Net cash outflow from operating activities		**(55,719,405)**	**(53,754,059)**	**(54,108,815)**	**(52,277,655)**

27 Events after the reporting period

There have been no significant events after the 31 March 2015 that the EFA group considers affect these accounts.

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

Annex A: Abbreviations

Abbreviation	Definition
AuC	Assets under construction
BIS	Department for Business, Innovation and Skills
CETV	Cash equivalent transfer value
COGA	Conditions of grant aid
the department	Department for Education
EFA	Education Funding Agency
EMA	Education Maintenance Allowance
FRS	Financial Reporting Standard
HMRC	HM Revenue and Customs
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IT	Information Technology
LA	Local authority
NAO	National Audit Office
PSBP	Priority School Building Programme
RPA	Risk Protection Arrangement
SFA	Skills Funding Agency
UK	United Kingdom
UTC	University Technical College
VAT	Value Added Tax
WGA	Whole of Government Accounts

Education
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