



Education
Funding
Agency

Education Funding Agency

**Annual report and accounts for the year
ended 31 March 2016**

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

Our vision:

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



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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 5,552 academies (through their 2,910 academy trusts) open at 31 March 2016

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 2015 to 31 March 2016 as 2015-16. 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 2015 to 31 August 2016 as 2015/16.

Academies are publicly funded independent schools that a local authority does not maintain. The term encompasses the following: former city technology colleges; academies (both those that are 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 5,552 academies open at 31 March 2016, and 2,989 academy trusts operational in the 12 months to 31 March 2016. The year end number of operational academy trusts was 2,910 (2014-15: 2,824) because of the transfer of academies between academy trusts resulting in the closure of some 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 fourth year of the EFA has seen us continuing to operate at a time of significant change in the education sector. The number of academy trusts continues to rise, the funding landscape is changing, and we are centrally managing the delivery of hundreds of school and academy trust building projects across England.

In 2015-16, we have:

- made £56.6 billion of EFA grant payments; total payments of £57.7 billion (other payments are made by EFA on behalf of NCTL and STA)
- funded and monitored an increasing number of academies; 4,900 at 31 March 2015 to 5,552 by 31 March 2016
- 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 4,000 voluntary-aided schools
- managed building and maintenance programmes for schools and sixth-form colleges
- responded to an average of 2,474 customer enquiries per month.

The size of the EFA's operations continued to grow in 2015-16. By the end of March 2016, we directly funded 5,552 academies, 652 more than the same time last year.

We published 15 Financial Notices to Improve (FNtIs) as part of our responsibility for financial regulation and intervention in academies and sixth form colleges.

We continued to buy sites and to refurbish and construct buildings to help deliver the government's manifesto commitment to open a further 500 free schools by 2020, opening 69 free schools, university technical colleges and studio schools in 2015-16. We will continue to work closely with free school proposers and trusts and in 2016-17 we will look to establish our new property company, LocatED, to strengthen our commercial skills to buy sites for these new schools.

We also continued to deliver our £4.4 billion Priority School Building Programme, which is

rebuilding and/or refurbishing school buildings in the very worst condition across the country. This covers 491 schools, a further 46 are using private finance. There are 260 schools in the first phase, and the majority of these will be open by the end of 2017.

We ran the annual school capacity survey to get data on school places and forecast school numbers to help target funding for new school places and we ran bids for capital funds, including the annual Condition Improvement Fund. We are now making preparations to launch the Condition Data Collection in 2016-17, which will provide a high-level assessment of the condition of all school buildings in England by autumn 2019.

We have helped deliver the government's response to the weakening financial health of the non-school post-16 sector, running 37 area reviews across England, which are on track to be complete by March 2017. The area reviews aim to enable a transition towards fewer, larger, more resilient and efficient providers.

We have made over 120,000 payments, with 100% accuracy. We have developed a data analytics system to assess risk in all the organisations we fund for education and training, enabling us to target resources where they are needed.

Increasingly we are joining up with the Skills Funding Agency (SFA) on apprenticeships, non-school post-16 provision and a shared service for finance and funding. From April 2016, the Funding Agencies Shared Service Team (FAS²T), created from teams from both agencies, offers finance, IT, data and assurance services. Bringing these teams together enables us to take the best of both organisations and reduce the costs of services over the spending review period.

We have again managed the academies consolidation process on behalf of the Department for Education. The Department and EFA are working together with the National Audit Office and HM Treasury to reform the process of the financial reporting framework, as the current consolidation methodology is unsustainable. The new framework will ensure transparency and improve Parliamentary oversight of expenditure by academies and the Department. The current consolidation methodology is again being employed in these accounts but we are simultaneously trialling the new approach in a "dry run" exercise. The revised approach will be fully implemented in the production of the 2016-17 accounts. Under this approach academies will no longer be consolidated into the EFA accounts. For more information on this see section 2.2 Financial Commentary - New reporting framework.

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:

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

The 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 of the impact of policy proposals and decisions on the delivery of policy and of ministers' objectives
- reporting regularly on delivery performance, expenditure, risk management and forward planning

1.1.3 Key issues and risks facing the entity

1) Securing sites for free schools

The principal risks facing EFA as it continues to ensure capital investment programmes are delivered efficiently and effectively are managing the challenges of securing sites for free schools and ensuring projects remain attractive in the market and offer good value for money.

High demand for land across both commercial and residential sectors means that securing sites for schools where they are needed and at an appropriate cost remains challenging. In 2016-17 the EFA launched LocatED, a new body responsible for the acquisition of sites for new schools. LocatED is a company limited by shares wholly owned by the Secretary of State for Education and designated as a non-departmental public body. LocatED will increase our property expertise, recruiting more commercially experienced staff; providing the capacity and capability to secure sites through a wider range of commercial options and better engaging the wider market. We are closely managing the establishment and launch of LocatED to ensure that it performs its function quickly, whilst working in parallel with the established property team in the EFA. The EFA will sponsor LocatED, and retain oversight of its activities.

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

2) Financial Health of the Sector

2a) Academies: Providing support to academy trusts facing financial challenges

There is a risk that if the EFA fails to provide necessary support to academy trusts facing financial challenges, an increasing number of trusts may enter a cumulative deficit position which could lead to disruption in educational provision.

Good financial health is crucial to delivering educational outcomes. In order for academy trusts to manage their finances effectively they need to have a clear understanding of the requirements; robust governance and effective financial management arrangements in place; and access to tools and resources to support them.

EFA publishes the Academies Financial Handbook to clearly set out the requirements and expectations placed on all academy trusts.

To support robust governance, DfE provides the 'Governance Handbook' as they must all ensure resources are allocated to school priorities.

We are building awareness and capacity by providing information, tools and guidance to schools for them to assess and manage their own financial efficiency and develop robust governance and challenge. We are working with the national head teacher, governor and school business manager associations, in providing support to help schools become more efficient.

EFA assesses risk, and where academy trusts are experiencing financial difficulty EFA will work with them on a case by case basis to support them in improving the position whilst limiting the disruption to educational provision.

EFA will use financial data to build on the current interventions developing a more forward looking preventative approach.

2b) Post-16 (excluding academies): Implementation of area review recommendations

There is a risk that if colleges fail to implement agreed Area Review recommendation this may lead to unplanned reductions in the availability of provision for 16-19 year olds as colleges take reactive actions to address financial weaknesses.

The success of implementation of the recommendations will depend on key factors including i) the ability of colleges to fund change management; ii) the ability of colleges to fund the change; iii) the level of involvement of local stakeholders in implementing recommendations; iv) the clarity of the agreed area review recommendations and v) agreement of institutions to implement the change.

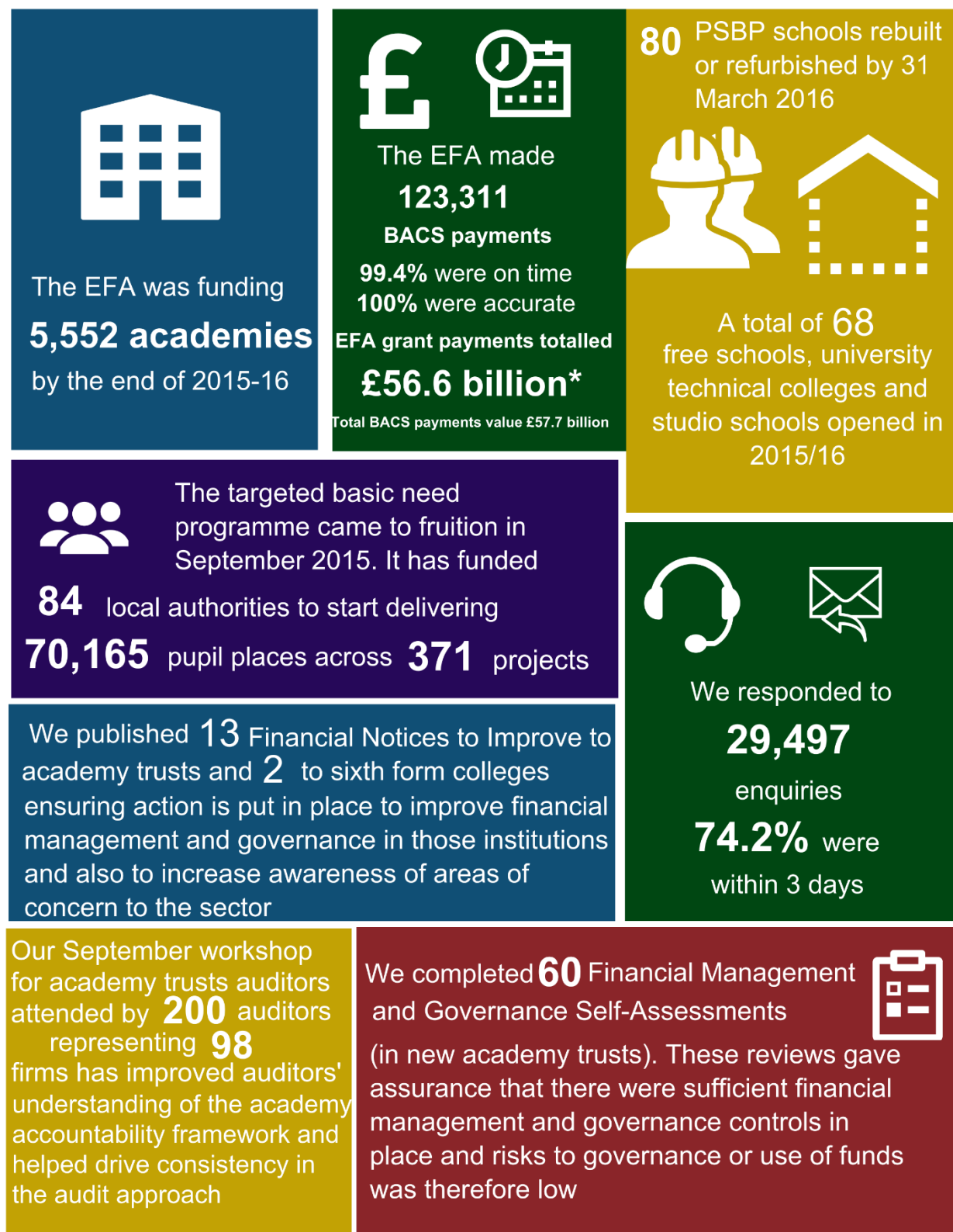
In order to assist with the implementation of the area review recommendation there is a Transition Grant that colleges can apply for. This grant ensures providers can access the best change management skills and have the capacity to make the changes at the pace required. We are also providing a Restructuring Facility that colleges can apply to if they are unable to fund the change themselves.

We have published guidance explaining the role of LEPs (Local Enterprise Partnerships), local authorities and combined authorities in the area review process. This includes information about i) local area review steering groups; ii) successful completion of the review and iii) how to carry out the recommendations of the review. We have published guidance setting out the national framework for area reviews of the post-16 education and training sector. This guidance explains how area reviews will be carried out. We also publish our area review reports.

We have agency local intervention team support and Commissioner support for the implementation of area review recommendations as well as agency risk based monitoring of area reviews' implementation.

There is more discussion on risk and how we manage it within the risk and internal control framework section of the governance statement.

1.1.4 Performance summary



1.2 Performance Analysis

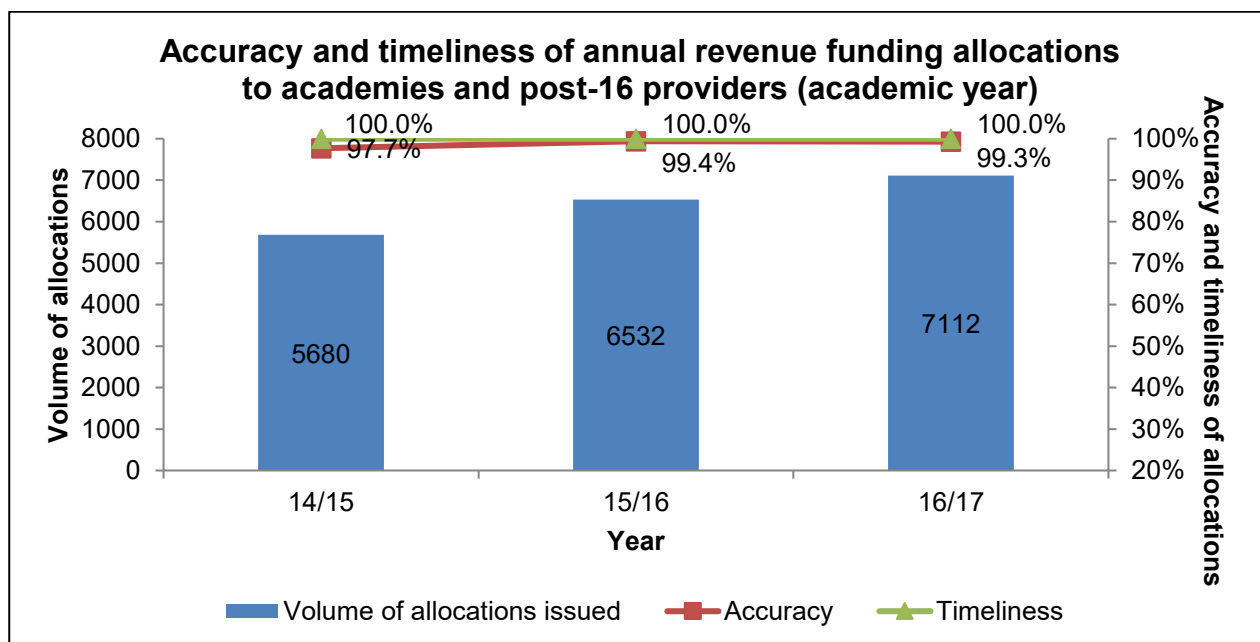
1.2.1 Development and performance of the EFA

The scope and range of the EFA’s operations has grown significantly since its inception on 1 April 2012. This is a result of many more academies requiring funding, financial management and governance oversight. To make sure we were able to respond efficiently and effectively to the objectives of the EFA, we began our change programme Fit for the Future in the summer of 2014. This programme ran through to December 2015 at which point the oversight of the remaining activities and the monitoring of the benefits being achieved were passed to the 4 corporate boards. These boards are discussed in more detail in the governance statement. Through Fit for the Future, we developed and implemented new operating models for our main functions.

Performance against each of these objectives is described in this section along with how, where applicable, the work of Fit for the Future drove improvements. We also detail the relevant key performance indicator from our business plan where applicable.

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

Key performance indicator: Proportion of annual revenue and capital allocations to all providers made accurately and on time; 2015-16: 99.9% accuracy; 100% on time (2014-15: 99.9% accurately; 99.8% on time)



The accuracy of our allocations to academies and post-16 providers remained high at 99.3% in 2016/17 despite an 8.9% increase in the number of allocations. We aim for 100% accuracy and timeliness of our allocations.

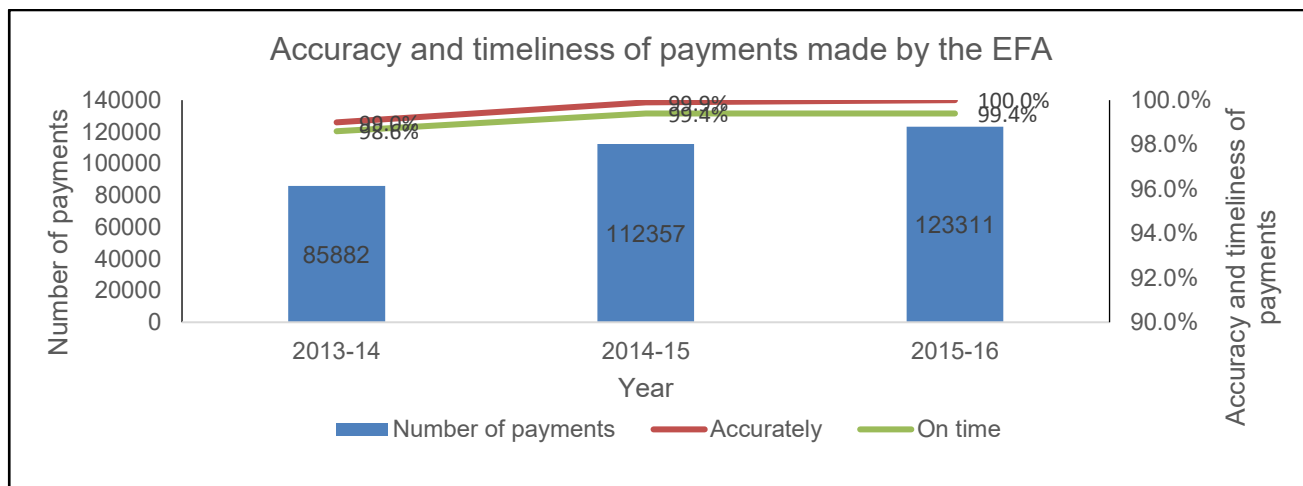
This is the second year that we have brought forward allocations for most institutions from March to February. 92% of allocations were issued to schools and academies by the end of February, exceeding the 90% target and up 12% on last year. 99% of 16-19 allocations were issued to schools, academies and colleges by the end of February.

This was supported by the data, allocations and payments strand of Fit for the Future which aimed to create a clear, streamlined and accurate allocation process that delivered the right amount at the right time.

Objective 2: make accurate and timely payments of £58 billion of revenue and capital funding

Key Performance Indicator: 2015-16: 123,311 BACS payments totalling £57.7 billion*; 99.4% on time (2014-15: 112,357 BACS payments totalling £56.6 billion 99.4% on time)

*EFA grant payments 2015-16: £56.6 billion (2014-15: £55.9 billion)



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

In April 2015 we started using a new core payment system (New NAV). New NAV allows us to pay our customers in a secure, accurate and timely way. Recently the profiling of allocations (where revenue for an academy or college is split into monthly payments) has moved into New NAV. There is now a direct link between the Store which calculates the funding and New NAV which pays the schools and colleges. Funding allocations can now automatically be transferred into the payments system where they are profiled for payment. This has automated a previously manual process, improving efficiency.

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

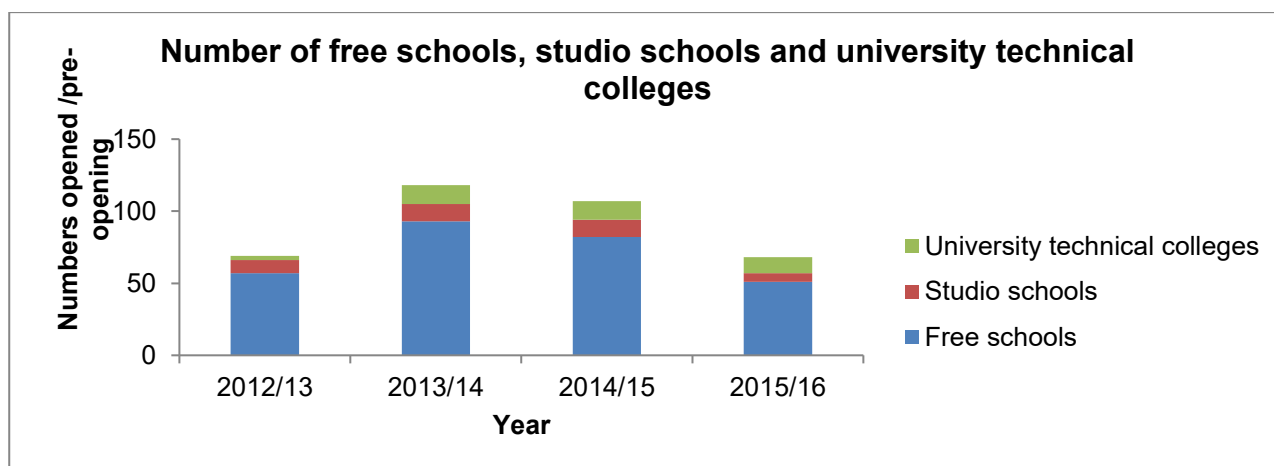
Key Performance Indicator: We measure our progress against the number of PSBP projects completed and the number of free schools, university technical colleges and studio schools opened in the year

As of 31 March 2016 80 schools had been rebuilt or refurbished through the PSBP programme.

A total of 68 free schools, university technical colleges and studio schools opened in 2015/16 and 375 schools of this type were open at 31 March 2016.

This objective was supported by the building and asset management strand of Fit for the Future. Through this strand we wanted to develop more consistency in our approach to working with suppliers and sourcing, using scarce professional skills, so that we realised savings and improved effectiveness. We reviewed our delivery models with the department's capital policy team and this helped to inform our approach to building and asset management.

The number of free schools, studio schools and university technical colleges continues to rise. There are currently 431 academies of these types open and a further 175 are currently in the pre-opening stage. The government's commitment to an additional 500 free schools by 2020 has increased our ability to recruit high calibre staff as they see long term job prospects.



The Priority Schools Building Programme (PSBP) is addressing the condition need of the 260 schools most in need of urgent repair. The needs of 214 schools will be addressed using capital funding and 46 schools using private finance funding. The PSBP hit its public commitment of 24 schools opened before the general election in May 2015 and by March 2016 80 schools had been rebuilt or refurbished. The majority of schools in this first phase will be delivered by the end of 2017, two years earlier than originally planned and we are delivering projects at around a third less than previous building programmes.

We announced in February 2015 that 277 schools will have some or all of their buildings rebuilt or their significant condition needs met through Priority Schools Building Programme 2 (PSBP2). We commissioned high level scoping studies for all the selected schools to ascertain the nature of works required to meet the condition need. The programme of work was communicated in December 2015.

The two year targeted basic need programme came to fruition in September 2015. It has funded 84 local authorities to start delivering around 70,000 pupil places in 372 projects (40 new schools and 332 expansions).

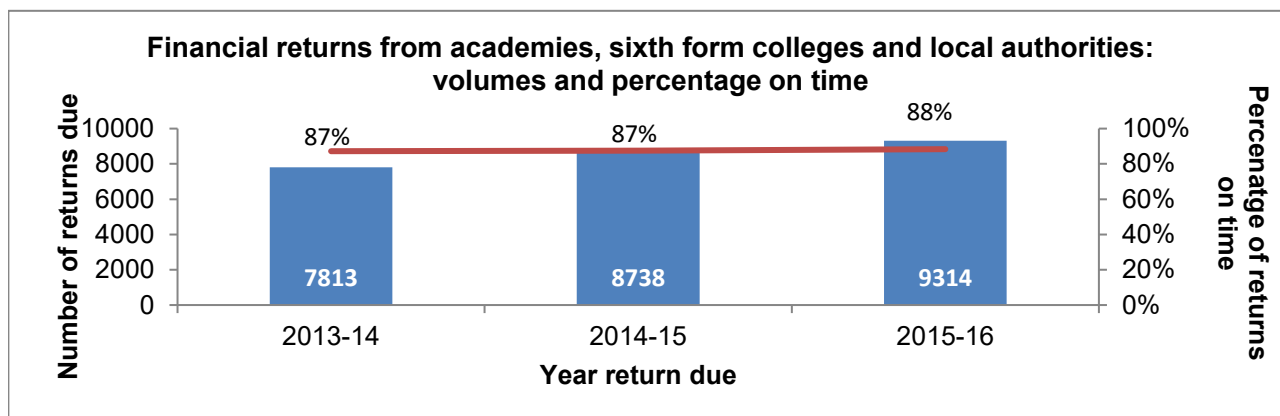
The Property Data Survey Programme, which finished in December 2014, has allowed the department to create a consistent national view of the condition of the school estate for the first time. The department is now able to identify responsible bodies and geographic areas with the greatest need which enables funding to be better targeted.

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

Key performance indicator

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

Timely receipt:



ii: Consolidate academy accounts into the EFA's 2015-16 accounts and meet the statutory deadline to lay the accounts in Parliament – on track to be completed

We work with EFA funded providers to support them in making timely financial returns. We have improved our communication and guidance and Information Exchange allows them to make online submissions.

We continue to develop our risk assessment tool. This tool analyses a range of data to identify institutions that are at risk of finance, financial governance or financial irregularity problems allowing us to more accurately focus our work on those institutions with higher risk. This underpins the corporate intervention reporting we provide to our accounting officer and demonstrates the direct link between our work and institutions, as well as our

responsibilities to the government and the tax payer to ensure that we provide value for money.

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

Key performance indicators

- 1) Complete 37 area reviews by March 2017
- 2) Of those colleges meeting the triggers for early intervention on financial health grounds, to reduce the proportions who subsequently meet the triggers for formal intervention on financial health grounds within 2 years of commencing the early intervention activity
- 3) Reduce the average time spent in formal intervention for all colleges which have been in formal intervention for more than 24 months
- 4) Undertake 7 Multi Academy Trust Reviews, by March 2017, as part of EFA's planned assurance programme. To share key messages from those reviews with the sector to raise awareness of good practice and areas of concern
- 5) For areas of concern identified from our review of academy trust financial statements we will follow identified concerns with the trust in accordance with EFA's ladders of intervention framework, share key messages from these reviews with the auditors and the sector to raise awareness of good practice and areas of concern, and use the findings from our work to inform future policy or improvements to guidance.
- 6) Invest in data analytics to allow the EFA to predict the future financial position of academy trusts and identify trusts at risk

To note these are newly agreed indicators and we will report on our performance against these indicators in our 2016-17 annual report.

This was supported by the risk assessment and intervention strand of Fit for the Future.

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

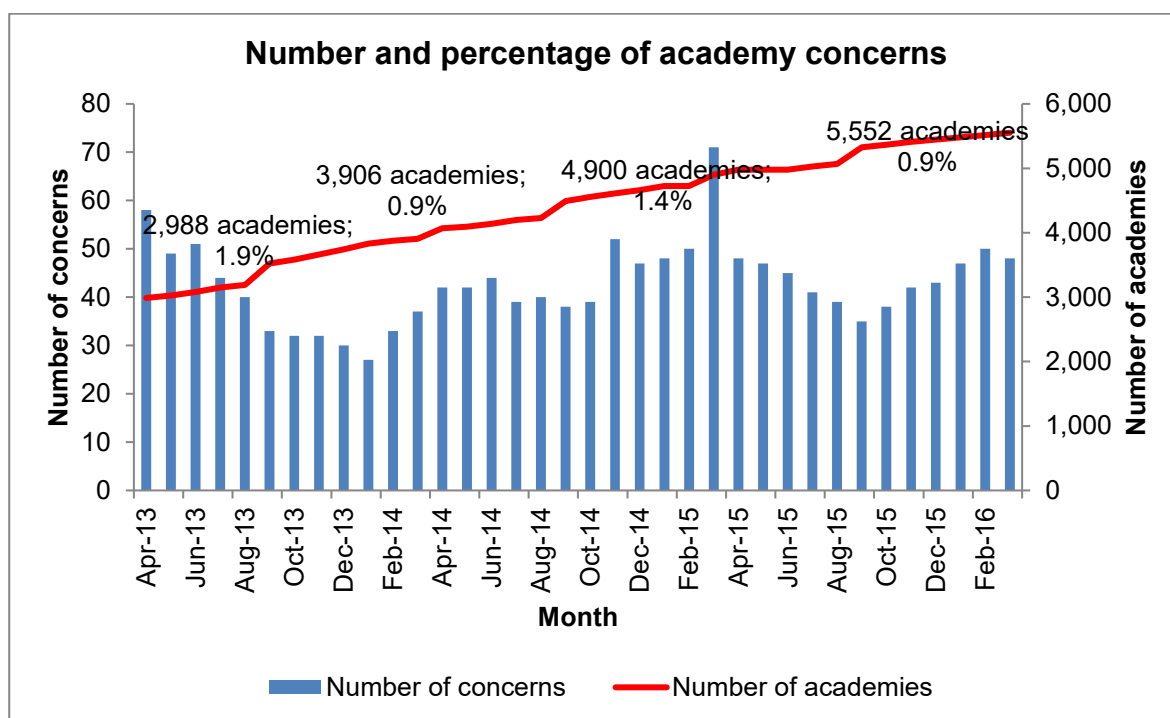
The EFA sets clear governance and financial standards and requirements which most Trusts meet to ensure sound financial management. The Agency has a clear strategy for intervention to support trusts in mitigating the risk of getting into financial difficulty or experiencing governance issues.

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

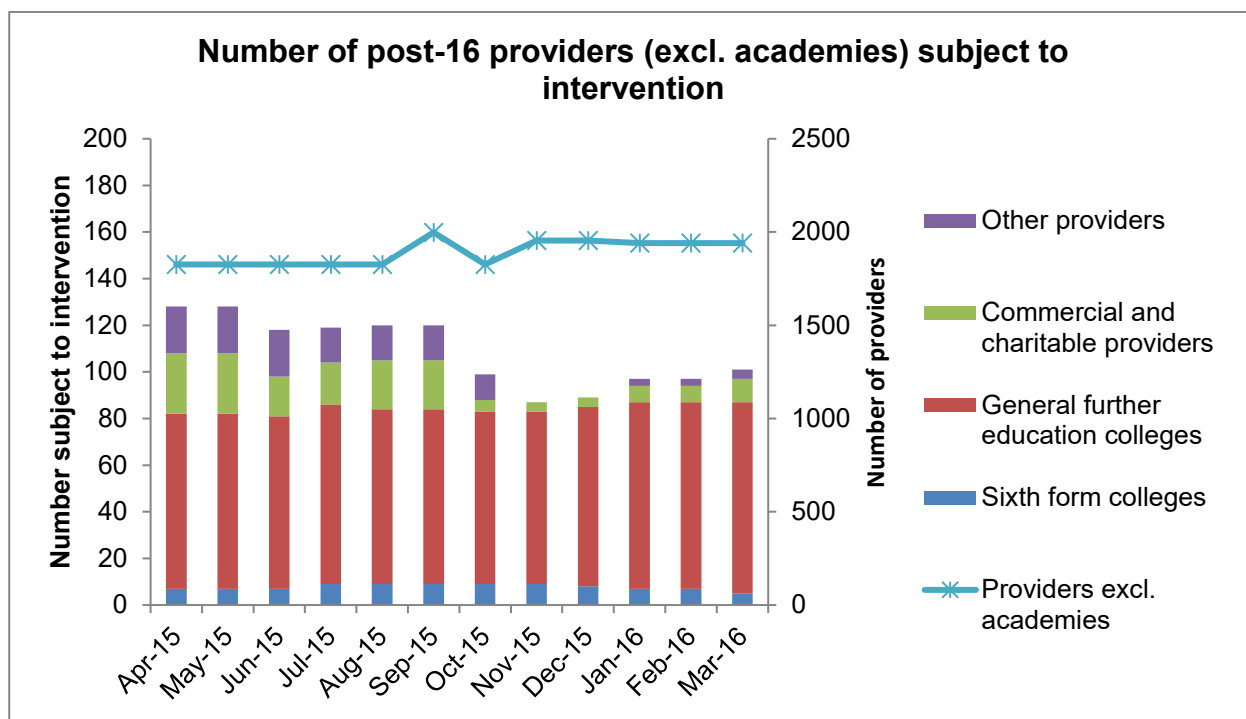
Academies Financial Handbook and the Funding Agreement. Headline cases only represent a small part of the sector; only 1% of academy trusts have been issued with a FNtl.

We are currently taking forward a project looking at the pre-opening process for those schools converting to academies as well as the issues that occur post-opening and reviewing what we can do to prevent these occurring.

The percentage of academies of concern has remained relatively stable, fluctuating between 0.86% and 0.96% through 2015-16. The most common reason for concern is the academy trust being in financial deficit followed by financial management and governance issues.



We also monitor the number of post-16 institutions that are subject to intervention. The number of post-16 institutions 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 these.



We have started a process of area reviews that aim to restructure colleges so that they are financially sustainable, higher quality, and make a stronger contribution to productivity. The review process is managed by a Joint Area Review Delivery Unit of EFA and SFA staff. There is an intensive programme of reviews until spring 2017 covering nearly all colleges and all areas of the country. The reviews consist of a process of analysing local needs and how well current provision meets them; identifying scope for savings typically on class sizes, estates, senior management and back office costs; and options for change including structural change. The work is undertaken in each area by a team of externally sourced advisers working to the further education and sixth form commissioners. Decisions on change remain with individual college governing bodies.

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

Key performance indicator – number of enquiries responded to within 3 days; 2015-16 74.2% (29,497 enquiries); 2014-15 79.6% (34,046 enquiries)

As academies become more self-sufficient, the proportions of more complex enquiries, that take longer to resolve, are increasing. This explains the decreased performance between 2014-15 and 2015-16 in responding to enquiries within 3 days.

This was supported by the enquiries and case management strand of Fit for the Future which aimed to focus on actions that would cut costs for customers and for the EFA.

We have introduced a new enquiries form on gov.uk which provides a single contact point for customers to submit enquiries. The on-line form has an inbuilt triage system that automatically routes enquiries to the appropriate team. The quality and accuracy of enquiries has improved as the form prompts customers to provide the correct information

the first time and to summarise their queries more succinctly. This enables us to provide a more efficient customer service.

The Information Exchange offers a secure source of information and services for our customers. The knowledge centre of Information Exchange allows academies, schools and colleges to be more self-sufficient through better access to more robust information whilst the document exchange and online returns sections enable them to make on line transactions. The admission appeals digital form has reduced the large number of submitted admission appeal complaints found to be out of scope. Total digital form use now stands at 36,770 forms submitted since the first form went live in April 2014. This results in an estimated 12,000 fewer enquiries and equates to £212,293 in non-cashable savings. The resulting savings in staff time means we can redeploy staff to increasing volumes of more difficult casework without an increase in administration budgets.

The use of Information Exchange has allowed us to maintain an enquiry service that satisfies high standards (the percentage of enquiries answered in fewer than 3 working days rather than a more usual public sector standard of 15 working days) at significantly lower cost. In May 2015 two of the main enquiry lines, the academies' enquiry service and the young people's enquiry service were brought together, this has facilitated the sharing of best practice and the continued downward trend in the observed cost per enquiry. While the number of academies has risen by 652 during the period, the number of enquiries per academy has fallen from 0.57 in March 2015 to 0.38 in March 2016. The equivalent figures for the young people enquiries are a fall from 0.33 enquiries per institution in March 2015 to 0.22 per institution in March 2016.

Since July 2015 the enquiries service has been actively contacting academies that have used the enquiry service during these months. These academies have been asked to rate the quality of the service and answers they received. Response rates have been much higher than our previous approach of providing a feedback survey in our emails. This approach has produced important data that has been instrumental in improving service levels, including our multi-academy trust Information Exchange usability and remittance advice accessibility.

The Risk Analysis Division has also used improved methods of communication to promote awareness and understanding of the assurance framework through a series of online presentations and webinars. The first of these was published 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 2015 we held a workshop for academy trust auditors which was attended by over 200 auditors representing 98 firms.

Forward look

The main challenges we face in 2016-17 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 continue 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.

1.2.2 Programme Assurance

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

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

To gain assurance about the proper use of public funds that academies and sixth form colleges receive, the EFA has a risk analysis division. (The risk analysis division ceased to exist from 1 April 2016 and its work was subsumed by the new provider risk and assurance division (PRA)). The risk analysis division is responsible for planning, co-ordinating and carrying out audit and other work to secure this assurance. The audit committee scrutinises the outcomes of this work.

The risk analysis division works with the SFA and other funding bodies under the Joint Audit Code of Practice (JACOP). JACOP adopts the principle of 'one provider one assurance', so one funding body secures assurance on behalf of the other. In addition, the risk analysis division works with representatives of a range of providers to refine the frameworks that underpin much of the work; such as the academies accounts direction and the relevant financial handbooks.

The assurance plan, which ran from July 2015 to June 2016 was endorsed by the EFA's audit committee and detailed the audit work that was to be undertaken by the risk analysis division; predominantly visits and reviews of financial returns.

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. We review all audited financial statements where auditors have raised issues in their reports and a sample of others. We reviewed 800 financial statements and have assurance that trusts are substantially complying with requirements and that funds are used for the purposes intended.

For new academy trusts, which under the academies accounts direction timescales were not required to prepare their first set of financial statements to August 2015, we receive assurance from the Financial Management and Governance Self-assessment (FMGS) returns or the alternative assurance for academies joining multi-academy trusts (MATs). The EFA requires academy trusts to submit these returns within 4 months of academies opening. Trust accounting officers agree the returns and trust boards approve them.

Existing MATs have previously submitted audited financial statements so we already have assurance on the effectiveness of their arrangements. For new academies joining existing MATs, the MAT's accounting officer arranges for the submission of an 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 MAT.

Our assurance programme includes visits to a sample of trusts to validate the arrangements within the trust and to check compliance with the academies financial handbook. We undertook a total of 60 FMGS return validations, including 5 at new MATs. The MAT validation visits include reviewing governance arrangements both at trust and at individual academy level.

For 2015-16, we undertook new assurance work to validate a sample of alternative assurance returns submitted by trusts.

The risk analysis division's review of FMGS returns, validation visits and sample testing of alternative assurance returns has provided sufficient assurance that academy trusts are substantially compliant with the academies financial handbook.

In addition, we undertook 10 MAT reviews and some of these reviews included newly opened academies that joined the MAT.

The risk analysis division delivered its 2015-16 assurance plan in full. The division was able to report substantial assurance across almost all areas though the report highlighted some limitations, including several cases of financial irregularity:

The principal limitations are as follows:

1) Several instances of non-compliance with EFA requirements or irregularity were identified through our review of academy financial statements and accounts returns. These include:

- 25 related party transactions where academy trusts were unable to demonstrate full compliance with our requirements
- 25 severance payments by 2 trusts were made without prior approval from EFA and HM Treasury as required by Managing Public Money. The trusts were under a FNI and so the normal delegated authority to make these payments had been revoked. The trusts have been requested to seek retrospective approval from HM Treasury

2) There were some cases of non-compliance or financial irregularity at academy trusts and sixth form colleges identified through desk based reviews, MAT reviews, fact finding visits or investigations. EFA continues to work with each provider in order to reach a satisfactory resolution.

3) We received all but 4 financial statements due from academies within the 2015-16 assurance year. The 4 relate to academies that have closed. EFA were aware of the plans to close and were involved in the process. In addition, one trust where there had been no previous concerns has changed its accounting period and will submit accounts in the current year. Totton Sixth Form College was the only sixth form college that failed to submit financial statements. It was subject to an ongoing FNTI issued in 2013-14 and merged with another provider from 30 November 2015. 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 1.57% (2014/15: 8.1%) for bursary funding, 35.5% (equating to £79k of the sample tested) (2014/15: 40%) for the funding stream of free meals in further education. Despite the improvements compared with last year we have restricted assurance opinion in this area of funding. Provider Risk and Assurance 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 already or are in the process of recovering reported errors.

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 statement¹ includes information on governance and assurance arrangements with respect to the localism agenda, and how we obtain assurance over funds that local bodies distribute.

Intervention

The Risk Assessment Tool is being used to analyse our improving database of information on our providers. Our use of the tool to flag providers that may be of concern to us is now standard practice. It supports our awareness and prevention work and,

¹ Departmental Accountability Statement: <https://www.gov.uk/government/publications/accountability-system-statement--2>

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 13 FNtIs to academy trusts and 2 to sixth form colleges. Notices require specific actions to be taken within agreed timescales, and progress is closely monitored, 8 FNtIs which had been issued to academies were lifted with 2 issued to sixth form colleges lifted. We also issued a new Notice to a sixth form college for inspection failure but lifted a further 2 inspection Notices.

As part of risk mitigation, we published our 'Early Intervention and Prevention'² approach for sixth form colleges in July 2015. This encourages early action where it is evident that the sixth form college is close to triggering formal intervention thresholds. In addition, we share, on an annual basis, sixth form college benchmarking data with principals and Chairs of Governors at each sixth form college.

We make appropriate use of information from whistle blowers and other contacts. By the end of 2015-16 we had, since the EFA started in April 2012, received 195 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 page³ and the academies financial management and governance review webpage⁴. We also publish the FNtIs 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 2015-16, we had published reports covering 28 institutions.

In March 2015 we issued an FNtI to Durand Academy Trust but the Trust continued to refuse to comply with our requirements. We issued a 'provisional notice of intention to terminate the funding agreement' under clause 89 of the funding agreement on 4 July 2016 after the trust repeatedly failed to address our serious concerns about the use of public money. This can be found on the letters to academy trusts regarding poor performance web page⁵. Durand Academy Trust failed or refused to comply with 6 out of the 8 requirements we set out in the provisional notice and so we issued a further notice

² [Agreement for early intervention and prevention:https://www.gov.uk/guidance/sixth-form-college-funding-agreements-for-2015-to-2016-early-intervention-and-prevention](https://www.gov.uk/guidance/sixth-form-college-funding-agreements-for-2015-to-2016-early-intervention-and-prevention)

³ [Academies Investigation reports: https://www.gov.uk/government/collections/academies-investigation-reports](https://www.gov.uk/government/collections/academies-investigation-reports)

⁴ [Financial management and governance reviews: https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews](https://www.gov.uk/government/collections/academies-financial-management-and-governance-reviews)

⁵ [Notice of provisional intention to terminate to Durand Academy Trust: https://www.gov.uk/government/publications/notice-of-provisional-intention-to-terminate-to-durand-academy-trust](https://www.gov.uk/government/publications/notice-of-provisional-intention-to-terminate-to-durand-academy-trust)

on 11 October 2016⁶ informing the Trust that we are proceeding to terminate the funding agreement. We are currently considering the Trust's response to that Notice.

1.2.3 Complaints to the Parliamentary Ombudsman

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

In 2015-16 no EFA-related complaints were accepted by the Ombudsman for investigation (2014-15: 3).

The EFA follows the DfE complaints policy that can be found on the gov.uk website⁷. The target for responding to all complaints is 15 working days. The number and nature of complaints received is recorded centrally. In 2015-16 we received 21 cases (2014-15: 26 cases). A review of the complaints process is currently being undertaken led by the EFA Customer Service manager.

1.2.4 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 be self-sufficient, in order to deliver customer service which is efficient and effective.'

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

The department encourages its employees to take up volunteering opportunities in line with the Government's Big Society agenda as well as supporting employees' continuing professional development. The department awards employees a minimum of 3 special days leave for volunteering each year.

⁶ [Notice of Termination of funding agreement - Durand Academy Trust:](https://www.gov.uk/government/publications/notice-of-intention-to-terminate-to-durand-academy-trust)
<https://www.gov.uk/government/publications/notice-of-intention-to-terminate-to-durand-academy-trust>

⁷ [Department for Education complaints procedure:](https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure#how-to-make-a-complaint-about-the-department-for-education)
<https://www.gov.uk/government/organisations/department-for-education/about/complaints-procedure#how-to-make-a-complaint-about-the-department-for-education>

1.2.5 Sustainability

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

1.2.6 Auditor

The Comptroller and Auditor General appointed by statute audited these accounts and his certificate and report appear on pages 79 to 89. The notional audit fee incurred for the year was £395,000 (2014-15: £445,000) and relates to the statutory audit of EFA's accounts (including the audit fee for consolidation). The group further incurred audit fees of £26.2 million (2014-15: £23.8 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 £11.8 million (2014-15: £9.9 million). The NAO, as the EFA's external auditors, provided no other services to the EFA during the year.



Peter Lauener
Chief Executive and accounting officer, EFA
8 December 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

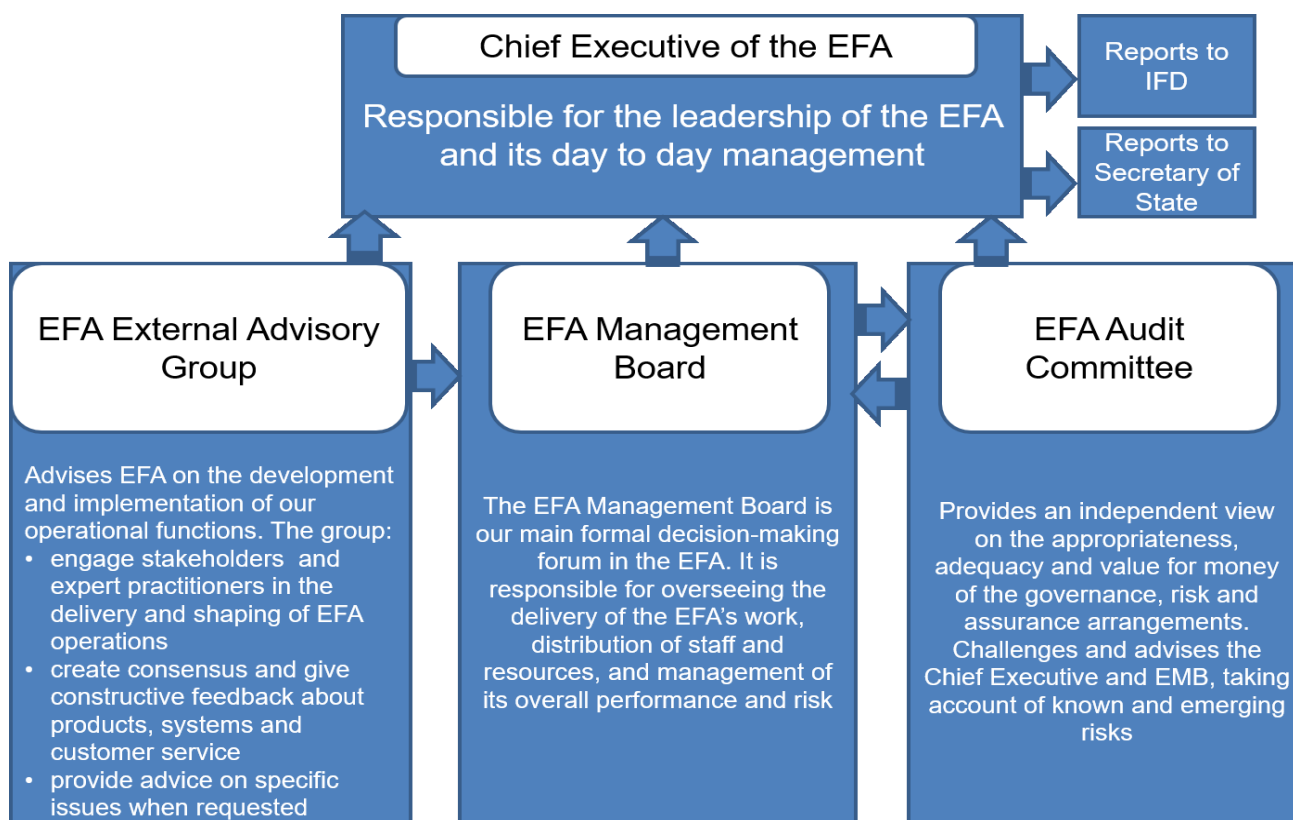
Peter Mucklow – Director of Young People's Group

Sue Baldwin – Director of Academies and Maintained Schools Group

Mike Green – Director of Capital Group

Simon Parkes – Chief Financial Officer

Accountability structure of the EFA



Members of the EFA Advisory Board

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

The advisory board met 5 times in 2015-16. The group is formed of the EFA directors as well as external members including:

Member	Role	Meetings attended
Les Walton (Chair)	Chair of Northern Education Trust	5
Caroline Allen	Governor; Orchard Hill College	5
Jenny Bexon-Smith	Regional Schools Commissioner – East Mids and Humber	3
Gareth Dawkins	Executive Principal; Bradford Academy	5
Ian Ferguson	Employee Benefit Trust Chairman; Metaswitch	5
Felicity Greeves	Principal; The Blackpool Sixth Form College	4
Michelle Sutton	Interim Principal; Bourneville College	2
Malcolm Trobe	Interim General Secretary; Association of School and College Leaders	5
Carl Ward	Chief Executive; City Learning Trust	5

Members of the Audit and Risk Committee

During 2015-16, the Audit Committee met 5 times. The membership and their attendance is listed below:

Chair	Meetings Attended
Mark Sanders (Chair)	5
Stella Earnshaw (Member)	3
Brian Rigby (Member)	4
Jon Gorringe (Member)	5
Suzanne Orr (Member)	5

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

Other Information

Pension liabilities

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

We account for the benefits of the scheme in line with our policy in note 1. More information is available in section 2.3 'The Remuneration and Staff report'.

We are unable to identify our share of the underlying assets and liabilities of the PCSPS. Details are available in the resource accounts of the Cabinet Office; Civil Superannuation at civilservicepensionscheme.org.uk.

Related Parties

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

Auditor remuneration for non-audit work

The NAO charged a notional fee of £395,000 to audit our 2015-16 accounts. The NAO undertook no further work on our behalf during this time.

Public sector information

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

Political donations

We made no political donation during 2015-16 (2014-15 no donations).

Financial Instruments and financial risk management

The most significant credit risk to the EFA arises from non-payment of debts relating usually to insolvency of provision of learning by commercial and charitable providers. The position for the financial year is shown in note 8 to the accounts.

Important events after 31 March 2016

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

- 1) As of 1 April 2016, academy trusts will no longer be consolidated into the EFA accounts, as such there will be a significant difference in the detail displayed in future published accounts.
- 2) On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union.
- 3) On 14 July 2016 the Rt Hon Justine Greening was appointed the new Secretary of State for Education, replacing the Rt Hon Nicky Morgan.
- 4) The Funding Agencies Shared Services Team (FAS²T) was created on 1 April 2016. It brings together common functions within EFA and SFA. FAS²T has absorbed the functions that sat under the Risk Analysis, Finance and Data Group and equivalent functions in SFA. It is part of both agencies equally, with some staff reporting into SFA and some to EFA.

Future developments

We expect that we will have to continue to make efficiency savings as the number of academy trusts continue to grow. Our capital programme will continue to increase in size as the number of free schools increases to meet the government's commitment.

Research/development activities

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

Employee sickness absences

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

Report on personal information breaches

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

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 2015-16 (2014-15: no incidents).

We had no protected personal data related incidents reported in 2015-16 (2014-15: 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 and at department level. Smaller, localised incidents are not included.

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

2.1.2 Statement of the 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 and 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.

As accounting officer, I confirm that:

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

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

2.1.3 Governance statement

This part of the report is about the EFA.

The purpose of the Governance Statement

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

Scope of responsibility

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

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

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

The system of internal control has been in place in the EFA for the financial year ending 31 March 2016 and up to the date of approval of the 'Annual Report and Accounts.'

The organisation's governance framework

The Chief Executive of the EFA is responsible for the direction and management of the EFA. The EFA has established the EFA Advisory Board with external members to provide support and challenge in respect of how it carries out its functions on behalf of the Secretary of State (more information on the role of the advisory board and its attendance can be found in section 2.1.1 directors' report). The EFA also has an Audit Committee. The Advisory Board and the Audit Committee both met 5 times in 2015-16. 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 arrangement 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.

The executive management board continues to take a horizon scanning role at points in the year. As well as keeping its effectiveness under review throughout the year, the executive management board also held 2 planning sessions to consider the EFA's future challenges and risks, the business plan and programme delivery plans and assessed its ability as a board to deliver them. The board also has an annual 'away day' to look at the longer-term priorities for the organisation. This has been incorporated into the executive management board business cycle, which has been signed off by the board. The board also meets twice per year with its senior management team to review priorities and action planning to inform these discussions. This has allowed the executive management board to perform effectively,

The focus of the executive management board has been progress in the delivery of its operations across its 4 groups and corporate strands. This includes keeping under review area reviews and the financial health and efficiency of the school and further education sector. The board has also kept under review our performance and risks, including budgets, and progress against the realisation of benefits arising from the EFA's change programme 'Fit for the Future'. The board has set up 4 corporate boards, each chaired by a director with the other directors in attendance to ensure alignment across all four. The boards report up to the management board, which also keeps under review the corporate boards' effectiveness.

We have embedded systems to monitor performance throughout the year, executive management board receive performance updates both monthly (in the form of status reports which have been reviewed by operational boards) from each group, and quarterly (in a performance report prepared by the Planning and Performance Monitoring (PPM) team). The executive management board considers the quality of the data sufficient to serve the board's purposes. The PPM team work closely with group programme management offices in collecting performance data for use in onward reporting to make sure it is consistent with that used within the groups to report to its operational boards. This embedded structure means that data on performance included in the annual report has already been shared at points throughout the year with operational boards and the

executive management board. In addition, the executive management board review the annual report which provides an opportunity to challenge any of the data used.

The risk and internal control framework

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 programme delivery risk, their countermeasures and contingencies and provides advice and challenge to ensure the EFA is effectively managing the risks. The board also considers any risks to escalate to the department's performance and management committee, with the director general's approval, either for action or for information.

We managed successfully 2 of the key departmental risks namely 'that the financial health of the sector adversely affects the supply of high quality learning provision' and 'the allocation and distribution of funding to schools and post-16 institutions is not accurately or timely'. We reported on the first of these risks to performance committee in September 2015 and February 2016; and the second of the 2 risks, in the May and September 2015 committees.

The executive management board did not escalate any risks to the department's management committee during the 2015-16 year.

During the year, one of the risks we were managing crystallised:

- 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 the new framework report to address the consolidation of academy trusts' forecasts does not meet HM Treasury and Parliament's expectations meaning that the new approach can't be in place for 2016-17. This is discussed further in Section 2.2 Financial Commentary – New reporting framework

Section 1.2.2: Programme Assurance provides detail on how the work of the risk analysis division (now our provider risk and assurance team) ensures that academies and sixth form colleges use the public funding we give to them properly.

Audit Committee

The Audit Committee are responsible for reporting and advising me, and the department's Audit and Risk Committee, on the adequacy and effectiveness of governance, risk management and internal control within the EFA.

Each year the Audit Committee review their effectiveness. In October 2015 the committee secretariat sent out a questionnaire to all stakeholders asking them to review what they believe the impact of the audit committee to be and how their work is valued.

The review was 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.

The below is a summary of the report:

During 2015-16 we have supported the accounting officer by reviewing, advising and challenging in a number of areas, but have focused on the accounts, following the Comptroller and Auditor General's adverse opinion of the 2014-15 accounts. Given that the process is much the same as last year a similar outcome is expected, but we regard the proposed new methodology which will separate out a sector account for academies from the core EFA accounts as a good basis for moving forward.

We have overseen the initial work during this year which has taken place in parallel to the preparation of the EFA's 2015-16 accounts, and the experience of this year and the lessons which have been learned will provide for improvements in the forthcoming year. There is much to do in relation to the new accountancy approach and adequate resources are required for a satisfactory outcome. We note that the problems associated with the accountancy treatment of land and buildings will take some years to resolve fully.

Our view is that the new sector account consolidation process will provide for greater transparency and better insight for the reader. We are pleased that HM Treasury and the Department have been able to agree a way forward to provide an accounting framework for the consolidation of academy funding for the future, which in turn has been supported by the appropriate Parliamentary Committees. The NAO are to be commended for their professionalism, support and guidance through this challenging process.

The next year will contain significant challenges with the need to produce two sets of accounts in one year and bring forward the timetable for preparation of the 2016-17 core EFA accounts. In addition, there will be an increasing numbers of academies and the transfer of some functions between the EFA and the Department. We have paid particular attention to the formation of the Funding Agencies Shared Service Team (FAS²T) given its assurance function and its additional role in supporting the Skills Funding Agency.

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

Our work in the year has looked at risk and the mitigations. We have reviewed fraud, error and overpayments, capital and monitored the implementation of ICT changes, with a focus on the EFA's resilience to system problems. We have also overseen the preparation of the Provider Risk and Assurance business plan and received appropriate assurances. In addition, we have approved the internal audit programme and have followed up on reports and ensured action is taken on the recommendations. We have also received reports on the setting up of LocatED (a company to acquire sites for future schools) and the functioning of the "Aggregator" used to secure private funding for building schools. We have also focused on the risk that the expansion of the EFA's activities might have outstripped its staffing resource; and that changes in key personnel might create a lack of stability.

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

More information on the members of the Audit Committee and their attendance at meetings can be found within section 2.1.1 The directors' report.

The executive management board

The executive management board is comprised of the Chief Executive and the 4 EFA directors. 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. (More information on the members of the External Advisory Group and their attendance at meetings can be found in section 2.1.1 The directors' report). The advisory group in 2015-16 has considered progress in the delivery of the operations of the EFA including the change programme 'Fit for the Future', as well as providing advice and guidance on area reviews, the financial health and efficiency of the school and further education sector, capital programme delivery, horizon scanning for funding and finance and the EFA's performance and risks. 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 2015-16, the executive management board met 10 times. All members attended each meeting with the exception of Mike Green who was unable to attend 2 meetings.

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.

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 programme offices submit monthly reports to the executive management board.

Internal Audit

We maintain a professional and independent internal audit service which is provided by the Government Internal Audit Agency (GIAA). I agreed an audit plan with GIAA including high-level scope and broad timing for each of the reviews. The early identification of issues by internal auditors 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 13 cross-group reviews that included aspects of the EFA's work. These audits proved effective in prompting improvements in the EFA's control environment.

The 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 core programme and funding risk continues to be effective although there have been identified limitations in capital financial management

- delays in the development of plans for the transition to the new FAS²T organisation. Project deliverables and success criteria have not been clearly defined. A significant number of posts are unfilled but there is no clear plan for managing the impact
- the process for collating and reporting fraud data for consideration by the EFA Risk, Intervention and Assurance Board is overly complex and does not provide the information needed to properly monitor the organisation's response to fraud and irregularity

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. In particular significant progress has been made through 2016-17 to address the weaknesses identified in capital financial management. A new division within EFA Capital has been created to drive through improvements, various training programmes have been delivered on Managing Public Money principles and work continues on enhancing documentation.

We continue to develop our systems and processes to ensure that we can meet the challenges presented through the expansion of the EFA's operations. Internal audit confirmed that appropriate action has been taken to implement agreed actions rated high or medium priority and due in-year and arising from internal audit work.

External assurance

The NAO

In June 2015 the NAO published their report on funding for disadvantaged pupils⁸. This report focussed on the how the department has implemented its pupil premium policy and how well schools have used the funding. The report highlighted that identifying those disadvantaged pupils can be an issue for education providers. The NAO found that not all schools were utilising the pupil premium funding effectively with some increasing spending on teaching assistants which will only have an impact if these staff are deployed effectively. The NAO also identified that many schools were using the pupil premium on activities that would benefit all pupils, not just those classed as disadvantaged.

At the present time the pupil premium has narrowed the attainment gap between those eligible for pupil premium and those not by 4.7 percentage points in primary education and 1.6 percentage points in secondary education. It is hoped that the gap will narrow

⁸ [NAO report: Funding for disadvantaged pupils https://www.nao.org.uk/report/funding-for-disadvantaged-pupils/](https://www.nao.org.uk/report/funding-for-disadvantaged-pupils/)

further once the full impact on the funding has been seen (by 2018 in primary schools and 2023 in secondary).

The report concluded that the department should

- develop its understanding of how schools are using the pupil premium
- use a fairer formula so that pupils across England receive similar funding
- be more specific about how it will measure the impact of pupil premium

Following the publication of the report a public accounts committee meeting was held in July 2015. The public accounts committee emphasised that the department must be able not only to demonstrate the potential of the pupil premium but also determine how it will measure its impact.

As part of the White Paper: Educational Excellence Everywhere our work to address the issues raised within the report over the effective use of pupil premium spending is highlighted. This includes encouraging schools to adopt evidence based strategies drawing on information from the Education Endowment Foundation.

In July 2015 the NAO published their report on overseeing financial sustainability in the further education sector⁹. The report detailed that at an aggregate level further education colleges were in deficit for 2013/14 with 110 recording an operating deficit more than double that in 2010/11. The colleges have faced real-term funding cuts of 27% in the last 5 years whilst costs such as pension and NI costs have increased.

The report found that some college forecasting had been over optimistic meaning that problems had not always been identified until a late stage. The formal intervention that has been completed has often lacked sufficient impact. The financial support offered has increased substantially but most has not yet been repaid.

The report concluded that BIS (Department for Business, Innovation and Skills) working with the department should:

- assess whether the existing approach to intervention will address the more fundamental problems faced by the sector
- clarify roles and responsibilities for informing decisions about local provision
- make sure that there is capacity to deal with the expected increases in the number of colleges requiring support

⁹ [NAO report: Financial sustainability in the education sector](https://www.nao.org.uk/report/oversight-of-financial-sustainability-in-the-further-education-sector/)
<https://www.nao.org.uk/report/oversight-of-financial-sustainability-in-the-further-education-sector/>

Following the publication of the report a public accounts committee meeting was held in December 2015. The committee emphasised that the department should work to understand the risks facing colleges and work to address these issues.

The work of area reviews across England is on track to be completed by March 2017. These aim to enable a transition towards fewer, larger, more resilient and efficient providers and should assist in addressing the issues identified within the NAO report.

Fraud and financial irregularity in the EFA group

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

In 2015-16 our Risk Analysis Division conducted 7 fact-finding visits to academies, of which 3 cases are on-going and 4 cases we have closed. Of the 4 closed cases, we found no evidence of irregularity in 2 cases and evidence of irregularity in 2 cases. In both cases the 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.

Financial Management

This part of the report is about the EFA. As accounting officer I have responsibility to ensure that there were effective systems to manage and monitor all funds granted for me. I am content that overall processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity and value for money. I consider that the EFA's financial management was sound throughout the process of allocating and paying the £56.6 billion of capital and revenue funding.

We put in place clear lines of accountability for all programme and administrative expenditure, and I delegated financial authority to each of my board members in accordance with their responsibilities. We clearly explain these lines of accountability in financial guidance and policies. This enabled 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 PPM team report monthly, or as requested, to the executive management board and elsewhere as required. The financial reporting covers a range of information including the outturn position to date and year end forecasts. 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 101% against budget and capital expenditure was 89% against budget for 2015-16.

This part of the report is about the EFA group. For 2015-16 the EFA group consolidated the accounts of the 5,552 academies open at 31 March 2016. The challenge of consolidating academy trusts into the EFA group accounts is unprecedented and increasing year on year. The Comptroller and Auditor General gave an adverse opinion on the 2014-15 accounts with the key areas of misstatement being concerned with the differing reporting dates of the academies (31 August) and EFA (31 March), the recognition of land and buildings in the group financial statements as well as for material misstatements in the prior year comparatives. Further information on this and the 2015-16 audit opinion, together with actions being taken to address these challenges is discussed in section 2.2 Financial Commentary.

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.

Information assurance and protective 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 2016 and March 2016 and used in-house processes for evidence and assurance gathering and assessment, focussing on the delivery of the eight security policy framework outcomes.

EFA has fully incorporated HMG's "Cloud First" policy into its technology design and procurement processes and the organisation's IT strategy going forward is to buy dedicated cloud services (i.e. services not shared between consumers). Currently, cloud use is limited to a small number of services. However, the organisation's IT modernisation programme increases the reliance on cloud services. These will be private cloud services with processing resource dedicated to the organisation.

A security highlight of the 2015-16 year has been the implementation of a new security assurance model. The new approach places more reliance on risk methodology and is less resource intensive while being aligned with IT/project processes and reflecting central HMG assurance thinking. The new model ensures that information risks are owned by a project's senior risk owner in the appropriate part of the organisation, based upon expert advice from the Departmental Security Unit and IT Group. We are applying the new model to the assurance of the IT Modernisation programme and it is working well.

The EFA did not suffer any information breaches during 2015-16.

Conclusion

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

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.

2.2 Financial Commentary

EFA group financial commentary

This part of the report is about the EFA group. For 2015-16, the EFA group consolidated the accounts of the 5,552 academies open at 31 March 2016. The group accounts included academies' land and buildings valued at £43.3 billion, their cash holdings of £3.2 billion and pension deficits of £4.0 billion. (2014-15 £33.3 billion, £2.8 billion and £4.0 billion). The increase in land and buildings values is in large part as a result of revaluations, which are discussed later in this section. The increase in other balances, such as in cash and staff costs, arise from the increase in the number of academies within the reporting boundary compared with prior years. Values per academy are comparable year on year.

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 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. 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 a 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 change 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 2014-15 accounts. The drivers of this opinion were limitations and errors arising from our consolidation methodology as well as on our recognition of £33.3 billion of academy land and buildings. Our focus in 2015-16 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.

For 2015-16 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 this in itself represents a significant departure from accounting standards and HM Treasury's requirements.

The EFA has 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.

As an executive agency of a central government department the EFA prepares accounts on a different basis to academy trusts, as charities, and discloses 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.

The EFA group's accounting officer does not (and practically cannot) exercise his personal responsibilities towards academy trusts in the same way he does for the EFA itself, nor does he routinely check the underlying accounting records each year of the 2,910 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 2016 are for the EFA group being the EFA itself and 2,910 academy trusts with 5,552 academies. Relevant academy trusts are all those with open academies during 2015-16. The EFA group 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 below). 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 2,910 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 2015-16, we have faced an additional set of challenges. The increasingly complex, and significant capital investment programme, some of which is privately financed represents the EFA's continued commitment to driving value for money, and improving educational experiences. However, this is challenging from an accounting perspective and adds to the overall complexity of our financial statements.

Aggregator Vehicle plc

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

At 31 March 2016, the Aggregator vehicle is outside the EFA group consolidation boundary. The EFA group accounts report on transactions with the Aggregator vehicle as for transactions with any other third party.

Privately Financed Priority Schools Building Programme

Under a service concession, the EFA Group has contracted with private sector construction companies to develop, finance, operate and maintain school buildings under the Priority Schools Buildings programme.

Where the operator has a right to receive consideration from the EFA Group in the form of unitary charges, the Group recognises the related liability. In 2015-16 this liability is £220 million.

Approach to consolidation

This part of the report is about the EFA group. Preparing these accounts, in such circumstances, is relatively expensive. For 2015-16, the EFA group has spent £3.6 million (2014-15: £6.0 million) to prepare its accounts, of which £3.5 million (2014-15: £5.9 million) relates exclusively to the requirement to consolidate academy trust accounts. This cost is likely to grow as the academy programme continues to expand. In 2015-16, the EFA group did not conduct a comparison study, resulting in savings of £2 million on 2014-15.

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.

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, including a programme of work to evidence the recognition of academy land and buildings in the new sector report which is further discussed in the section on the new reporting framework.

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 2015-16.

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

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

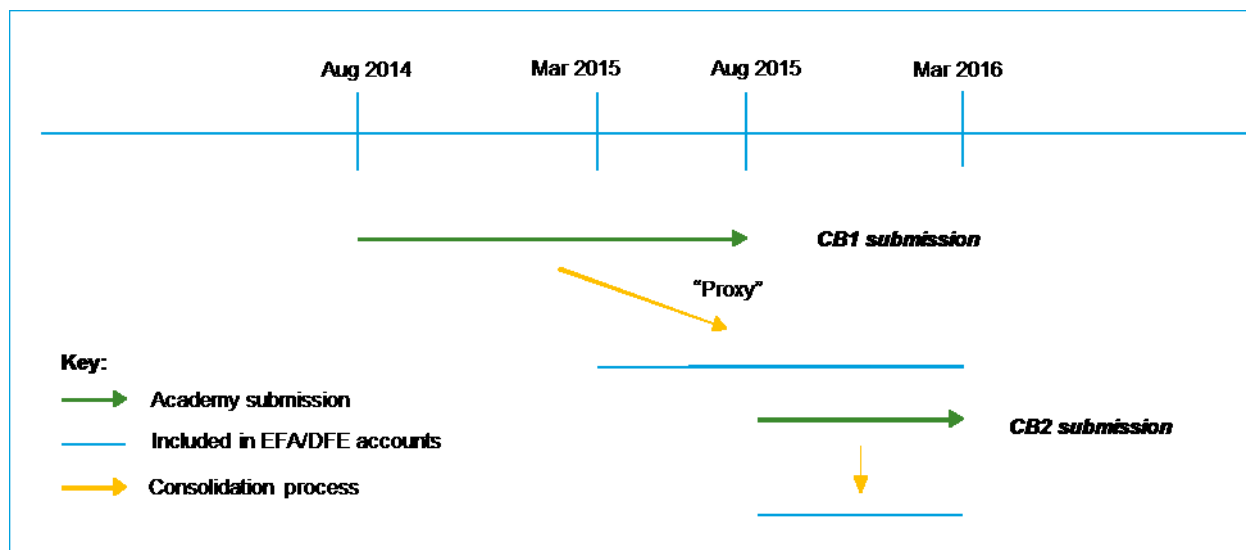
2 - Non-coterminous year ends

For those 2877 academy trusts that prepared audited accounts as at 31 August 2015, the EFA group has included the financial performance from those accounts as a representation of those academy trusts' results for 2015-16. We call this consolidation block 1 (CB1). We used these accounts to 31 August 2015 as a proxy result for these academy trusts' results to 31 March 2016.

For academies that joined existing multi academy trusts and were not included in those multi-academy trusts accounts to 31 August 2015, or those academy trusts that were open at 31 March 2016 and did not prepare accounts as at 31 August 2015, we collected a second, un-audited financial return to 31 March 2016. We included the consolidated results in these returns alongside those consolidated to 31 August for other academies. We call academies included in this second set of returns consolidation block 2 (CB2). Some academy trusts with open academies as at 31 August 2015 did not produce accounts as at 31 August 2015 because they are not

required to produce accounts of fewer than 6 months duration. For academies that only became operational after 31 August 2015 we asked the trust to produce a CB2 return from the academy's opening date to 31 March 2016.

The diagram below sets out this approach.



In using academy trusts' results to 31 August, we rely on the assumption that for established academy trusts, the majority of their income and expenditure by month for the period 1 September 2014 to 31 March 2016 varies little. Hence we assume academy trusts' income and expenditure for the period from 1 September 2014 to 31 August 2015 will for all academies be materially similar to the period 1 April 2015 to 31 March 2016. The academy trusts' balances for current assets and liabilities will also be materially similar at 31 August 2015 and 31 March 2016. This is the basis of our use of the academy trusts' results at 31 August 2015 as a 'proxy' for their results to 31 March 2016.

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 2 principal potential errors and areas of uncertainty into the accounts:

- for those reporting to 31 August 2015, inevitable movements over time between income and expenditure totals for the year to that date, and current assets and liabilities at that date, compared to the totals and balances for the academy trusts had they reported to 31 March 2016

- the degree of match between 2,910 academy trusts' recording of the grants they received from the EFA in 2014/15 compared to our records of payment of grants to academy trusts for 2015-16.

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.

For 2015-16 we have calculated the difference between the revenue grant paid by the EFA in 2014/15 and the extrapolated revenue calculated from academy trust returns to be £204.5 million (2014-15: £406.4 million). The equivalent figure for capital grant is £152.4 million (2014-15: £85.8 million).

3 - Approach to academies not included in 31 August accounts

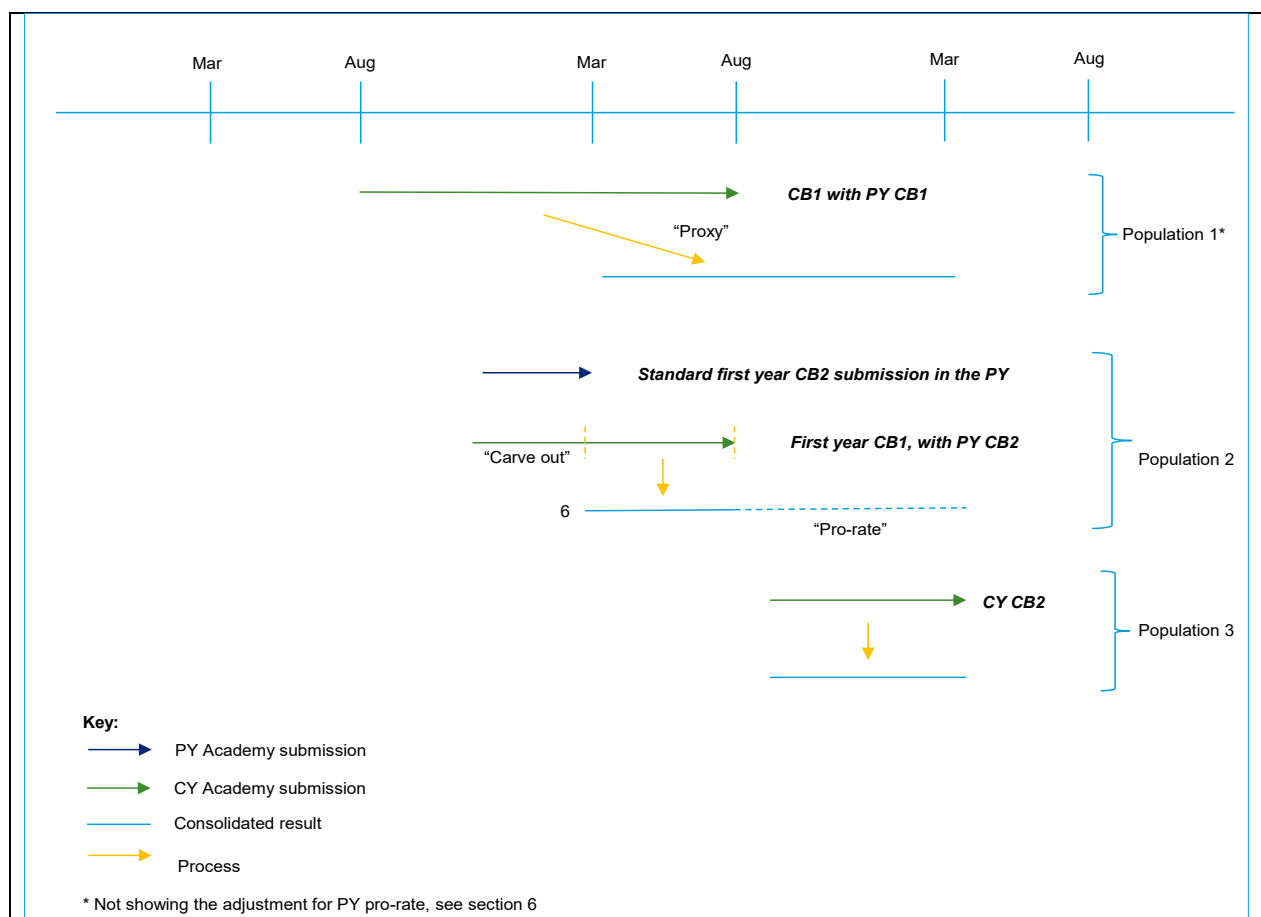
Our use of academy trusts results to both 31 August, and 31 March requires us to accept one principal error, and 2 key judgements into the accounts:

- differences between opening balances academy trusts reported to us at 31 August 2015 compared to their closing balances at 31 March 2015, for those academy trusts that prepared both returns
- the estimate included by us in pro-rating amounts submitted by academy trusts at 31 August 2015, for those trusts that submitted a return in the prior year to 31 March 2015, following the reconciliation of their opening balances
- all submitted CB2 information 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 2 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 3 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 15 academy trusts within the CB2 group to seek to agree the material balances in the returns they submitted to the EFA group to their books and records
- we compared the balances contained in returns by CB2 academy trusts in relation to 2014-15 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 consolidation work, we did not consider this was value for money for public funds.

4 – 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 2015-16 the EFA group's use of the pro-rate increased academy trust income by £1.3 billion and expenses by £1.2 billion in the group accounts.

As these accounts are the last time the current consolidation methodology will be applied, the EFA did not commission a comparison study in 2015-16 to examine the reasonableness of our use of the proxy and the pro-rate as we have in previous years.

5 - Reconciling opening balances

The use of 2 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 2015-16 this had the effect of increasing the opening balances of the academy trusts affected by £2.0 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 2015-16:

Adjustment and narrative	Impact on opening funds £ million
Opening net assets reported submitted by academies	(30,015)
Adjustment through initial validation	202
Carve out adjustments	(1,997)
Adjustment for non-returners	(445)
Impact of prior year EFA group central adjustments	1,310
Amendment to LGPS balances	852
Adjustment for central holiday pay accrual	392
Amendments to land and buildings value balances	(3,453)
Reflecting the prior year net pro-rate adjustment	(321)
Unreconciled	51
Current year opening balance for academy trusts	(33,424)
Prior year closing balance included in the 2014-15 consolidated accounts	(33,424)

6 - Valuation of academy trust land and buildings

Academy trusts' land and buildings are potentially the most significant assets by value at £43.3 billion collectively and dominate the EFA group's statement of financial position. We face 4 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 £98.22 per valuation for academies opening in 2015-16. 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.

In line with our accounting policy and the Financial Reporting Manual we adopt a policy of indexation between valuation points. From 2014-15 we have used 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.

The EFA Group has in 2015-16 revalued academy land and buildings for those trusts that were first consolidated in 2012. This has resulted in a net £5.5 billion movement (after taking account of use of existing revaluation reserves) in the carrying value of academy land and buildings. This net movement can be broken down into a £6.4 billion upward revaluation and a £0.8 billion impairment.

We acknowledge that this is a significant movement in value. Last year the C&AG noted that the EFA did not have sufficient evidence to support the valuations of land and buildings performed before 2013. As this is the first time the EFA Group has revalued academy trust land and buildings, we will need to reflect on these results and whether or not we need to review our valuation policy in light of this first revaluation exercise. The Depreciated Replacement Cost methodology that we use means that changes in pupil numbers, underlying movements in land values and changes in the specification of buildings can all have an effect on historical valuations. This makes it difficult to assess the impact of a revaluation on the EFA accounts.

We have started a pilot exercise across 50 academies, to assess the feasibility of compiling an academy-level land and building fixed asset register (discussed in the recognition section below). We believe this could allow for more accuracy in the valuations, but that will be tested once we have the results of the pilot exercise. The methodology on valuation will be reviewed as part of the work to move to the new reporting framework.

Acquisition and disposal

Academy trusts as dynamic organisations acquired and disposed of land and buildings throughout 2015-16 and recorded these transactions in their 2014/15 accounts where they prepared these or their 2015-16 CB2 accounts returns to the EFA where they are newly opened. The EFA group has used academy trusts' 2014/15 accounts to 31 August 2015 as a proxy for its financial year. The accounts do not, by definition, include land and buildings transactions for the seven months 1 September 2015 to 31 March 2016.

These transactions fall into 4 categories. The first, much the most material, is the addition to land and buildings over the 5 month period resulting from the EFA's group review of completion of the assets under construction. The next 3 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 2015 and 31 March 2016 and appropriately did not reflect these transactions in their 2014/15 accounts. We have not included these acquisitions and disposals in the EFA 2015-16 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 accounts include land and buildings valuations for 2,910 academy trusts, operating 5,552 schools in more than 6,000 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 in previous years, the Comptroller and Auditor General does not agree with this as he considers there to be inadequate evidence on who owns 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.

The EFA group reviewed the accounts, and financial returns submitted by academy trusts at 31 August 2015 for any that did not disclose a value for land and buildings. Of the sample reviewed (100% of the CB1 population), 172 trusts recorded no value for their land and buildings (2014-15: 191 trusts). The net movement results from 135 trusts that had previously not recognised any value in prior years, recognising some value in the current year against 116 newly reported nil values.

Over 73% of 1,161 church academies in the population reviewed had recognised value for their land and buildings, with 311 not recognising any value.

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 2015-16 the EFA group considers that its inclusion of £43.3 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.

The Department has commenced a pilot exercise across 50 academies, to assess the feasibility of compiling an academy level land and building fixed asset register. One of the outcomes of the register, if rolled out across the sector, would be to allow the Department to make asset recognition tests for each academy's land and building assets. This would represent a step change against the current blanket recognition. The Department hopes that a revised approach will enable the audit qualification to be removed from the new reporting framework.

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 2015 had valuations under FRS 17, and there could have been material changes to these values between this date and 31 March 2016. To address these issues, the EFA group commissioned its own IAS 19 valuations as at 31 March 2016 from the actuarial firms that provide pension valuations to the LGPS. Where possible, these valuations use a common set of assumptions, and we have reviewed these with the department and agreed each key assumption.

7 – 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 2 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 2015. The EFA group has not asked academy trusts to disclose the actual cost of commissioning an audit of their CB1 accounts return for 2014/15. However, academy trusts did disclose in their 2014/15 accounts that they had paid £26.2 million in audit fees and a further £11.8 million in non-audit fees. This is an average of £13k for the 2,877 academy trusts. The EFA group considers this cost is proportionate to the EFA group's need.

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 2014-15 consolidated accounts

The EFA group completed its consolidation of the accounts of the 2,824 academy trusts (4,900 academies) open at 31 March 2015 signing its accounts on 31 March 2016. The 2014-15 group accounts included academy trusts' land and buildings valued at £33.3 billion, their cash holdings of £2.8 billion and pension deficits of £4.0 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
- material and pervasive misstatements in the prior year comparatives
- owing to the EFA group's recognition of all academy trusts' land and buildings in the accounts – the Comptroller and Auditor General considers that the EFA has been unable to demonstrate that these assets meet the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment

Qualifications of the 2015-16 consolidated accounts

We continue to have an adverse audit opinion in 2015-16. The significant issues arising from the audit of the EFA group's 2014-15 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 2015-16 approach remains in line with that applied in 2014-15, and as such those challenges and issues remain. The EFA group's focus in 2015-16 was therefore to try to minimise the impact of the previously noted issues, while spending time developing, and seeking the required approvals for a new consolidation approach, which seeks to address the reasons behind the adverse audit opinion on the EFA group's accounts. This new approach will be in place for the 2016-17 financial year, and is discussed in the New Reporting Framework section below.

As with prior years, 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 regarding both potential double-counting and omission of assets. Considerable progress has been made on these points as a result of changes implemented in year, including the collation of EFA Capital Group's records into a comprehensive database. Further improvements continue to be made to this database in order to address the remaining concerns.

In order to support the inclusion of unaudited returns for academies open after 31 August 2015, the EFA, assisted by Deloitte, has implemented changes to the programme of assurance visits conducted in year. This has resulted in improved assurance over this population, and supports the assertion that the figures included in these accounts are appropriately supported.

In the current year, concerns have been raised over the valuation methodology, in particular if the valuations are sufficiently robust and apply consistent assumptions across the estate and the EFA's ability to track values at academy level. As noted in the valuation section above, there has been a significant movement in the carrying value of trust assets first consolidated in 2012. We will reflect on these results and our valuation policy in light of this first revaluation exercise.

New reporting framework

The 2013-14 and 2014-15 DfE and EFA consolidated financial statements received an adverse audit opinion. 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 3 months different from the date of the group accounts. The EFA however consolidated the majority of academy trusts using their 31 August financial statements audited by academy trust auditors, a seven month difference in reporting date from the departmental group. The Comptroller and Auditor General considered this led to such material misstatement and uncertainty as to require an adverse opinion.

In 2013-14, the Comptroller and Auditor General recommended that the department, the EFA and HM Treasury work together to identify a solution to address the causes of audit qualification and that any alternative approach for accounting for academy trusts should provide more robust information. The department proposed:

- to remove the academy trusts' financial results from the EFA and the department's group financial statements and to reflect only grants paid to academies; and
- prepare a separate aggregated account for academies as at 31 August (the Sector Report).

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.

The department and EFA will apply 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 2017. This new combined sector report and accounts is prepared for the academic year, aligning the period of reporting for the sector with the reporting period of individual academy trusts. Combining the annual report with the accounts provides a fuller account of the sector. It will separate academy spending from that of the department, clearly showing how academies receive resources and how they use them and for the first time aligning the reporting of financial results with academic performance. This will make it easier for Parliament, parents and taxpayers to scrutinise and test the information within it.

Aligning the financial reporting year ends for the academy sector with that of academy trusts will be a significant step to addressing some of the underlying audit qualifications on the DfE and EFA's consolidated accounts. A consolidation on the scale of the sector report will remain a challenge.

However, an additional source of the previous audit qualification was due to the group having recognised academy trust land and buildings of £33 billion in its Statement of Financial Position. The audit evidence available to support this was limited because the group was unable to demonstrate that the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment was met in respect of land and buildings. The department has a programme to review the recognition of land and buildings and will work with academy trusts to improve the information available and ensure appropriate recognition of land and buildings. However, this exercise will take some time and an audit qualification is expected to remain in respect of the recognition of land and buildings at least for the first reporting period for the sector report and accounts.

Going concern

The statement of financial position at 31 March 2016 shows net assets of £44 billion (31 March 2015: £33 billion)

Funding from the department, taking into account the amount required to meet the EFA's liabilities falling due in the year, has already been included in the department's estimates for that year. Parliament has approved these estimates and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming.

Therefore, it is appropriate under the government's financial reporting manual (FReM) to prepare these accounts on a going concern basis.



Peter Lauener
Chief Executive and accounting officer, EFA
8 December 2016

2.3 Remuneration and staff report

2.3.1 Chief Executive and executive management board members' remuneration policy

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

As staff employed by an executive agency of the department, the executive management board's performance management and contractual terms are as described in the department's annual report and accounts. As such, the department manages performance management and non-consolidated performance award for members of the senior civil service within the framework set by the Cabinet Office. The contractual terms of executive management board members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the [civil service website](#)¹⁰.

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](#)¹¹.

¹⁰ [Cabinet Office Framework - https://www.gov.uk/government/organisations/civil-service](https://www.gov.uk/government/organisations/civil-service)

¹¹ [Civil Service Commission - http://www.civilservicecommission.org.uk/](http://www.civilservicecommission.org.uk/)

2.3.2 Remuneration (salary, bonuses and pensions)

This section of the remuneration report is subject to audit.

Official	Salary (1)		Bonus payments (2)		Pension benefits (3)		Total	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
	£000	£000	£000	£000	£000	£000	£000	£000
Peter Lauener (4) Chief Executive	140-145	110-115 (140-145*)	-	-	35-40	10-15	175-180	120-125 (150-155*)
Sue Baldwin Director of academies and maintained schools	95-100	95-100	10-15	10-15	30-35	25-30	140-145	140-145
Mike Green Director of capital	130-135	130-135	-	-	50-55	45-50	180-185	180-185
Peter Mucklow (4) Director of young people	90-95	90-95	-	-	25-30	15-20	115-120	110-115
Simon Parkes (4) Chief Financial Officer	135-140	135-140	10-15	-	55-60	40-45	200-205	175-180

* 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 Service¹², and the department's performance management framework for managing and rewarding performance throughout the year. Bonuses relate to the performance in the year prior to that in which they become payable to the individual. The bonuses reported in 2015-16 relate to the

¹²Performance management arrangements for senior civil servants:
<https://www.gov.uk/government/publications/senior-civil-service-performance-management>

performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to the performance in 2013-14.

- (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. Simon Parkes was appointed from 1 December 2015 as Acting Chief Operating (and Financial) Officer of the SFA. He is also Managing Director designate of FAS²T. Simon Parkes is an employee of the EFA and does not receive remuneration from the SFA. His time is split equally between EFA and SFA roles. The remuneration shown is the total received for working for both agencies. Peter Mucklow is the National Director for Young People in the EFA and from 1 January 2016 is also the Director of Intervention at the Skills Funding Agency. Peter Mucklow is an employee of the EFA and does not receive remuneration from the SFA. His time is split between EFA and SFA roles. The remuneration shown is the total received for working for both agencies.

2.3.3 Fair pay disclosure

This section of the remuneration report is subject to audit.

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

	2015-16	2014-15
Band of highest paid director's remuneration (£000)	145-150	140-145
Median (£000)	42.9	41.8
Range (£)	18,000-148,373	18,454-140,578
Remuneration ratio	3.4	3.4

In 2015-16, no employees (2014-15: nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £18,000 to £148,373 (2014-15, £18,454 - £140,578). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

2.3.4 Pension benefits

This section of the remuneration report is subject to audit.

Civil service pensions

As an executive agency of the department, the EFA's staff are members of the principal civil service pension scheme that provides pension benefits. The department's annual report and accounts provide information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the [civil service pensions' website](#)¹³.

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.

¹³ [Civil service pension scheme: http://www.civilservicepensionscheme.org.uk/](http://www.civilservicepensionscheme.org.uk/)

	Accrued pension and related lump sum at pension age as at 31 March 2016	Real increase in pension and related lump sum at pension age	CETV at 31 March 2016	CETV at 31 March 2015	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Peter Lauener, Chief Executive	70-75 plus lump sum of 210-215	0-2.5 plus lump sum of 5-7.5	1,607	1,611	34	-
Sue Baldwin	15-20 plus lump sum of 0-5	0-2.5 plus lump sum of 0-2.5	290	240	25	-
Mike Green	10-15 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	152	108	22	-
Peter Mucklow	30-35 plus lump sum of 100-105	0-2.5 plus lump sum of 2.5-5	674	597	23	-
Simon Parkes	25-30 plus lump sum of 0-5	2.5-5 plus lump sum of 0-2.5	416	349	24	-

2.3.5 Staff numbers and staff costs

This section of the remuneration report is subject to audit.

This part of the report is about the EFA group. The staff costs for the EFA group were £13.5 billion (2014-15: £12.0 billion) and the average number of full-time equivalent staff employed during the year was 368,160 (2014-15: 341,021).

	2016			2015		
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000	£000	£000
Salaries	10,241,122	729,770	10,970,892	9,409,070	539,308	9,948,378
Social security	733,984	17,547	751,531	697,018	13,644	710,662
Pension costs	1,763,931	34,887	1,798,818	1,355,692	24,833	1,380,525
Total	12,739,037	782,204	13,521,241	11,461,780	577,785	12,039,565
Less recoveries in respect of outward secondments	(2,237)	(28)	(2,265)	(641)	(80)	(721)
	12,736,800	782,176	13,518,976	11,461,139	577,705	12,038,844
Of which:						
Education Funding Agency	42,186	4,954	47,140	41,147	9,547	50,694
Academy trusts	12,694,614	777,222	13,471,836	11,419,992	568,158	11,988,150
	12,736,800	782,176	13,518,976	11,461,139	577,705	12,038,844

	Permanently employed staff	Others	2016 Total	Permanently employed staff	Others	2015 Total
	Number	Number	Number	Number	Number	Number
Administration	664	124	788	722	99	821
Programme	349,498	17,631	367,129	323,432	16,558	339,990
Staff engaged on capitalised projects	103	140	243	77	133	210
Total	350,265	17,895	368,160	324,231	16,790	341,021
Of which:						
Education Funding Agency	767	264	1,031	799	232	1,031
Academies – teachers	173,416	9,221	182,637	160,904	8,443	169,347
Academy – administration and support	154,965	8,207	163,172	142,640	7,899	150,539
Academy – management	21,117	203	21,320	19,888	216	20,104
Total	350,265	17,895	368,160	324,231	16,790	341,021

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

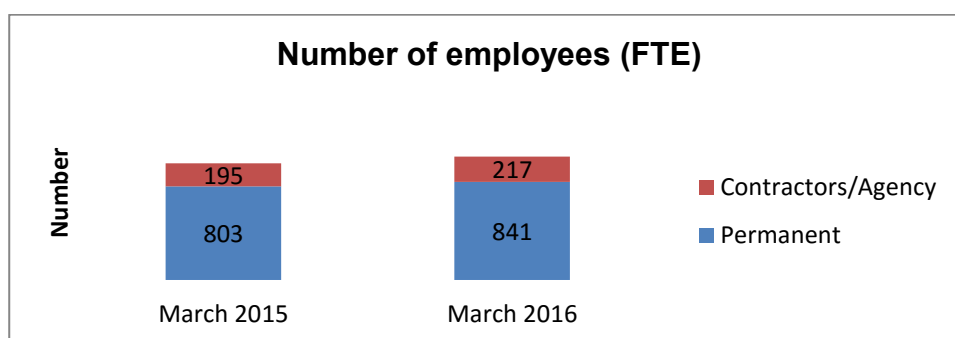
The EFA has charged its staff costs relating to capital asset new school build and major refurbishment projects to capital grant-in-kind. This totalled £15.6 million (2014-15: £13.6 million) for the free schools programme and £8.2 million (2014-15: £6.9 million) for the PSBP.

2.3.6 Sickness absence

During the year, we lost 3,227 days to sickness absence (2014-15: 3,875). This equates to approximately 3.9 days sickness absence per employee per year (2014-15: 4.7 days).

2.3.7 People management

Our staff are a mix of civil servants and contractors. Our civil servants are employed by the department on its terms and conditions. Responsibility has been delegated to me for the recruitment of staff within the parameters provided by the department's policies and procedures. Our staff profile, as at 31 March 2016, 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 2015-16 annual report and accounts.

At March 2016 our staff headcount figures, for permanent staff, was as follows;

Grade	Male	Female	Total
CEO	1	-	1
Director	3	1	4
Deputy Director	16	11	27
Grade 6	99	83	182
Grade 7	97	102	199
Senior Executive Officer	86	107	193
Higher Executive Officer	42	77	119
Executive Officer	47	91	138
Executive Assistant -Administration Officer	9	13	22
Executive Assistant -Administration Assistant	1	1	2
	401	486	887

2.3.8 Expenditure on consultancy

We employ contractors who are professionally qualified and are employed on short term contracts. The cost of these contractors in 2015-16 was £19.92 million (2014-15: £7.05 million). This increase was large due to an increase on project manager fees as a result of the increased capital programme. Project manager fees rose from £0.9 million in 2014-15 to £16.3 million in 2015-16. 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. In 2015-16 we recruited one individual outside of the framework agreement, when the business was seeking a service which the individual could provide. We have requested assurance over their income tax and national insurance obligations.

2.3.9 Off payroll engagements

As part of the *Review of Tax Arrangements of Public Sector Employees* published by the Chief Secretary to the Treasury on 23 March 2012, departments were directed to publish information pertaining to the number of off-payroll engagements, at a cost of over £58,200, that were in place on, or after, 31 January 2012 and any off-payroll engagements of board members, and/or senior officials with significant financial responsibility between 1 March 2015 and 31 March 2016. The tables below set out this information.

For all arrangements that have existed as of 31 March 2016, for more than £220 per day and that lasted longer than 6 months

	2015-16	2014-15
Number that have existed for less than 1 year at time of reporting	55	59
between 1 and 2 years at time of reporting	49	50
between 2 and 3 years at time of reporting	48	32
between 3 and 4 years at time of reporting	29	5
4 or more years at time of reporting	10	3
Engagements as at 31 March 2016 (2015)	191	149

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

All new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2015 and 31 March 2016, for more than £220 a day and that last for longer than 6 months

	2015-16
No of new engagements or those that reached 6 months in duration between 1 April 2015 and 31 March 2016	60
Of which	
No. of the above which include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	60
No. for whom assurance has been requested	60
Of which	
No. for whom assurance has been received	59
No. for whom assurance has <u>not</u> been received	1
No. that have been terminated as a result of assurance not being received.	0

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

	2015-16
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	0
No. of individuals that have been deemed 'board members and/or, senior officials with significant financial responsibility,' during the financial year.	
The figure should include both off-payroll and on-payroll engagements	0

2.3.10 Staff exit packages

This section is subject to audit

In both 2015-16 and 2014-15, the department bore and managed centrally the exit costs of staff in the EFA itself.

During both 2015-16 and 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 and such costs are not included in the table.

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

EFA

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016	2015	2016	2015	2016	2015
<£10,000	-	-	2	-	2	-
£10,001 - £25,000	-	-	6	1	6	1
£25,001 - £50,000	-	1	11	6	11	7
£50,001 - £100,000	-	-	8	8	8	8
£100,001 - £150,000	-	-	-	3	-	3
£100,001 - £150,000	-	-	-	-	-	-
Total number of exit packages	-	1	27	18	27	19
Total cost (£000)	-	47	1,075	1,175	1,075	1,222

Group

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016	2015	2016	2015	2016	2015
<£10,000	1,289	917	1,509	1,291	2,798	2,208
£10,001 - £25,000	511	369	923	758	1,434	1,127
£25,001 - £50,000	135	141	261	240	396	381
£50,001 - £100,000	16	11	31	28	47	39
£100,001 - £150,000	1	-	-	7	1	7
£150,001 - £200,000	-	-	2	-	2	-
Total number of exit packages	1,952	1,438	2,726	2,324	4,678	3,762
Total cost (£000)	19,182	15,025	33,222	29,019	52,404	44,044

2.3.11 Pension schemes

The EFA group 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.

Principal civil service pension scheme

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis

with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8%

and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the [civil service pensions' website](#)¹⁴

For 2015-16, the EFA group made employers' contributions of £8.7 million to the principal civil service pension scheme (2014-15: £7.19 million).

No individuals retired early on ill-health grounds (2014-15: one); the total additional accrued pension liabilities in the year amounted to £nil (2014-15: £5,095).

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 13 for further details.

Teachers' pension scheme

For 2015-16, the EFA group was liable to pay employers' contributions of £822 million (2014-15: £780 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,

¹⁴ [Civil Service Pension Scheme - http://www.civilservicepensionscheme.org.uk/](http://www.civilservicepensionscheme.org.uk/)

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 2015-16 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 £0.1 million (2014-15: £0.1 million) in relation to its own staff to one or more of the panel of 3 appointed stakeholder pension providers.

Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and 8.0% to 14.75% from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, the EFA paid employer contributions of £4k (2014-15: £7k), 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 £9k (2014-15: £12k). Contributions prepaid at that date were nil.

2.3.12 Staff relations and communications

Our people plan outlines the workforce vision and the people priorities that will support us in delivering our objectives until 2020. 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.

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.

2.4 Parliamentary accountability and audit report

2.4.1 Parliamentary accountability disclosures

This part of the report is subject to audit

Losses and special payments

	EFA	2016 EFA group	EFA	2015 EFA group
Number of cases				
Cash losses	10	17	4	12
Claims abandoned	-	3	-	4
Administrative write-offs	-	16	-	13
Fruitless payments	55	56	39	43
Store and stock losses	-	4	-	6
	65	96	43	78
	EFA	2016 EFA group	EFA	2015 EFA group
Value	£000	£000	£000	£000
Cash losses	4,867	4,936	722	879
Claims abandoned	-	4	-	59
Administrative write-offs	-	91	-	437
Fruitless payments	1,934	1,967	5,630	5,717
Store and stock losses	-	13	-	59
	6,801	7,011	6,352	7,151

Details of cases over £300,000

The EFA

The EFA funds newly formed academies on the basis of forecast pupil numbers and raises Pupil Number Adjustment (PNA) recoveries to clawback funds from academies who fail to recruit their forecast pupil numbers. In the year ending 31 March 2016 the EFA has taken the decision to abandon its claim for 9 such recoveries totalling £4.7 million. Each case has been considered individually and the decision to abandon a claim has been taken in order to either:

- facilitate the orderly closure of an academy trust in financial difficulties and allow the school to be re-brokered into a sponsor multi-academy trust; or
- enable an academy in financial difficulties to implement a financial recovery plan and continue providing education.

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

Royal Greenwich University Technical College (UTC)

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

Hackney University Technical College (UTC)

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

Central Bedfordshire University Technical College (UTC)

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

Al-Madinah school

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

Harperbury School

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

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 the 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.

Special payments

	2016		2015	
	EFA	EFA group	EFA	EFA group
Total number of cases	1	173	-	108
	£000	£000	£000	£000
Total value of cases	5,000	10,283	-	3,007

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 no special severance payment above the limit above.

Totton Sixth Form College

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

2.4.2 Remote contingent liabilities

This part of the report is subject to audit.

The EFA group 2016

	At start of period	Liabilities transferred from DfE	Increase in period	Liabilities crystallised in year	Obligation expired in period	At end of period	Sum notified to parliament by departmental minute
	£000	£000	£000	£000	£000	£000	£000
COGA conditions on children Centre and playground	377	-	-	-	(18)	359	
Fees that may not be recovered following supplier distribute	580	-	-	-	(580)	-	
In respect of lease arrangement with Church Commissioners for England	5,000	-	-	-	-	5,000	5,000
Tenant Default Agreements	2,501	-	-	-	-	2,501	-
In respect of lease arrangement with Tottenham Hotspur Property Company	12,500	-	-	-	-	12,500	-
In respect of commercial lease of Free Schools Norwich	110	-	-	-	-	110	-
Rent deposit deed for Turing House School	-	470	-	-	-	470	
	21,068	470	-	-	(598)	20,940	5,000

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 2 grants received from Birmingham City Council for a children's centre and playground if the academy trust breaches the conditions of the 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.

Turing House School

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

2.4.3 Long term expenditure trends

The Department agreed a settlement with HMT for the next four financial years in November 2015, as part of the 2015 Spending Review¹⁵. Following this settlement, the Department's Single Departmental Plan¹⁶ was published in February 2016. The figures for the Education Funding Agency are included within the departmental spending plans.

The government's commitment to deliver 500 free schools by 2020 means that our expected free schools programme will continue to increase. We expect to increase our staff numbers as the number of academies continues to increase.

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

Machinery of government changes

On 13 July 2016 the transfer of higher education and further education to the Department for Education from the former Department for Business Innovation and Skills was announced. The expanded Department for Education now brings together in one place responsibility for all elements of education, children's services and skills. The move will help to enhance consistency across funding systems and will now allow more flexibility to simplifying funding arrangements for apprenticeships in a single department. This change does not impact on the EFA.



Peter Lauener
Chief Executive and accounting officer, EFA
8 December 2016

¹⁵ 2015 spending review: <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

¹⁶ Department single departmental plan: <https://www.gov.uk/government/publications/department-for-education-single-departmental-plan-2015-to-2020>

2.4.4 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 2016 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 and staff report and the Parliamentary accountability disclosures that is described in that report and those disclosures as having been audited.

Respective responsibilities of the 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 2,910 academy trusts (operating 5,552 academies as at 31 March 2016) using a number of data sources with different periods. The majority of academy trusts were consolidated using their 31 August 2015 financial statements audited by academy trust auditors, a seven month difference in reporting date from the Group. As the 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 £43 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the Group was unable to demonstrate that these all met the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment (IAS 16) and had been valued in accordance with the requirements of IAS 16 and HM Treasury guidance.

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

Adverse opinion on the financial statements

In my opinion, because of the significance of the matters described in the *Basis for Adverse Opinion on the 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 2016 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 2016 and of the Agency'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 parts of the Remuneration and staff report and the Parliamentary accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance report and the Accountability report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

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

- the financial statements and the parts of the Remuneration and staff report and the Parliamentary accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report on these financial statements is on pages 82 to 89.

Sir Amyas C E Morse
Comptroller and Auditor General

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

15 December 2016

2.5.5 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 annual report and accounts the following:

- **The EFA financial statements** comprising the results of the executive agency; and
- **The EFA group financial statements** comprising the results of the EFA and the 2,910 academy trusts that operated 5,552 academies as at 31 March 2016.

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

Scope and purpose of this report

3 The purpose of this report is:

- To explain the qualification of my audit opinion on the group financial statements and comment on developments from the prior year (paragraphs 6-25); and
- To draw attention to the work by the EFA, the Department and HM Treasury to implement an alternative approach to accounting for academy trusts to improve the transparency to Parliament of academy trusts' spending (paragraphs 26-33).

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 2016 as they consolidated the EFA group financial statements.

Adverse opinion on the EFA group's financial statements

6 In 2013-14 and 2014-15, I issued adverse opinions on the truth and fairness of the EFA's group financial statements as I had identified a level of misstatement and uncertainty, which I considered was material and pervasive to the group financial statements. I noted that I did not believe that the EFA and the Department would be

able to address the challenge of consolidating so many academy trusts with different year-ends from the group without a significant change in the current consolidation methodology.

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

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

8 I discuss these matters further in paragraphs 9-21. In paragraphs 26-33, I set out the progress that the EFA and the Department have made towards introducing an alternative approach for accounting for academy trusts (the Academy Sector Annual Report and Accounts) that will, if implemented effectively, provide a solution to some, though not all, of the consolidation methodology issues they face.

Findings from my audit

(a) Non-compliance with IFRS 10

9 In my previous Reports on the EFA's financial statements for 2012-13, 2013-14 and 2014-15, 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 2.2 *Financial Commentary* of its annual report.

10 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.

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

- Audited academy trust financial statements to 31 August 2015 (my findings on

this element are set out in paragraphs 12-13) ;

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

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

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

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

15 The EFA undertook validation testing and assurance visits to a sample of academies to agree balances in the unaudited accounts returns to books and records. I reviewed the effectiveness of these controls and found that they had been strengthened in comparison to the previous year when I concluded that they did not provide sufficient, appropriate evidence of the accuracy and completeness of the unaudited returns. Given the reduced size of the unaudited population in 2015-16, the improved controls were sufficient to provide reasonable assurance that the use of unaudited data did not give rise to a risk of material misstatement in the group financial statements. I welcome the actions that the EFA has taken to strengthen its controls in this area. However, given the small size of the unaudited population relative to the academy sector as a whole, these improvements are not sufficient to change my audit opinion that the EFA’s non-compliance with the requirements of IFRS 10 has led to material and pervasive error and uncertainty in the accounts. In addition, further

enhancements to controls could be required in future years to provide sufficient assurance over the unaudited data in the Academy Sector Annual Report and Accounts, depending on the size of the unaudited population. The Department has taken steps to address this risk by requiring all newly incorporated academies to submit audited accounts returns and accounts for the year to August 2016, which should remove unaudited data from future years' accounts.

(b) Land and buildings

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

17 As noted in paragraph 11, the 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).

18 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.

19 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.

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

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

(c) Capital projects

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

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

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

25 Although the level of error that I identified in capital projects in 2015-16 was much reduced, there remain opportunities for further improvement. For example, I found examples of assets not being transferred into land and buildings and revalued when they had been brought into use. Although these were not material in the 2015-16

accounts, the Department and the EFA will need to continue to work to address these issues to ensure that they do not result in material error in the Academy Sector Annual Report and Accounts.

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

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

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

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

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

30 The problems with accounting for academies extend beyond the current

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

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

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

33 The EFA and the Department 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 both organisations. I will continue to liaise with the EFA and the Department to ensure that progress is being made, particularly to ensure that appropriate measures are developed to assess how financial management in the academy sector is changing over time.

Recommendations

34 As discussed in paragraph 28, this is the last year that academies will be included in the group financial statements. However, there are a number of issues that the EFA will need to continue to work closely with the Department to address to ensure that the Department is able to implement its plans for the SARA effectively and to move over time to an unqualified audit opinion:

- The EFA and the Department should ensure that a realistic timetable is set for the challenging programme of accounting deliveries over the next few months. The timetable will need to be supported by a robust project plan.

- The EFA and the Department should review all the areas of error and uncertainty that I have identified in the 2015-16 groups accounts and consider their potential impact on the SARA. The EFA and the Department should ensure that there are robust project plans in place to address those issues which could have a material impact on the SARA.
- In order to prevent any erosion of Parliamentary accountability, significant improvements should be made to the Department's forecasts and management information to ensure in-year monitoring of spend related to academies is improved. The EFA will need to work closely with the Department to achieve this.

Sir Amyas C E Morse

15 December 2016

Comptroller and Auditor General

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

Section 3: Financial statements

Consolidated statement of comprehensive net expenditure

For the year ended 31 March 2016

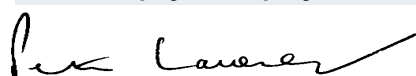
	Note	2016		2015	
		EFA £000	EFA Group £000	EFA Re-presented £000	EFA Group Re-presented £000
Operating Income					
Operating income	5	(9,202)	(2,437,885)	(16,685)	(2,349,829)
Operating expenditure					
Staff costs	2	47,140	13,518,976	50,694	12,038,844
Revenue grants	3	52,190,887	36,479,426	51,560,403	37,207,331
Capital grants	3	4,344,810	2,429,462	4,242,446	2,850,706
Other operating expenditure	4	56,804	6,232,640	57,019	5,217,166
Net (gain)/loss on conversion of non-local authority academies:					
In year conversions	19	-	(669,094)	-	(911,172)
Settlements	19	-	(37,643)	-	744
Net operating cost		56,630,439	55,515,882	55,893,877	54,053,790
Non-operating expenditure					
Transfer of function (gain)/loss		-	-	(10,585)	(7,301)
Net (gain)/loss on conversion of local authority academies:					
In year conversions	19	-	(1,929,735)	-	(2,628,763)
Settlements	19	-	88,503	-	(78,087)
Total non-operating expenditure		-	(1,841,232)	(10,585)	(2,714,151)
Other Comprehensive Expenditure					
Net (gain)/loss on:					
- revaluation of property plant and equipment		-	(7,665,955)	(1,964)	(1,820,506)
- fair value (gain)/loss on investments		-	955	-	(2,977)
- actuarial (gain)/loss on defined benefit pension schemes	13	-	(538,655)	-	954,209
Other recognised gains and losses		-	-	-	(4,195)
Total Other Comprehensive Expenditure		-	(8,203,655)	(1,964)	(873,469)
Total Comprehensive Expenditure		56,630,439	45,470,995	55,881,328	50,466,170

All activities are continuing. There are no other gains or losses other than net expenditure for the year. The notes on pages 95 to 140 form part of these accounts

Consolidated statement of financial position

As at 31 March 2016

	Note	2016		2015	
		EFA £000	EFA Group £000	EFA Re- presented £000	EFA Group Re-presented £000
Non-current assets:					
Property, plant and equipment	6	155,291	46,320,784	132,431	35,440,401
Intangible assets	7	7,658	10,629	8,392	12,400
Financial assets	9	-	149,932	-	134,967
Investments in other public bodies	9	3,144	-	4,392	-
Trade and other receivables	10	7,582	261,538	13,133	216,599
Total non-current assets		173,675	46,742,883	158,348	35,804,367
Current assets					
Assets held for sale		16,697	16,697	4,195	4,195
Inventories		-	9,781	-	10,181
Trade and other receivables	10	164,198	694,875	105,136	815,048
Investment in other public bodies	9	2,210	-	1,890	-
Cash and cash equivalents	11	152,204	3,384,283	147,649	2,951,815
Total current assets		335,309	4,105,636	258,870	3,781,239
Total assets		508,984	50,848,519	417,218	39,585,606
Current liabilities					
Trade and other payables	12	(626,805)	(2,183,423)	(530,470)	(2,166,239)
Provisions		(3,319)	(8,574)	(9,217)	(14,663)
Total current liabilities		(630,124)	(2,191,997)	(539,687)	(2,180,902)
Total assets less current liabilities		(121,140)	48,656,522	(122,469)	37,404,704
Non-current liabilities					
Other payables	12	(203,366)	(267,891)	-	(45,237)
Provisions		-	-	(609)	(609)
Pension deficit	13	-	(4,037,137)	-	(3,965,380)
Total non-current liabilities		(203,366)	(4,305,028)	(609)	(4,011,226)
Assets less liabilities		(324,506)	44,351,494	(123,078)	33,393,478
Taxpayers' equity:					
General fund		(326,470)	(326,470)	(125,042)	(125,042)
Revaluation Reserve		1,964	10,030,036	1,964	2,364,081
Charitable fund		-	34,647,928	-	31,154,439
Total taxpayers' equity		(324,506)	44,351,494	(123,078)	33,393,478



Peter Lauener

Chief Executive and accounting officer, EFA

8 December 2016

The notes on pages 95 to 140 form part of these accounts

Consolidated statement of cash flows

For the year ended 31 March 2016

	Note	2016		2015	
		EFA £000	EFA Group £000	EFA £000	EFA Group £000
Cash flows from operating activities					
Net operating cost		(56,630,439)	(55,515,882)	(55,893,877)	(54,053,790)
Adjustments for non-cash transactions		218,517	2,014,137	91,906	815,187
Gain on conversion of Non-LA academies		-	(669,094)	-	(911,172)
Settlement loss on conversion of Non-LA academies		-	(37,643)	-	744
(Increase)/Decrease in inventories		-	400	-	(692)
(Increase)/Decrease in receivables		(53,511)	75,234	(51,771)	(170,551)
(Increase)/Decrease in payables		299,701	239,838	125,889	327,411
Less movements in payables relating to items not passing through net operating costs		-	(7,359)	-	-
Use of provisions		(6,686)	(8,371)	8,448	11,890
Non-cash pension movements		-	807,138	-	649,955
Cash pension movements		-	(509,699)	-	(423,041)
Net cash outflow from operating activities		(56,172,418)	(53,611,301)	(55,719,405)	(53,754,059)
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(144,434)	(2,516,775)	(95,260)	(1,866,326)
Purchase of intangible assets	7	(1,055)	(1,648)	(8,765)	(9,829)
Purchase of investments	9	-	(73,251)	-	(65,818)
Proceeds of disposal of property, plant and equipment		170	155,888	-	30,161
Proceeds of disposal of intangible assets		-	-	-	-
Proceeds of disposal of investments		-	57,019	-	32,747
Net cash outflow from investing activities		(145,319)	(2,378,767)	(104,025)	(1,879,065)
Cash flows from financing activities					
Exchequer supply from sponsor department		56,321,364	56,321,364	55,886,242	55,886,242
Cash acquired on in-year conversion of academy trusts		-	79,371	-	133,395
Cash settlements on conversion of academy trusts		-	16,405	-	-
Loans received		-	7,910	-	6,504
Borrowings (repaid)/advanced		928	-	1,019	-
Capital element of finance lease		-	(2,656)	-	3,726
Net cash inflow from financing activities		56,322,292	56,422,394	55,887,261	56,029,867
Net increase in cash and cash equivalents (net of overdrafts)	11	4,555	432,326	63,831	396,743
Cash and cash equivalents (net of overdrafts) at 1 April	11	147,649	2,949,559	83,818	2,552,816
Cash and cash equivalents (net of overdrafts) at 31 March	11	152,204	3,381,885	147,649	2,949,559

Consolidated statement of changes in taxpayers' equity

For the year ended 31 March 2016

	Note	General Fund £000	Revaluation Reserve £000	Charitable Fund Reserve £000	Group Total £000
Balance at 1 April 2014		(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)	1,820,506	3,596,616	(50,466,170)
Non-cash Adjustments					
Salaries paid by DfE		46,544	-	-	46,544
Other costs paid by DfE		1,045	-	-	1,045
Non-cash balances - to be settled by DfE		4,826	-	-	4,826
Auditor's remuneration	4	445	-	-	445
Notional shared service recharges	4	32,469	-	-	32,469
Movement in reserves					
Movement in academies reserves		-	-	(2)	(2)
Balance at 31 March 2015		(125,042)	2,364,081	31,154,439	33,393,478
Net Parliamentary Funding - drawn down		56,321,364	-	-	56,321,364
Comprehensive expenditure for the year		(56,630,439)	7,665,955	3,493,489	(45,470,995)
Non-cash Adjustments					
Salaries paid by DfE		48,846	-	-	48,846
Other costs paid by DfE		20,606	-	-	20,606
Non-cash balances - to be settled by DfE		11,724	-	-	11,724
Auditor's remuneration	4	395	-	-	395
Notional shared service recharges	4	26,076	-	-	26,076
Balance at 31 March 2016		(326,470)	10,030,036	34,647,928	44,351,494

In prior year, the impact of fair value movements on investments (2014-15: £2,997k) was presented separately from "Comprehensive expenditure for the year". This has been represented to align with the presentation in the departmental accounts.

Statement of changes in taxpayers' equity

For the year ended 31 March 2016. This statement relates to the EFA.

	Note	General Fund £000	Revaluation Reserve £000	EFA Total £000
Balance at 1 April 2014		(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 DfE		46,544	-	46,544
Other costs paid by DfE		1,045	-	1,045
Non-cash balances - to be settled by DfE		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)
Net Parliamentary Funding - drawn down		56,321,364	-	56,321,364
Comprehensive expenditure for the year		(56,630,439)	-	(56,630,439)
Non-cash Adjustments				
Salaries paid by DfE		48,846	-	48,846
Other costs paid by DfE		20,606	-	20,606
Non-cash balances - to be settled by DfE		11,724	-	11,724
Auditor's remuneration	4	395	-	395
Notional shared service recharges	4	26,076	-	26,076
Balance at 1 April 2016		(326,470)	1,964	(324,506)

The notes on pages 95 to 140 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 2015-16 Financial Reporting Manual issued by HM Treasury (FReM). The accounting policies contained in the manual apply IFRS as adapted or interpreted for the public sector except for the departure from IFRS 10 Consolidated Financial Statements noted in 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 2015-16 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; and
- accounting for the migration of academy trust opening balances and pro rating academy trusts' financial results (refer to 1.3 Consolidation Approach).

EFA have not conducted any sensitivity analysis on the above judgements.

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 2015, as the EFA group have included their unaudited results in the group accounts through an accounting return as at 31 March 2016. 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 is 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 they 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 6.2 shows the value of land and buildings as £43.3 billion at 31 March 2016 (31 March 2015 £33.3 billion).

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). 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 Depreciated Replacement Cost (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 6.3 shows the valuation of assets on initial recognition in the transfer on conversion lines that totalled £2.8 billion for 2015-16 (2014-15: £3.8 billion).

The EFA group re-values land and buildings at least every 5 years from the anniversary of their initial recognition in accordance with the EFA's accounting policy and the requirements of the FReM. Between quinquennial revaluations, the EFA group updates asset values using indices. The selection of the indices used represents an accounting

judgement. Buildings have been indexed using the Office for National Statistics “Interim construction output prices: New work”. The 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.

The initial valuations obtained by the EFA group were for the first group of schools that converted to academy status at 31 August 2012, which were obtained before the publication of Buildings Bulletins 102 and 103. For 2014-15, an estimate of the impact of the relevant changes was made. The EFA group commissioned updated valuations as at 31 March 2016, ahead of the regular quinquennial revaluations, so that all valuations in the group would be on the basis of a consistent set of standards. The impact of this revaluation is discussed in the financial commentary.

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.

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

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

Pension valuation for the LGPS

The EFA group has recognised academy trusts’ Local Government Pension Scheme (LGPS) estimated liabilities in the statement of financial position – all other defined benefit schemes are unfunded schemes. Note 13 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 gain for 2015-

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

The EFA group obtained valuations of academy trusts' defined benefit scheme deficits and has valued these deficits at 31 March 2016 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

The consolidation approach is described further in 1.3 below. For those academy trusts that made a first accounts return as at 31 March 2015 (i.e. they became academy trusts on or after 1 March 2014, and did not prepare audited financial statements to 31 August 2014), and those academies joining existing trusts after 31 August 2015, the EFA group faced the risk of duplicating these academy and academy trusts' results in 2015-16 by consolidating the trusts' subsequent accounts return to 31 August 2015.

Without adjustment, the opening balances for these academy trusts in the EFA group's statement of financial position as at 1 April 2015 will not agree to an academy trusts' closing balances in the previous financial year. There were 435 academy trusts (716 academies) with results included to 31 March 2015 in 2014-15 therefore requiring adjustment for consolidation in 2015-16. To correct this, the EFA group has removed the closing balances at 31 March 2015 from academy trusts' accounts returns to 31 August 2015 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 2015 to the full 12 months to 31 March 2016 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 include additional estimated academy trust operating costs for the period 1 September 2015 to 31 March 2016 of £1.2 billion (£45.3 million net of additional income), resulting in an increase in net assets of £45.3 million. The 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 £247.8 million at 31 March 2016 (31 March 2015: £202.5 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 18 has details of where to obtain a list of 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 consolidated results and financial position 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 2015.

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

- 2,877 academy trusts' results (5,109 academies) for the academy trusts' financial year ending 31 August 2015, where academy trusts have prepared accounts to

this date or have closed or merged during the period. Given the number of academies, this is a material departure from IFRS 10.

- 327 academy trusts' provisional unaudited results (549 academies) from the date of their incorporation to 31 March 2016 where the academy trust has yet to prepare accounts to 31 August, or new academies were opened by existing multi-academy trusts after 31 August.

The EFA group has made adjustments, where required, to the academy trusts' accounts to align their accounting policies to those of the group. The 2 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 £15,711 million in revenue grants and £1,915 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 2016, return rates by academy trusts slightly deteriorated. The EFA group did not receive a total of 47 accounts returns to 31 August 2015, and 17 accounts returns to 31 March 2016. These omissions represent less than 2% (by number) of returns. Additionally, the EFA group received 10 accounts returns either too late 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 74 accounts returns representing under 2.3% 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 up to 18 months. Statute has designed the flexibility of the initial accounting period to allow companies to move the initial year end applied on incorporation to a more suitable date for the company's activities. In the case of academy trusts, the preferred date is 31 August to match their operational activities.

The population of academy trust accounts therefore included accounts for periods greater than and less than 12 months. For an individual academy trust, the period of accounts provided may not match the 12 months for which the 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. Adjustments were made for a total of 73 academy trusts, covering 224 schools.

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 and academy trusts continued throughout 2015-16. Academies converted from local authority maintained schools, non-local authority schools or were 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 schools.

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 income. The EFA group has accounted for values associated with opening of academies without predecessor local authority maintained schools within net operating expenditure. 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 academy trusts 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 a gain in year. 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 19 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 DRC 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. 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 valuations.

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 at least once 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 New Work Output Prices – Public (other than housing) 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.
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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 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.

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

To enable the conversion of local authority schools owing significant funds to their local authority the EFA advances funding to converting academies for the purpose of repaying their local authority deficit. The EFA then recovers the funding from the relevant academy, over a period of one to five years. The EFA treats these advances as financial instruments and disclosing them in note 9.1 investment in other public sector bodies.

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.

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 the EFA's full time equivalent employees.

1.13 Administration and programme expenditure

From 2015-16, the Consolidated Statement of Comprehensive Net Expenditure is no longer analysed between administration and programme income and expenditure.

Transparency over the split between administration and programme expenditure and income is retained through the Statement of Parliamentary Supply (administration control total) and the Core Tables in the departmental accounts.

Administration costs reflect the costs of running the EFA as an agency and include staff costs and other administrative costs, including travel, subsistence, and 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 2 and 13 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 administration budgets that fund the EFA's costs as an agency. The EFA group accounts for the majority of grants to education providers as paid. 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.

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 can recover 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.

1.16.3 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.

1.17 Service concession arrangements

Under a service concession arrangement, a Government entity contracts with the private sector to construct, operate and maintain public sector infrastructure; allowing the private sector to deliver services directly or indirectly to the public. However, the Government entity retains control, or regulates, the services provided (including access fees) and

controls significant residual interest in the infrastructure at the completion of the arrangement.

The Group has adopted IFRIC 12 Service Concession Arrangements (IFRIC 12) as interpreted by FReM for the grantor to account for the 46 schools the private sector will construct and then operate for the Group under the "Private Finance 2" ("PF2") scheme over a 25 year period. These are a mixture of schools within the group, and those falling outside the boundary. The transaction is part of the wider PSBP programme sponsored by the Department that is addressing condition issues across the school estate. Within these accounts the transaction is referred to as PF2.

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

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

Interest on the financing liability and expenditure on services provided under the service concession arrangement are recognised in the Statement of Comprehensive Net Expenditure as they accrue. Unitary charges are apportioned between 3 elements: an element to pay for services; an element to pay interest on the liability and an element to repay the financing liability.

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

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 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.

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 periods beginning	Financial Reporting Manual application	Impact
IFRS 9 Financial Instruments	1 January 2018	Subject to consultation	This change simplifies the classification and measurement of financial assets.
IFRS 15 Revenue from Contracts with Customers	1 January 2018	Subject to consultation	The changes set out steps for revenue recognition along with requirements for accounting for contract costs.
IFRS 16 Leases	1 January 2019	Subject to consultation	The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model.
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Subject to consultation	The proposed changes amend how to account for deferred tax assets related to debt instruments measured at fair value.

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 Staff numbers and related costs

2.1 Staff costs – the EFA group

	Permanently employed staff £000	Others £000	2016 Total £000	Permanently employed staff £000	Others £000	2015 Total £000
Salaries	10,241,122	729,770	10,970,892	9,409,070	539,308	9,948,378
Social security	733,984	17,547	751,531	697,018	13,644	710,662
Pension costs	1,763,931	34,887	1,798,818	1,355,692	24,833	1,380,525
Total	12,739,037	782,204	13,521,241	11,461,780	577,785	12,039,565
Less recoveries in respect of outward secondments	(2,237)	(28)	(2,265)	(641)	(80)	(721)
	12,736,800	782,176	13,518,976	11,461,139	577,705	12,038,844
Of which:						
Education Funding Agency	42,186	4,954	47,140	41,147	9,547	50,694
Academy trusts	12,694,614	777,222	13,471,836	11,419,992	568,158	11,988,150
	12,736,800	782,176	13,518,976	11,461,139	577,705	12,038,844

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

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

The EFA has charged its staff costs relating to capital asset new school build and major refurbishment projects to capital grant-in-kind. This totalled £15.6 million (2014-15: £13.6 million) for the free schools programme and £8.2 million (2014-15: £6.9 million) for the PSBP. The amounts included in Assets under Construction are detailed in Note 6.

3 Grant expenditure

	EFA £000	2016 EFA Group £000	EFA £000	2015 EFA Group £000
Revenue grant expenditure				
Dedicated Schools Grant	27,501,243	27,501,243	28,254,321	28,254,321
Local authority and other maintained schools with sixth forms	704,057	704,057	781,317	781,317
Pupil Premium for LA schools	1,718,113	1,718,113	1,768,230	1,768,230
Academies - Grants to academies for young people under 16	13,916,551	-	12,502,468	-
Academies - Grants to academies with sixth forms	1,484,592	-	1,444,183	-
Academies - Uneliminated resource grants	-	(204,502)	-	(406,422)
16-19 Further Education	3,729,667	3,729,667	3,802,221	3,802,221
16-19 Bursary funding	182,290	182,186	180,208	180,208
16-18 Apprenticeships	792,296	792,296	801,148	801,148
PFI special grant	748,842	748,842	743,796	743,796
Education Services Grant	563,089	563,089	719,673	719,673
Universal Free School Meals	669,949	564,237	308,986	308,986
Other current grants	180,198	180,198	253,852	253,853
	52,190,887	36,479,426	51,560,403	37,207,331
Capital grant expenditure				
Basic Need schools capital grant	1,097,691	1,097,691	1,344,778	1,344,778
Maintenance capital grants to local authorities and VA schools	838,331	838,331	988,066	988,066
Academy capital grants and Free School programme	1,486,952	71,844	1,265,168	115,688
Priority Schools Building Programme	906,211	558,349	366,310	206,930
Academies - Uneliminated capital grants	-	(152,378)	-	(85,800)
Other capital grants	15,625	15,625	278,124	281,044
	4,344,810	2,429,462	4,242,446	2,850,706
Total grant expenditure	56,535,697	38,908,888	55,802,849	40,058,037

The EFA reviewed the presentation of this note in line with the reporting change to remove administration and programme disclosures in the FReM. The EFA has adopted a consistent presentation with the Department for Education at the appropriate level of disaggregation of grants to disclose material items. This has resulted in representation of the prior year figures.

4 Other operating expenditure

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Educational supplies	-	643,173	-	598,643
Exam fees	-	205,755	-	190,494
Staff related costs	349	158,691	298	152,350
Consultancy and other professional fees	12,697	180,168	16,922	176,291
Building maintenance and repair cost	-	422,440	-	416,378
Premises costs including rates and service charges	6,584	483,749	7,424	458,248
Utilities	-	254,394	-	229,066
Catering	30	332,185	20	247,118
IT and telecommunications costs	16,751	248,463	18,629	225,062
Rentals under operating leases:				
- Land and buildings	-	32,346	-	22,229
- Other operating leases	4	51,285	-	33,335
Travel and subsistence	2,502	28,291	2,973	26,773
PFI charges to academies	-	84,175	-	84,718
PF2 service costs	6	6	-	-
PF2 finance costs	8,991	8,991	-	-
Bank charges and interest	7	5,518	8	5,214
Remuneration of Academy auditors:				
- Audit fees	-	26,203	-	23,755
- Non-audit fees	-	11,785	-	9,850
Other expenditure	6,520	844,532	(1,784)	1,129,546
Non-cash items:				
- Depreciation	-	1,135,826	-	971,314
- Amortisation	1,789	3,236	373	1,854
- Impairment	-	999,096	2,920	167,899
- (Gain)/loss on disposal	-	70,264	-	34,694
- NAO Auditor's remuneration: audit	395	395	445	445
- Provisions:				
Provided in year	1,225	2,854	8,844	15,163
Not required and written back	(1,046)	(1,181)	(53)	(3,273)
Total	56,804	6,232,640	57,019	5,217,166

The impairment charge for the year reflects the revaluation of assets previously valued as at 31 August 2012, as discussed in the financial commentary.

The costs above include notional recharges of £26.1 million (2014-15: £32.5 million) for the shared services provided by the department.

The EFA reviewed the presentation of this note in line with the reporting change to remove administration and programme disclosures in the FReM. The EFA has adopted a consistent presentation with the Department for Education at the appropriate level of disaggregation of other operating expenditure to disclose material items. This has resulted in representation of the prior year figures.

5 Income

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Income:				
Academy voluntary income	-	382,873	-	611,128
Academy income from activities for generating funds	-	688,252	-	617,564
Academy Government revenue grant income	-	485,391	-	359,979
Academy Government capital grant income	-	128,247	-	120,383
Academy Special Education Needs income	-	393,596	-	335,929
Investment income	-	14,134	-	11,897
Other academy income	-	335,753	-	276,264
Joint programme income	9,064	9,501	16,685	16,685
Other miscellaneous income	138	138	-	-
Total income	9,202	2,437,885	16,685	2,349,829

The government grants lines are represented compared to prior year. In the prior year local authority grants were recorded in 'other income'. In current year these have been presented in "government grant income" as either revenue or capital.

6 Property plant and equipment

6.1 The EFA

	2016			2015		
	Land and buildings	Assets Under Construction	Total	Land and buildings	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Cost of Valuation						
At 1 April	16,099	116,332	132,431	-	42,322	42,322
Additions	-	144,434	144,434	3,597	91,663	95,260
Disposals	-	(170)	(170)	-	-	-
Transfers to academies	-	(108,902)	(108,902)	-	-	-
Revaluations	-	-	-	1,964	-	1,964
Impairment charge	-	-	-	-	(2,920)	(2,920)
Reclassifications	(12,502)	-	(12,502)	10,538	(14,733)	(4,195)
At 31 March	3,597	151,694	155,291	16,099	116,332	132,431
Depreciation						
At 1 April	-	-	-	-	-	-
Depreciation charge	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
At 31 March	-	-	-	-	-	-
Carrying value at 31 March	3,597	151,694	155,291	16,099	116,332	132,431

All EFA assets are owned assets. £12.5 million has been reclassified as an asset held for resale (2014-15: £4.2 million). £0.3 million (2014-15: £0.7 million) 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.

6.2 The EFA group 2016

	Land and buildings	Leasehold improvement	Plant & machinery	Furniture & equipment	Computer equipment	Vehicles	AuC	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2015	36,196,143	190,324	67,940	791,643	688,774	23,856	1,032,616	38,991,296
Additions	685,324	125,035	13,663	128,115	139,034	4,427	1,421,177	2,516,775
Transferred in on in-year school conversion:								
LA	2,076,635	116	2,669	30,884	11,817	303	205	2,122,629
Non-LA	591,467	735	439	3,949	5,145	130	79,959	681,824
Transfer on conversion settlement balances:								
LA	2,363	(43)	1,559	(7,825)	2,351	185	1,777	367
Non-LA	-	920	215	1,268	(582)	74	19,761	21,656
Donations	240,201	(8,927)	599	4,291	4,465	270	4,082	244,981
Disposals	(186,073)	(55,308)	(1,691)	(10,336)	(31,367)	(955)	(3,772)	(289,502)
Revaluations	6,756,213	-	-	128	124	99	(321)	6,756,243
Impairment charge for the year	(982,840)	(14,452)	(665)	(308)	84	-	(943)	(999,124)
Reclassifications	656,778	14,621	11,412	(5,173)	15,858	127	(705,211)	(11,588)
At 31 March 2016	46,036,211	253,021	96,140	936,636	835,703	28,516	1,849,330	50,035,557
Depreciation								
At 1 April 2015	(2,860,248)	(17,163)	(29,994)	(266,931)	(366,375)	(10,184)	-	(3,550,895)
Charged in year	(796,432)	(16,229)	(16,262)	(124,834)	(177,212)	(4,857)	-	(1,135,826)
Disposals	17,913	2,509	951	9,224	31,372	661	-	62,630
Revaluations	910,094	15	-	(291)	(106)	-	-	909,712
Reclassifications	631	(115)	1,104	3,126	(5,037)	(103)	-	(394)
At 31 March 2016	(2,728,042)	(30,983)	(44,201)	(379,706)	(517,358)	(14,483)	-	(3,714,773)
Carrying value at 31 March 2016	43,308,169	222,038	51,939	556,930	318,345	14,033	1,849,330	46,320,784

6.3 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 2014	30,245,409	129,698	40,587	607,677	512,854	18,644	714,620	32,269,489
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
Impairment charge for the year	(153,745)	-	-	(134)	(365)	(22)	(10,714)	(164,980)
Reclassifications	694,848	(11,243)	(114)	4,357	2,790	(10)	(699,596)	(8,968)
At 31 March 2015	36,196,143	190,324	67,940	791,643	688,774	23,856	1,032,616	38,991,296
Depreciation								
At 1 April 2014	(3,181,176)	(7,686)	(13,031)	(159,890)	(225,827)	(6,107)	-	(3,593,717)
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
At 31 March 2015	(2,860,248)	(17,163)	(29,994)	(266,931)	(366,375)	(10,184)	-	(3,550,895)
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 £12.0 million (2014-15: £11.2 million) for the free schools programme and £1.1 million (2014-15: £0.1 million) 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 £12.5 million as an asset held for resale (2014-15: £4.2 million).

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

As discussed in notes 1.2 and 1.5, the EFA group's appointed independent 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.

In prior years, impairments were shown within depreciation. These have been adjusted to be shown within cost in line with the departmental group accounting policy.

7 Intangible assets

	2016				2015			
	Software and Information Technology	Development expenditure	Other	Total	Software and Information Technology	Development expenditure	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April	10,724	6,265	403	17,392	6,552	-	423	6,975
Additions	1,511	-	137	1,648	1,216	8,765	(152)	9,829
Transferred in on in-year school conversion:								
LA	15	-	-	15	(22)	-	32	10
Non-LA	32	-	-	32	203	-	(22)	181
Transfer on conversion settlement balances:								
LA	(34)	-	(11)	(45)	-	-	-	-
Non-LA	75	-	-	75	-	-	-	-
Donations	2	-	-	2	52	-	-	52
Disposals	(115)	-	41	(74)	(41)	-	-	(41)
Impairments	-	-	28	28	-	-	(28)	(28)
Revaluations	-	-	-	-	(252)	-	150	(102)
Reclassifications	5,351	(6,265)	-	(914)	3,016	(2500)	-	516
At 31 March	17,561	-	598	18,159	10,724	6,265	403	17,392
Amortisation								
At 1 April	(4,846)	-	(146)	(4,992)	(2,312)	-	(87)	(2,399)
Charged in year	(3,160)	-	(76)	(3,236)	(1,813)	-	(41)	(1,854)
Disposals	304	-	-	304	40	-	-	40
Revaluations	-	-	-	-	69	-	(18)	51
Reclassifications	394	-	-	394	(830)	-	-	(830)
At 31 March	(7,308)	-	(222)	(7,530)	(4,846)	-	(146)	(4,992)
Carrying value at 31 March	10,253	-	376	10,629	5,878	6,265	257	12,400
Asset financing:								
Owned	10,253	-	376	10,629	5,878	6,265	257	12,400
Finance leased	-	-	-	-	-	-	-	-
Carrying value at 31 March	10,253	-	376	10,629	5,878	6,265	257	12,400

The above figures include intangibles with a net book value of £7.7m held by EFA (2015: £8.4m). In prior years, impairments were shown within amortisation. These have been adjusted to be shown within cost in line with DfE group accounting policy.

8 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 mitigates this risk by subjecting commercial and charitable education providers to quality and financial status reviews prior to the EFA awarding these providers contracts and by monitoring providers' delivery of learning against the value of 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 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 core EFA:

	2016	2015
Overdue debts	£000	£000
< 30 days overdue	5,919	3,196
30 - 60 days overdue	4,392	4,719
60 - 90 days overdue	7,793	3,092
90 -180 days overdue	10,064	8,728
> 180 days overdue	3,323	4,686
Total overdue debts	31,491	24,421

Liquidity risk

Parliament votes annually on 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.

8.1 Financial Assets by Category:

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Cash	152,204	3,384,283	147,649	2,951,815
Non-current financial assets	-	149,932	-	134,967
Investments in other public bodies	5,354	-	6,282	-
Receivables	171,780	956,413	118,269	1,031,647
Total	329,338	4,490,628	272,200	4,118,429

8.2 Financial Liabilities by Category:

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Trade and other payables	830,171	2,451,314	530,470	2,211,476
Total	830,171	2,451,314	530,470	2,211,476

9 Non-current financial assets and investments in other public bodies

9.1 Investment in other public sector bodies

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Loans to Academies - current	2,210	-	1,890	-
Loans to Academies - non-current	3,144	-	4,392	-
Total	5,354	-	6,282	-

The investments in public bodies have been represented compared to prior year. In the prior year all investments in public bodies were disclosed in the EFA Statement of Financial Position as non-current. In the current year, these figures have been split out on the face of the accounts to reflect the maturity assessment of these investments.

Maturity Analysis

	2016		2015	
	EFA £000	EFA group £000	EFA £000	EFA group £000
Within 1 year	2,210	-	1,890	-
Between 2 - 5 years	2,117	-	1,880	-
Greater than 5 years	1,027	-	2,512	-
Balance at 31 March	5,354	-	6,282	-

Reconciliation of movements in year - Movement in Asset

	2016		2015	
	EFA £000	EFA group £000	EFA £000	EFA group £000
Asset balance at 1 April	6,282	-	7,301	-
Repayments received in year	(2,458)	-	(2,841)	-
Additional loans in year	1,530	-	1,822	-
Balance at 31 March	5,354	-	6,282	-

9.2 Non-current financial assets – EFA Group

EFA Group	2016			2015		
	Investments at cost £000	Investments at fair value £000	Total £000	Investments at cost £000	Investments at fair value £000	Total £000
As at 1 April	25,339	109,628	134,967	10,674	88,264	98,938
Additions	7,681	65,570	73,251	3,615	62,203	65,818
Transferred in on in-year school conversion:						
LA	-	-	-	-	-	-
Non-LA	-	80	80	-	-	-
Transfer on conversion settlement balances:						
LA	-	100	100	-	-	-
Non-LA	-	-	-	-	-	-
Disposals	(2,611)	(54,900)	(57,511)	(523)	(32,224)	(32,747)
Fair value gain/(loss)	-	(955)	(955)	-	2,977	2,977
Reclassifications	(2,835)	2,835	-	11,573	(11,592)	(19)
As at 31 March	27,574	122,358	149,932	25,339	109,628	134,967

Financial assets held by academy trusts include term deposits, investments in listed shares and bonds, investments in managed funds, and investment property.

10 Trade and other receivables

	EFA £000	2016 EFA Group £000	EFA £000	2015 EFA Group £000
Sums falling due within 1 year				
Trade receivables	151,980	123,588	83,364	119,519
VAT receivables	285	211,922	1	265,561
Other receivables	643	49,021	191	104,509
Prepayments and accrued income	11,290	310,344	21,580	325,459
	164,198	694,875	105,136	815,048
Sums falling due after more than 1 year				
Trade receivables	7,582	1	13,133	13,159
VAT receivables	-	-	-	-
Other receivables	-	259,975	-	203,190
Prepayments and accrued income	-	1,562	-	250
	7,582	261,538	13,133	216,599

Trade receivables for the EFA is stated net of a provision for doubtful debts of £1.0 million at 31 March 2016 (2014-15: £0.6 million).

The EFA group has not required academy trusts to provide information on provisions for doubtful debts, as this is not considered a material disclosure for the EFA group.

The Trade Receivables line has been represented in the current period as a combination of both revenue and capital receivables, where were shown separately in prior years.

Other receivables due after more than one year includes £247.8 million in respect of the pro rate debtor described in note 1.2 (2014-15: £202.5 million).

11 Cash and cash equivalents

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group Re-presented £000
Balance at 1 April	147,649	2,951,815	83,818	2,554,409
Net change in cash and cash equivalent balances	4,555	432,468	63,831	397,406
Balance at 31 March	152,204	3,384,283	147,649	2,951,815

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
The following balances are held at:				
Cash at bank and in hand:				
Government Banking Service	121,965	121,965	62,777	62,777
Commercial banks	-	3,232,079	-	2,804,166
Balances held with solicitors	30,239	30,239	84,872	84,872
	152,204	3,384,283	147,649	2,951,815
Overdrafts:				
Government Banking Service	-	-	-	-
Commercial banks	-	(2,398)	-	(2,256)
	-	(2,398)	-	(2,256)
Balance at 31 March, net of overdrafts	152,204	3,381,885	147,649	2,949,559

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

12 Trade and other payables

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Amounts falling due within one year:				
Loans	-	7,262	-	10,286
Overdrafts	-	2,398	-	2,256
Trade payables	65,831	476,335	12,939	392,715
Tax and social security payables	1,056	205,345	1,025	177,235
VAT payables	-	-	3,523	29,291
Corporation tax	-	2,288	-	9
Finance leases	-	663	-	2,656
PF2 liability	16,518	16,518	-	-
Other payables	10,383	290,529	918	274,105
Accruals and deferred income	533,017	1,182,085	512,065	1,277,686
Total payables due within one year	626,805	2,183,423	530,470	2,166,239
Amounts falling due after more than one year				
Loans	-	37,979	-	27,045
Finance leases	-	4,668	-	5,361
PF2 liability	203,366	203,366	-	-
Other payables	-	21,873	-	12,831
Deferred tax	-	5	-	-
Total payables due after more than one year	203,366	267,891	-	45,237

The PF2 liability recognised is in relation to the building of 4 batches of schools through PFI arrangements. The liability shown is that applicable under IFRIC 12 and represents the outstanding element of the construction value of the schools. The liability will be settled over the course of the 25 year service period through payment of the unitary charges by core EFA.

The assets under the PF2 arrangement have not been recognised by the Group (other than through consolidation of academy trusts) since no economic benefit is judged to flow back to the Group over the duration of the concession arrangements.

The EFA has not collected separate data from Academy Trusts on PFI liabilities in academies.

The Trade Payables line has been represented in the current period as a combination of both revenue and capital payables, which were shown separately in prior years. In the current year, overdraft balances have been split out from cash and shown as a liability in the payables note.

13 Pension scheme disclosures

As detailed in the Remuneration and staff report, the EFA group operates a range of pension schemes for its employees. Of these, only the LGPS is open to non-teaching staff in academy trusts and 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 either final pensionable salary or career average revalued earnings. 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 2016. The EFA group procured valuations in accordance with IAS 19 from the 4 scheme actuaries, AON Hewitt, Barnett Waddingham, Hymans Robertson and Mercer.

The employer pension contribution for 2015-16 is £510 million (2014-15: £423 million).

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

13 Pension scheme disclosures (continued)

	2016 £000	2015 £000
Analysis of non-interest costs charged to statement of comprehensive net expenditure:		
Current service cost	668,908	537,361
Past service cost or (gain)	542	411
Loss or (gain) on curtailments and settlements	863	135
Loss on transfer of assets on scheme settlements	665	-
Total cost	670,978	537,907
Analysis of interest costs charged to statement of comprehensive net expenditure:		
Interest income	(158,353)	(155,034)
Interest on scheme liabilities	294,513	267,493
Net (benefit) or cost	136,160	112,459
Analysis of amounts in other comprehensive (income)/expenditure:		
Total actuarial (gains) or loss	(538,655)	954,209
Net (benefit) or cost	(538,655)	954,209
Sums recognised in the statement of financial position:		
Present value of defined benefit obligations	9,071,213	8,203,600
Fair value of scheme assets	(5,034,076)	(4,238,220)
Pension liabilities recognised in the statement of financial position:	4,037,137	3,965,380
Movements in the present value of defined benefit obligations:		
Balance brought forward at 1 April	8,203,600	5,472,662
Liabilities assumed on conversion:		
Transferred in on in-year school conversion	489,484	604,824
Current service cost	668,908	537,361
Interest cost	294,513	267,493
Employee contributions	150,963	125,685
Past service cost	542	411
Actuarial (gain) or loss	(672,862)	1,238,491
Benefits paid	(64,798)	(43,462)
Losses or (gains) on curtailments	863	135
At 31 March	9,071,213	8,203,600
Movements in the fair value of scheme assets:		
Balance brought forward at 1 April	4,238,220	3,044,848
Transferred in on in-year school conversion	176,511	248,792
Employer contributions	509,699	423,041
Employee contributions	150,963	125,685
Actuarial gain or (loss)	(134,207)	284,282
Benefits paid	(64,798)	(43,462)
Assets transferred on scheme settlement	(665)	-
Interest income	158,353	155,034
At 31 March	5,034,076	4,238,220

13 Pension scheme disclosures (continued)

	2016 £000	2015 £000
Reconciliation of deficit:		
Balance brought forward at 1 April	3,965,380	2,427,814
Net liabilities assumed on conversion:		
Transferred in on in-year school conversion	312,973	356,032
Current service cost	668,908	537,361
Employer contributions	(509,699)	(423,041)
Past service cost	542	411
Net finance (income)/cost	136,160	112,459
Settlements	665	-
Curtailments	863	135
Actuarial loss or (gain)	(538,655)	954,209
At 31 March	4,037,137	3,965,380
Sensitivity analysis		
Impact on the defined benefit obligation for changes of:		
Discount rate +1.0%	(1,946,268)	(1,690,935)
Discount rate -1.0%	2,424,663	2,145,548
Mortality rate 1 year increase	233,592	236,851
Mortality rate 1 year decrease	(229,193)	(232,681)
Consumer prices index rate +1.0%	1,626,848	1,449,987
Consumer prices index rate -1.0%	(1,335,675)	(1,189,356)
The major categories of plan assets as a percentage of total plan assets are as follows:		
Equities	63.93%	67.10%
Gilts	9.84%	9.97%
Corporate bonds	7.51%	8.21%
Property	10.22%	7.95%
Cash and liquidity	2.90%	2.87%
Other	5.60%	3.89%
Total	100%	100%

13 Pension scheme disclosures (continued)

EFA group	2016 £000	2015 £000
Defined benefit obligations	(9,071,213)	(8,203,600)
Scheme assets	5,034,076	4,238,220
Deficit	(4,037,137)	(3,965,380)
Expected return on assets	158,353	155,034
Actuarial gain or (loss) on assets	(134,207)	284,282
Actual return on assets	24,146	439,316
The major financial assumptions used in the valuation were:		
	2016	2015
Rate of inflation	2.35%	2.40%
Rate of increase in salaries	3.65%	3.70%
Rate of return on pensions	2.35%	2.40%
Discount rate	3.65%	3.40%

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 4 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 2016 use the assumptions disclosed in the table above.

Analysis of sums recognised in other comprehensive net expenditure (showing only experience gains, and excluding other actuarial gains and losses)	2016	2015
Difference between the expected and actual return on scheme assets (£000)	(137,618)	220,364
Percentage of scheme assets	(2.73%)	5.20%
Experience gains and losses on scheme liabilities (£000)	524,444	4,397
Percentage of present value of the scheme liabilities	(5.78%)	(0.05%)
Total sum recognised in other comprehensive expenditure (£000)	386,825	224,761
Percentage of present value of scheme liabilities	4.26%	2.74%

14 Capital and other commitments

14.1 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.

	2016		2015	
	EFA £000	EFA Group £000	EFA £000	EFA Group £000
Free schools	2,336,884	2,336,884	1,897,743	1,897,743
Priority Schools Building Programme	470,238	470,238	1,651,731	1,651,731
Tangible fixed assets	-	391,014	-	405,852
Intangible assets	-	154	-	12
Total	2,807,122	3,198,290	3,549,474	3,955,338

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

14.2 Commitments under operating leases

The tables below gives total future minimum lease payments under operating leases for each of the following periods.

	2016			Total £000
	Land £000	Buildings £000	Other £000	
Not later than one year	1,044	16,810	54,992	72,846
Later than one year and not later than 5 years	2,610	43,628	65,338	111,576
Later than 5 years	6,211	247,848	7,824	261,883
	9,865	308,286	128,154	446,305

	2015			Total £000
	Land £000	Buildings £000	Other £000	
Not later than one year	851	16,441	52,183	69,475
Later than one 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

The EFA had no commitments under operating leases at 31 March 2016 or at 31 March 2015.

14.3 Commitments under finance leases

The table below gives total future minimum lease payments under finance leases for each of the following periods.

	Land £000	Buildings £000	Other £000	2016 Total £000
Not later than one year	179	278	1,004	1,461
Later than one year and not later than 5 years	760	1,123	588	2,471
Later than 5 years	734	2,068	214	3,016
	1,673	3,469	1,806	6,948

	Land £000	Buildings £000	Other £000	2015 Total £000
Not later than one year	149	485	750	1,384
Later than one 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 2016 or at 31 March 2015.

14.4 Commitments under private finance initiative contracts

	2016		2015	
	EFA £000	EFA group £000	EFA £000	EFA group £000
Not later than one year	18,769	72,167	66	35,099
Later than one year and not later than 5 years	210,315	408,084	109,395	231,094
Later than 5 years	1,245,624	1,992,196	781,197	1,338,992
	1,474,708	2,472,447	890,658	1,605,185

14.5 Other financial commitments

EFA and EFA group	2016 Total £000	2015 Total £000
<i>Non-cancellable contracts</i>		
Not later than one year	6,571	17,459
Later than one year and not later than 5 years	3,152	12,695
Later than 5 years	240	3,743
	9,963	33,897

14.6 Education grant funding commitments

	2016 EFA £000	2015 EFA £000
<i>Private finance initiative grants to local authorities and voluntary-aided schools</i>		
Not later than one year	751,005	749,160
Later than one year and not later than 5 years	3,007,157	3,007,022
Later than 5 years	9,758,636	10,515,503
	13,516,798	14,271,685

14.7 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.

15 Contingent liabilities

PSBP asbestos removal

The EFA is aware of 2 outstanding claims from PSBP contractors for the removal of asbestos found at Blackpool Aspire Academy and Annie Holgate Infant School. It is standard EFA practise to negotiate with PSBP contractors and partially meet the cost of removing asbestos found during PSBP projects. In the case of Blackpool Aspire Academy and Annie Holgate Infant School the contractors have not yet quantified the value of their claims and consequently the EFA is not able to quantify its liability in respect of these 2 cases.

PFI arrangement

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

Overage Clauses

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

16. 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.

Ahead of reaching financial close on the Priority Schools Building Programme Yorkshire Private Finance Batch, the Department entered into contract with the selected contractor covering pre-financial close works (the Interim Construction Contract), to ensure successful and timely delivery of 7 secondary schools. Subject to reaching financial close, an amount equivalent to that paid under the Interim Construction Contract would be become due to the Department. The total amount paid under the interim construction contract was £15.4m, plus accrued costs of £4m.

17 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 and the Department for Business Innovations and Skills. 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.
- Peter Mucklow is the Director of the EFA's Young People's Group and the Director for Intervention at the Skills Funding Agency.
- Sue Baldwin is a member of the board of governance for Barnet and Southgate College and a member of the DfE Performance Committee.
- Simon Parkes is a member of the Civil Service Pensions Board and a member of the Government Legal Department Audit Committee. He was also the Skills Funding Agency Chief Financial Officer in 2015-16. The wife of Simon Parkes is also an employee of the Thomas Deacon Academy.
- Mike Green is an unpaid Non-executive Director at the Palace of Westminster.

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

Organisation	2016		2015	
	Payments £000	Receipts £000	Payments £000	Receipts £000
Skills Funding Agency (SFA)*	827,073	(9,068)	779,772	-
Educators International	-	-	-	-
Thomas Deacon Academy	10,800	-	13,141	-
Barnet and Southgate College	18,464	-	17,938	-

*Payments made to the SFA were paid to its sponsor department the Department for Business Innovation and Skills.

The EFA group looks to individual academy trusts to disclose related party transactions within their individual accounts.

18 Entities within the group boundary

All academy trusts, as established under the Education Act 2010, with open academies as at 31 March 2016 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](#)¹⁷.

¹⁷ [The department's annual reports and accounts are published on - https://www.gov.uk/government/collections/dfes-annual-reports](https://www.gov.uk/government/collections/dfes-annual-reports)

19 Transfer of academy trusts

19.1 The EFA group

	Local Authority £000	Non-Local Authority £000	2016 Total £000	2015 Total £000
In year				
Non-current assets				
Property, plant and equipment	2,122,629	681,824	2,804,453	3,778,107
Intangible assets	15	32	47	191
Investments	-	80	80	-
Trade and other receivables	-	-	-	2
	2,122,644	681,936	2,804,580	3,778,300
Current assets				
Inventories	1	34	35	182
Trade and other receivables	9,397	28,294	37,691	111,481
Investments	-	-	-	-
Cash and cash equivalents	56,687	22,684	79,371	116,005
	66,085	51,012	117,097	227,668
Current liabilities				
Trade and other payables	(135,626)	(39,439)	(175,065)	(106,272)
Financial liabilities	(243)	(35)	(278)	(773)
Provisions	(1)	-	(1)	-
	(135,870)	(39,474)	(175,344)	(107,045)
Non-current liabilities				
Other payables	(59)	(502)	(561)	(618)
Financial liabilities	(3,778)	(123)	(3,901)	(1,466)
Provisions	(1)	-	(1)	(872)
Pension scheme deficit	(119,286)	(23,755)	(143,041)	(356,032)
	(123,124)	(24,380)	(147,504)	(358,988)
Net asset/ (liability) transferred on conversion	1,929,735	669,094	2,598,829	3,539,935
Net adjustment for conversion				
Settlements	(88,503)	37,643	(50,860)	77,343
	(88,503)	37,643	(50,860)	77,343
Net assets	1,841,232	706,737	2,547,969	3,617,278

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.

20 Events after the reporting period

Subsequent to year end a contract for the construction of schools under the Private Finance (PF2) contract was signed. This satisfied the condition under the interim construction contract between the EFA and the contractor where the monies spent by the contractor would be repaid to EFA. The EFA received £15.4 million on 1st June 2016.

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

As of 1 April 2016, the academies will no longer be consolidated into the EFA accounts, as such there will be a significant difference in the detail displayed in future published accounts.

On 14 July 2016 the Rt Hon Justine Greening was appointed the new Secretary of State for Education, replacing the Rt Hon Nicky Morgan.

The Funding Agencies Shared Services Team (FAS²T) was created on 1 April 2016. It brings together common functions within EFA and SFA. FAS²T has absorbed the functions that sat under the Risk Analysis, Finance and Data Group (RAFDG) and equivalent functions in SFA. It is part of both agencies equally, with some staff reporting into SFA and some to EFA.

On 20 September 2016 LocatED was incorporated. LocatED will facilitate the acquisition of free schools sites on behalf of the EFA.

On 11 October 2016, the EFA issued a notice of termination of the funding agreement made between the Secretary of State and the Durand Academy Trust due a material breach in the conditions of the funding agreement.

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.

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