



Department
for Education

Review of the Education and Skills Funding Agency

**Department for Education's response to
the recommendations of the review**

February 2022

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Introduction

We have today published the review of the Education and Skills Funding Agency (ESFA) conducted by Sir David Bell, Vice Chancellor of the University of Sunderland and the Independent Lead Reviewer.

The ESFA is an Executive Agency, and therefore an Arm's Length Body, of DfE. This review is part of a programme of Arm's Length Body reviews required by the Cabinet Office, in line with the Declaration on Government Reform. The aim of this programme of reviews is ensure that these organisations are set up in the best possible way to deliver.

The ESFA review took place in line with Cabinet Office requirements and expectations, but also focused on how we are organised best to deliver in the context of the wider department. It was conducted alongside our internal *Future DfE* transformation project on how we organise ourselves better to deliver locally, regionally and nationally. The review, alongside this wider transformation work, will help ensure that the whole department can achieve the right operating model and structure for the future.

DfE response to each recommendation

The review sets out 46 recommendations. The Secretary of State and Permanent Secretary have agreed 44 without amendment, largely accepting recommendation 16, and choosing a different approach for the remaining part of recommendation 16 and for recommendation 26 in order to keep a consistent approach to digital services across the department.

Rec. Ref. No.	Recommendation	DfE response
1	We recommend that there should continue to be an Arms Length Body (ALB).	Agreed.
2	We recommend that a senior sponsor is appointed and a sponsorship team created as soon as practical, and at the latest by 1 April 2022. The senior sponsor and the sponsorship team should develop an action plan for agreed recommendations and monitor and champion their implementation, working closely with the Future DfE project, DfE and ESFA senior leaders and human resources colleagues. The sponsorship team should conduct a review of the implementation of agreed recommendations by 1 April 2023: this should include an assessment of how the agency has scaled back to a proportionate level, in line with recommendations.	Agreed. The senior sponsor will be Mike Green, Director General for Operations Group.
3	We recommend that the Government Internal Audit Agency review the risks around change implementation, including interfaces between DfE and ESFA, during 2022, to assure the seamless transfer of people, budgets, and accountabilities, and that the implementation of recommendations is on track.	Agreed.
4	We recommend that ESFA should refocus on its core funding delivery role.	Agreed.
5	We recommend all post-16/skills policy and implementation within ESFA should move to DfE to sit in one portfolio.	Agreed. As part of our work on how we better organise the DfE, we will have a group focussed on Further Education, Higher Education and Employers, which consolidates all post-16 skills policy under one Director General.
6	We recommend that external input from people with the right expertise remains within	Agreed

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	existing programme governance for apprenticeships and T Levels. In the early stages of implementation this might conveniently involve continuing to use ESFA non-executive directors where they have the right expertise.	
7	We recommend that regional/ territorial teams in ESFA's Further Education Directorate should move to DfE and be brought into new post-16 regional working.	Agreed. As at recommendation 5, we will have a group in DfE focussed on Further Education, Higher Education and Employers, which consolidates all post-16 skills policy under one Director General.
8	We recommend there should be a review of post-16 regional function alongside structural design taking place as part of the Future DfE project. This review should consider DfE priorities including skills reform and levelling up.	Agreed. Assessing the functions and approach to post-16 regional work will be taken forward as part of developing a group focussed on Further Education, Higher Education and Employers (as set out above), and will be led by the Director General. We will benefit from learning from the experience of establishing the pre-16 regional tier.
9	We recommend that sponsorship of the Institute for Apprenticeships and Technical Education (IfATE) should move to DfE. The senior sponsor role should sit with the appropriate director in the Further Education, Higher Education and Employers (FEHEE) Group.	Agreed. We will appoint a Director-sponsor, as part of establishing the group focussed on Further Education, Higher Education and Employers set out above.
10	We recommend that further work is done as part of school system reform to create a more strategic and shared understanding of responsibilities between DfE, ESFA, and Ofsted, and that the outcomes of this work are communicated widely.	Agreed.
11	We recommend that the department should have a unified directing voice at a regional level. We have contributed to the current	Agreed. Assessing the functions and approach to post-16 regional work will

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	<i>Future DfE</i> project which is bringing together functions in the regional tier, and which will resolve the form and nature of that directing voice.	be taken forward as part of developing the Further Education, Higher Education and Employers work set out above and be led by the Director General. We will benefit from learning from the experience of establishing the pre-16 regional tier.
12	We recommend that the funding delivery functions including the compliance and assurance functions currently in Academies and Maintained Schools Directorate should remain in the refocused agency to provide assurance to the Accounting Officer.	Agreed.
13	We recommend that, in keeping with our finding that ESFA should focus on funding delivery, the functions in Academies and Maintained Schools Directorate not linked to the funding delivery role, and not required by ESFA's Accounting Officer to provide assurance, should move to DfE. This means that the non-financial regulatory functions for academies and the functions related to school/trust governance should move to DfE's pre-16 regional tier, as should new trust and free school activity, UTC engagement, and networking events.	Agreed.
14	We recommend that 12 months after implementation the Director General of the DfE regional tier and ESFA's senior sponsor should review with ESFA's Chief Executive Officer whether the pre-16 arrangements are working effectively.	Agreed.
15	We recommend DfE considers bringing the complaints functions for maintained schools and academies together in a fully centralised complaints system within the department.	Agreed.
16	We recommend that the ESFA's Funding Directorate - including on balance its dedicated digital funding service - should remain in the refocused agency	Agreed, subject to this being consistent with the agreed Digital, Data and Technology operating model. We agree that the Funding Directorate should

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		remain in the refocused agency; and that embedded digital specialists should stay and deliver the dedicated digital funding service; but this will be done in a way that is consistent with the new Digital, Data and Technology operating model that will apply across the whole Department. This links to recommendation 26, below.
17	We recommend that Funding Directorate should retain its current responsibilities for payments to apprenticeships providers and through the European Social Fund.	Agreed.
18	We recommend that the payments function should remain within DfE. This position may change as part of future changes to the current operating environment, and should therefore be reviewed periodically	Agreed.
19	We recommend that the payments service level agreement between ESFA and DfE should be revisited in line with best practice and also in light of the structural changes within the refocused agency. Specifically, the management and oversight of the service level agreement should be strengthened to clarify expectations and set out areas of responsibility for both ESFA and DfE, during the entire payments' life cycle.	Agreed.
20	We recommend that, in the medium-term, DfE teams currently responsible for the £8 billion of funding to education settings should leverage ESFA's expertise by using the agency's grant management platform. However, our view is that in the longer term, DfE should work towards transferring the responsibility for this funding to the agency.	Agreed.
21	We recommend that the Provider Market Oversight Directorate's financial assurance, compliance, specialist restructuring, counter-	Agreed.

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	fraud, and supporting planning and reporting functions should remain in the refocused agency.	
22	We recommend that ownership of the Academy Trust Handbook should move to DfE's School Systems, Academies and Reform Directorate, unless the focus of the Handbook is narrowed back towards a tool for financial management only.	Agreed.
23	We recommend that only those corporate functions central to the successful delivery of the core funding role and ESFA's Chief Executive Accounting Officer responsibilities should remain in ESFA. Other corporate functions should be moved out and put together with equivalent functions in wider DfE. A shared services model should be the default.	Agreed.
24	We recommend that DfE and ESFA should review the shared services that DfE provides and how those services are managed, in the light of our recommendations to refocus ESFA and clarify its relationship with DfE (and other factors such as financial system changes). In some cases, it will be appropriate to formalise these arrangements through service level agreements.	Agreed.
25	<p>We recommend that:</p> <p>embedded operational communication and campaigns functions should follow their directorates/teams into their respective organisation, both in the case of those remaining in the new agency (Funding, PMO and, where relevant, AMSD) and those moving into DfE; and</p> <p>the new agency should continue to operate an internal and external corporate communications function. The agency's corporate communications capability should be reduced in size and scope, reflecting the tighter focus and smaller size of the agency.</p>	Agreed.

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26	<p>We recommend on balance that ESFA’s Chief Executive should retain the right to deploy their own digital funding service delivery, data science, and data protection and cyber security functions within the agency in support of their core funding delivery role, in order to ensure maximum control over these critical capabilities. All other Customer Experience, Digital and Data functions should move into DfE.</p>	<p>Although the preferred recommendation is that the ESFA’s CEO should deploy these functions within the agency, the review also recognises that these functions could be provided by embedded DfE experts.</p> <p>We believe that the recently agreed digital, data and technology operating model should be applied to all of the DfE, including ALBs, because it will strengthen DfE’s digital offer and allow for the most efficient management of digital expertise. However, we recognise that, in light of the critical nature of these capabilities, the ESFA’s CEO needs to retain strong operational control. We are confident that we can deliver this through our new operating model.</p>
27	<p>We recommend that the financial planning responsibilities should remain within the refocused agency, albeit its sizing should be reviewed to reflect the smaller remit of the agency and the impending changes to departmental finance systems by April 2022.</p>	Agreed.
28	<p>We recommend that the finance business partnering responsibilities attached to functions in the refocused agency should remain within the agency. However, finance business partnering responsibilities attached to all functions moving out of the agency should move with them into DfE.</p>	Agreed.
29	<p>We recommend that the functions in ESFA’s management accounts team that are aligned to supporting the Chief Executive responsibilities to Parliament, should remain</p>	Agreed.

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	within the refocused agency and be proportionate to its size and scope. Where finance business partners are moving into DfE, the supporting management accounts should also move.	
30	We recommend that the responsibility for producing annual report and accounts, which is currently sat within the ESFA's governance arm, should be more closely aligned with its financial management and assurance function.	Agreed.
31	We recommend that the financial assurance responsibilities should remain within the refocused agency.	Agreed.
32	We recommend that ESFA's finance capability functions should move into DfE's counterpart function, and that the agency should access DfE's finance change functions.	Agreed.
33	We recommend that ESFA's Investment Gateway should be discontinued, given the significant reduction in commercial activity in the refocused agency. Remaining commercial activity ranging between £1 million and £20 million within the agency, should be routed through DfE-led joint assurance committees, using learning and best practice from ESFA's Investment Gateway.	Agreed.
34	We recommend that the approach adopted in ESFA's Investment Gateway should be applied more widely across the department's joint assurance committee structures, drawing on the best practice established in the Gateway itself.	Agreed.
35	We recommend that ESFA should access DfE's shared service on commercial capabilities.	Agreed.
36	We recommend that the level of resourcing in ESFA's central people function should be comparable to other parts of the department of a similar size and scale, with no designated HR specialist roles.	Agreed.
37	We recommend that ESFA's directorate support teams should be reviewed to reflect the future size and shape of the directorates,	Agreed.

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	and not include any designated HR specialist roles. The sizing of all directorate support teams (including those moving into DfE), should be further reviewed when DfE's review of its learning and development model is finalised.	
38	We recommend that the ESFA board and audit and risk committee should continue, with representation from independent non-executive directors.	Agreed.
39	We recommend that the ESFA Chair should remain a standing member of DfE's board, and the ESFA audit and risk committee Chair should remain a standing member of DfE's audit and risk committee.	Agreed.
40	We recommend that the ESFA Chief Executive should not be a permanent member of DfE senior Leadership Team but should join on an invited basis. This will help clarify lines of accountability. The new agency no longer needs to be represented through standing membership of DfE executive governance, but should be engaged as needed through the senior sponsor.	Agreed.
41	We recommend that DfE should create a dedicated sponsorship function for ESFA. This function should respect autonomy of ESFA, be centred on honest constructive and trust-based strategic relationships, and enable, and not hinder, the direct relationships or access to DfE teams, the Permanent Secretary and ministers.	Agreed.
42	We recommend that the sponsorship function is held at director general level within DfE to enable the robust challenge and strategic oversight which are fundamental to high quality sponsorship. The senior departmental sponsor should be the Chief Operating Officer to align to ESFA's core funding delivery role.	Agreed. The senior sponsor will be Mike Green, Director General for Operations Group.
43	We recommend that the sponsor team should be independent from teams that provide services to ESFA, to achieve a level of objectivity whilst remaining closely linked to the core ESFA role.	Agreed.

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44	We recommend that the <i>Framework Document</i> which governs relations between DfE and ESFA should be refreshed urgently to reflect the recommendations of this review.	Agreed.
45	We recommend that the sponsorship function should have an oversight role in the delivery of shared corporate services by DfE, as well as oversight of the level of corporate function in ESFA, acting as an escalation point if needed. This includes brokering formal arrangements, including service level agreements, where needed.	Agreed.
46	We recommend that ESFA should review its internal governance arrangements to ensure alignment to the future refocused role of the agency. The skillset and experience of future ESFA Non-Executive Director's should align to the refocused delivery role of ESFA.	Agreed.

Conclusion

The Secretary of State and Permanent Secretary would like to thank Sir David Bell for the leadership he has provided over the last six months to the Arm's Length Body review of the Education and Skills Funding Agency. Sir David has devoted considerable time to this role in the midst of many other responsibilities, and this is much appreciated. The review's findings are well-evidenced and clear, and will help us to bring about significant and positive change.

The clear and comprehensive recommendations made in the review will help us to organise the department in a way that directly benefits children and learners. We will implement the majority of the recommendations through our existing organisational development and design programme, which aims to make many of the key changes by 1 April 2022. Where the recommendations require more complex work to be undertaken prior to implementation, this will take place as soon as possible. As outlined in the summary report, we will make the most of opportunities to share ESFA's deep expertise more widely through the department, and to retain the undoubted pride that staff have in working for ESFA. We recognise that it is vitally important to treat ESFA staff well and support them through the recommended changes, as they are an important part of the DfE family.



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