Education & Skills
Funding Agency

Education and Skills Funding Agency

Annual report and accounts

For the year ended
31 March 2023

An executive agency of the Department for Education

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Forewords

Chief Executive

It is my pleasure to present the Education and Skills Funding Agency's (ESFA's) Annual Report for 2022-23. This is the first reporting period following the implementation of recommendations in Sir David Bell's arm's length body (ALB) review which saw a number of significant changes to the agency's remit aimed at ensuring a clearer focus on our core responsibilities – the provision of £67 billion of funding to the education and skills sector; and assurance that this funding is being used as intended.

As such, this reporting year has been one of transition for the agency as we have embedded those organisational changes, supported teams moving across to the Department for Education, and welcomed a new Executive Group who will lead the agency in this next phase. Those changes included a new Chief Executive – I started in August 2022 and I have greatly enjoyed my first few months in the role, working alongside colleagues in the agency and across the sector to ensure that every pound we invest is helping to support the best possible educational outcomes.

Some of the attention in my first few months has been on looking ahead to how we will support that goal within our new responsibilities. Much of that focus will be on three key outcomes – providing **certainty** to the sector to help support effective financial planning, ensuring that those we fund feel **supported** including in response to specific financial requests or needs, and **assuring** ourselves that taxpayers' money is being used for its intended purpose.

While we have been reframing those outcomes, it has been equally critical to maintain our excellent performance against our existing organisational priorities as set out in the Business Plan that was approved in July 2022. This report reflects significant successes for one of the largest funding operations anywhere in government – we allocated £67 billion of funding to more than 25,000 providers with 100% accuracy and timeliness and ensured that funding reached those providers through 507,000 individual payments with 99.9% accuracy and timeliness. At the same time, our Counter Fraud and Prevention Team have continued to ensure low levels of fraud and error across the totality of funding provided.

The context in which we have delivered that performance has been occasionally challenging – inflationary pressures and the ever-increasing importance of education and skills in a post-pandemic economy has placed additional stresses on providers, and highlighted the importance of ESFA supporting strong financial management across the sectors we work with. In the Further Education (FE) sector, the Office for National Statistics' decision to reclassify colleges to the public sector has introduced additional uncertainty for sector leaders.

I am therefore pleased that this report reflects work that we are doing to support the sector effectively – 92% of respondents reported a good or very good experience when using our School Resource Management Advisors, a fantastic (and free) resource aimed at supporting financial management in schools and academy trusts. The publication of significant financial guidance and support related to FE reclassification, including a new capital loans scheme, has helped to bring clarity to FE colleges. Meanwhile expanded functionality in the ESFA Digital Funding Service means that schools and FE colleges can access allocations and funding agreements in one place – saving providers time and improving customer experience.

I am very grateful to colleagues across the skills and education sector, both for the warm welcome they have afforded me, and for the constructive way in which they have sought to work with ESFA to address those challenges. Those conversations have, and will continue to, inform what we as an agency can do to ensure greater levels of support whilst ensuring our own financial governance, audit and oversight practices are world class.

Finally, I'd like to pay tribute to ESFA staff. The last 18 months has seen significant change within the agency – a new remit, a new leadership group and new relationships to build. That could have been disruptive to our prior excellent performance and the fact it hasn't been is due to the hard work and commitment of every member of the team.

David Withey
Chief Executive

Board Chair

As I reflect on my first full financial year as Chair of ESFA, we should recognise our achievements and outstanding delivery successes against a backdrop of significant change.

Following the conclusion of the ALB review in February 2022, the ESFA's remit refocused onto 2 key areas:

- successfully delivering £67 billion of funding to 25,000 providers in the education and skills sectors
- providing assurance that these public funds are properly spent to achieve value for money for the taxpayer.

We also welcomed our new Chief Executive, David Withey, in August 2022. David defined a new vision for ESFA that strikes to the core of our purpose – to ensure every pound spent on education and skills has the greatest possible impact for learners so that they are able to realise their potential.

As the country emerged from the COVID-19 pandemic, it was critical to get schools, colleges and all education providers back to normality to enable learners to progress and achieve their ambitions.

Whilst 2022-23 represented a year of significant change for the agency, there were no significant impacts on ESFA's performance or ability to meet our commitments.

We continued to perform strongly, providing £67 billion of timely and accurate funding to our education and skills sectors; moreover this was achieved with a 100% success rate for allocations and 99.9% for payments.

ESFA provided assurance over the proper use of public funds during this period and worked collaboratively with the sector to give certainty on funding, delivery and good financial management.

The past 12 months have presented a challenging fiscal environment nationally, not least for the education and skills sector. It's important that we continue to find ways to make things simpler for the sector, through clear communications and straightforward, user-friendly systems and processes.

One such example has been to create a digital funding system that is easy to use, provides all the relevant information on funding in one place, and signposts frameworks and funding rules that give certainty on roles and responsibilities.

I am proud of the work we do and of our people and their commitment and performance over the past year. As a board, we will continue to work closely with the Executive Team, providing direction, support and guidance to enable the agency to continue to put learners at the heart of everything we do.

Martin Spencer
Chair

Performance report

Overview

This section sets out the Education and Skills Funding Agency's (ESFA) strategic priorities and performance during the year.

ESFA is an executive agency, and as such, an arm's length body (ALB), of the Department for Education (the department). On behalf of the Secretary of State for Education (Secretary of State), ESFA has a defined role and responsibility to administer funding to deliver education and skills, from early years through to adulthood.

ESFA funds education and skills providers, including:

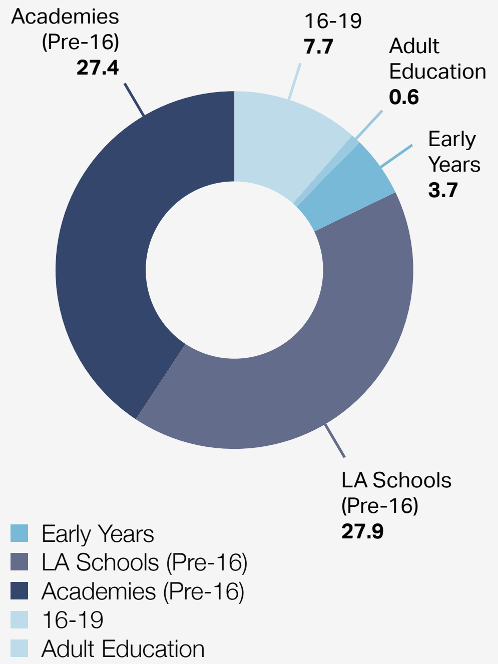
- maintained schools and early years institutions (through local authorities)
- academy trusts
- special schools
- colleges
- independent training providers (ITPs)
- high needs institutions

ESFA also works with the Mayoral Combined Authorities and Greater London Authority on the devolved adult education budget.

ESFA distributes £67 billion of funding. Most funding distributed by ESFA is calculated annually based on national funding formulae determined by the policy for each area and driven by data provided by institutions on the numbers of pupils or learners and their characteristics. This approach includes funding for 16- to 19-year-olds and adults, and some pre-16 funding, including pupil premium and universal infant free school meals. For adult programmes where there are procured contracts, ESFA calculates funding using the same principles above, although the funding is calculated monthly.

For the bulk of pre-16 funding, ESFA calculates the overall level of funding for each local authority, and local authorities then set their own formula within a set national framework to distribute that funding to the schools and academies within their area. Local authorities submit this local formula to the ESFA to produce and issue academies allocations, while the local authorities themselves distribute the funding to maintained schools in their area.

Funding by sector £bn



ESFA provides assurance that these public funds:

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

ESFA supports providers by:

- influencing frameworks and funding rules to ensure they are simple and easy to understand
- building financial management capabiilty and ensuring high quality financial advice is available
- providing direct support to providers in financial difficulty
- building counter fraud awareness, financial capability and understanding across the education and skills sectors

Context of this report

In July 2021, as part of the Cabinet Office's public bodies reform programme, the ALB review of ESFA was launched. The review was completed in January 2022 and recommendations were published in February 2022 [1].

The review recommended that ESFA remain an ALB, with a refocused remit around its core funding delivery role. This comprises the funding delivery cycle in its entirety, including allocations, payments, financial management, compliance and assurance. The review recommended that functions not relating directly to this remit, including post-16 skills policy and implementation, and non-financial regulatory and governance functions relating to schools, should move back to the department.

These recommendations were accepted by the Secretary of State for Education and initially implemented in April 2022. This implementation moved the Apprenticeships, Professional and Technical Education, Further Education, and Customer Experience, Digital and Data directorates into the department. Although the policy aspect of the Further Education directorate transferred to the department, accountability for Further Education funding and assurance over this spend remains with the agency. In July 2022, further staff moves took place as responsibilities not linked to the funding delivery role for academies and maintained schools also moved into the department.

1 https://www.gov.uk/government/publications/review-of-the-education-and-skills-funding-agency

Following these significant structural changes for the agency, 3 new directorates were created to carry out its refocused remit:

- Funding
- Schools Financial Support and Oversight
- Finance and Provider Market Oversight

ESFA's Executive Team and Management Board approved the continuation of relevant objectives and performance metrics from 21-22, focusing on the strategic priorities deemed still to be relevant to ESFA's refocused remit, for use between April 2022 and end July 2022, to allow for performance conversations to continue through the initial period of change.

This allowed for appropriate business planning activity to take place following the implementation of the ALB review recommendations. In July 2022, ESFA launched a new internal business plan for 2022-23, focused on meeting a new set of cross-cutting strategic priorities which all 3 directorates contribute towards. It is this plan and priorities that this Annual report and accounts reports our performance against.

In August 2022, David Withey joined ESFA as the new permanent Chief Executive Officer. Following David's arrival, the Executive Team have continued to refine agency strategy and the agency is working closely with the department to ensure effective collaboration towards meeting ministerial priorities. Within 2022-23, ESFA launched a new strategic purpose to enhance prioritisation and better align activity across the organisation.

More details of this are provided within the *'Forward look'* section of this performance report.

Performance summary

Below is a selection of performance highlights. More detail of ESFA performance is provided in the *'Performance analysis'* section of this report.

Funding

£67bn
£67bn funding allocated to education and skills providers, issued 100% accurately and on time.

99.9%
Approved 507,000 funding payments, 99.9% paid accurately and 99.9% on time.

100%
Improved compliance against required process and full audit trail of 100% of grants going through new digital funding management tool: Plan Your Grant.

>£2.5bn
Supported more than 30 additional grants with a total value of over £2.5bn.

Improvement

92%
416 school resource management adviser visits. 92% of respondents reported experience as good/very good and 90% found recommendations useful.

87%
Closed 932 financial and financial governance concerns cases, with 87% closed within initial target time.

Support
Supported colleges in their reclassification to the public sector by implementing appropriate financial delegations, publishing financial guidance in spring 2023, and engaging in sector events.

Success
Successfully delivered programme of financial health reviews of colleges' July 2022 forecast returns.

Oversight

155 funding audits
Successfully completed programme of funding audits across academy trusts, further education colleges, and independent training providers.

£58.6m
Counter fraud prevented and detected £58.6m in 2022-23.

Assurance
Completed programme of assurance work feeding into annual assurance report, including annual assurance opinion.

Performance analysis

The performance analysis against the strategic priorities relates to the reporting year 2022-23.

ESFA strategic priorities

In 2022-23 we focused our planning and commitments around 4 priorities:

Funding

Deliver timely and accurate funding to education providers and continue to develop capability to take on new areas of work to support effective delivery of government funding policy.

Oversight

Assure the proper use of public funds, ensure ESFA-funded providers are complying with their funding arrangements, relevant statutory legislation, and can evidence appropriate and robust financial governance.

Improvement

Support and improve the health, financial governance and efficiency of providers in the education sector. We will deliver a framework, setting out principles and behaviours on risk management and assurance for all providers funded by ESFA.

Provider and Partner Focus

Enhance the end-to-end journey of education providers and other stakeholders throughout all of their interactions with ESFA, by developing our digital delivery and optimising technology, utilising sound business processes, stakeholder engagment and policy input.

This report covers performance and key achievements made by the agency throughout the year.

Provider and Partner Focus

The Provider and Partner Focus priority is embedded throughout our commitments made within the other 3, and the report draws out where an area of work was intended to meet this priority.

The agency monitored key risks and performance through its corporate boards, more detail of which is given in the *'Key issues and risks'* section.

The *'Forward look'* within this section of the report covers the ESFA's strategic purpose, which was launched internally in November 2022. It is this purpose which our future business planning will be built around, shifting our approach to an 'outcome' focus.

Performance review

The achievements below are presented alongside their strategic priority and ordered based on the funding journey through the agency, starting with allocating and issuing funding to providers, supporting providers in the financial management of their funding, through to carrying out our audit and assurance work to provide assurance that funding is spent for its intended purpose.

Strategic priority: Funding

Allocations and payment instruction

Timeliness and accuracy of payment instructions and allocations was a key pillar of our Funding priority in 2022-23 – achieved 99.9% for payments and

100% for allocations.

An allocation is the confirmation of an amount of funding available for a given period – the funding that ESFA will allocate to a provider (usually for a year), whereas payment is the transfer of the allocated amount to a provider (usually in instalments throughout the funding period).

In 2022-23, ESFA approved over 507,000 funding payments, with 99.9% paid accurately and 99.9% on time.

ESFA conducts work to issue allocations between January and March to give education providers advance notice ahead of the upcoming academic year, to allow them to plan appropriately.

For the academic year 2023/24, ESFA issued main allocations of over £67 billion to education and skills providers. All were allocated on time with 100% accuracy. Main allocations include academies' General Annual Grant (GAG) [2] (this is the term used to describe revenue funding allocated to academies on an academic year basis), 16- to 19-year-olds [3] and 19+ allocations [4], non-levy apprenticeships, dedicated schools grant for local authorities (this is the term used to describe funding for maintained schools) [5] and pupil premium grant (funding for disadvantaged pupils within schools) [6] only.

Digital funding service

Launching Plan Your Grant was a key commitment to delivering improvements for our partners in DfE.

ESFA designed and delivered 2 funding management features in collaboration with the department: Plan Your Grant (PYG) and digital forms. We launched the PYG platform in June 2022. This is a digital tool that grant managers in DfE use to help plan the delivery of new funding to education and skills providers.

We are also expanding the functions of PYG to enable grant managers to plan, develop and manage additional types of funding through the PYG interface. The system will seamlessly link together with the rest of the digital funding service to create efficiencies and improve administration and consistency. All funding going through PYG will have a full digital audit trail resulting in improved compliance with required processes.

2 https://www.gov.uk/government/publications/academies-general-annual-grant-allocation-guides-2023-to-2024/academy-general-annual-grant-allocation-guide-2023-to-2024-academic-year
3 https://www.gov.uk/guidance/16-to-19-education-funding-guidance
4 https://www.gov.uk/guidance/19-funding-allocations
5 https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2023-to-2024
6 https://www.gov.uk/government/publications/pupil-premium-allocations-and-conditions-of-grant-2023-to-2024

Through our digital forms work and the *Manage Your Education Skills Funding tool,* we have expanded functionality for providers giving them the ability to access all allocations and funding agreements in one place. This availability will also give providers easy access to funding payment histories. Additionally, all forms completed will be within the service, saving providers time and improving customer experience.

Funding change gateway

The Funding change gateway was introduced in June 2022 to improve decision making on whether ESFA can support the delivery of additional funding throughout the year. We have developed a resource management tool to aid in planning our resources and understanding the cost of taking on new work within the year. This has improved consistency in assessing and prioritising new work, meaning we can be efficient in responding to the need to deliver additional funding to the sector.

Strategic priority: Improvement

Support for schools

ESFA continued to invest time and resources on support activities that look to anticipate and prevent issues at the providers we fund, rather than being reactive when financial or financial governance issues have materialised.

An increased number of SRMA visits from 2021-22

(from 366 to 416)

and an increase in positive feedback on SRMA experience

This work was a key pillar of our Improvement priority in 2022-23.

For academy trusts and local authority maintained schools, the agency’s school resource management programme continues to mature and develop. Working closely with the providers, the programme has:

- commissioned 416 School Resource Management Adviser (SRMA) visits, supporting providers to improve their financial governance and oversight
- ensured School Resource Management Advisers have provided a consistently good service, with 92% of respondents to our survey reporting their experience good or very good (87% 21-22) and 90% finding the recommendations useful (79% in 21-22)
- continued focus on supportive engagement with academy trusts, with 69% of new cases being improvement focused
- through our proactive support with the sector and risk management, the proportion of academy trusts with serious concerns has remained at under 2% of total academy trusts, securely within target, despite additional financial pressures on the sector

SRMA feedback is a key factor in ensuring we deliver positive experiences for the providers we fund.

ESFA worked alongside the academy sector to identify and support our most financially vulnerable academy trusts in the context of wider cost pressures across the sector.

The agency provides additional financial support to academy trusts facing short- to medium-term financial difficulties to help to protect the education of pupils by ensuring academy trusts can continue to operate. The total amount of additional financial support given to academy trusts reduced slightly compared to last year.

The agency also ran learning and development sessions for finance professionals in the school sector. Over 1,200 people attended events, with 81% of attendees both finding the events extremely or somewhat useful and saying they would recommend the events to their colleagues.

In addition, ESFA has also processed 1,440 related party transaction declarations and approvals from academy trusts, with a total value of £46 million. This is an increase in value of £13 million from last year.

Support for further education (FE)

In November 2022, the Office for National Statistics reclassified colleges[7] into the public sector. We supported colleges through this change by implementing appropriate financial delegations, publishing financial guidance in spring 2023, supporting with commercial debt renegotiation and refinancing, and engaging in FE sector events to aid their knowledge and understanding of the new arrangements.

In the year ending March 2023, we also successfully delivered a programme of financial health reviews of FE college and ITP annual accounts and forecast returns.

Strategic priority: Oversight

Investigating concerns

Assuring the use of public funds in the education sector is a key priority for the agency, including investigating concerns relating to finance and financial governance in academy trusts, protecting both public money and educational provision. In 2022-23, ESFA completed 932 financial and financial governance concerns cases in trusts. 87% of these were closed within initial target time of 11 months, a 4 percentage-point improvement on the prior year.

The number of ‘trusts of concern’ has reduced over the course of 2022-23, numbers of trusts of most significant concern and in active intervention reduced by 24% (from 59 to 45) and 10% (from 126 to 113) respectively, and the number of active Notices to Improve fell from 28 in April 2022 to 18 in March 2023.

7 https://www.gov.uk/government/publications/further-education-reclassification

Frameworks, audit and assurance

In line with established good practice, ESFA published new editions of the agency's financial governance, audit and financial reporting publications for the sectors we fund. ESFA has also maintained its oversight of the education and skills sectors by delivering, amongst other things, a comprehensive programme of funding audits [8] and an assurance programme, including:

- funding audits of 60 academy trusts, 33 FE colleges and 62 ITP's, where we tested the accuracy and completeness of the data driving funding allocations
- 60 financial management and governance reviews at academy trusts where we look at a trust's financial oversight and internal control arrangements, ensuring compliance with the mandatory requirements of the Academy Trust Handbook
- 577 trust and 221 FE college financial statement reviews
- 450 college and 1,657 ITP financial health reviews
- 66 financial forecast reviews for ITPs
- in-year monitoring of the finances of 36 FE colleges and 59 ITPs

ESFA continues to audit providers delivering apprenticeships to provide assurances on behalf of the department, and also FE colleges as part of our ongoing remit for assurance over spend in that part of the sector.

Ensuring high quality contribution to handbooks and frameworks to ensure clarity for providers we fund.

The agency collaborated with the department on the developing the 2022 Academy Trust Handbook, which was published in September 2022.

We provided assurance for 5 COVID-19 and educational recovery grant programmes covering £0.9 billion of funding to providers. This has been delivered through funding audits and detailed grant claim reviews.

Counter fraud and prevention

£58.6m counter fraud prevention and detection within 2022-23

We have continued to focus on counter fraud and prevention within 2022-23. ESFA's Counter Fraud and Prevention team has identified a total of £58.6m through our counter fraud prevention and detection activities. Details on the agency's counter fraud work are provided within the *'Governance statement'.* Further detected amounts and prevention savings have also been identified by teams across the agency.

Impacts to objectives

No significant impacts on performance or ability to meet commitments have been reported during a year of significant upheaval and change for the agency.

8 Funding audits are carried out on a statistically based sample that provides an acceptable level of assurance (at a 95% confidence level) taking into account the size of the population and history of error.

Financial review of the year

This section provides commentary to support the financial statements and our performance during the year. See the *'Notes to the accounts'* for more details.

Budget outturn

ESFA receives a budget delegation from the department, which principally covers operational costs. Alongside that, ESFA receives authority to spend on programmes where ESFA is responsible for the operational delivery of the funding but the responsibility for the policy and associated budget rests with the department. In 2022-23, this resulted in a total budget of £67.5 billion.

ESFA was £0.15 billion and 0.2% under the budget, largely driven by small underspends on:

- FE Insolvency, where there is uncertainty on the number and size of insolvency cases
- adult education budgets, where demand is typically uncertain and was lower than budgeted for.

Long term expenditure trends

These are taken from the *'Statement of Comprehensive Net Expenditure' (SoCNE).*

	2022-23	2021-22	2020-21	2019-20	2018-19
	£m	£m	£m	£m	£m
Income	-	(106)	(110)	(137)	(198)
Staff costs	49	104	101	94	66
Resource programme expenditure	67,229	65,347	62,293	58,474	56,721
Capital programme expenditure	17	110	1	36	119
Operating expenditure	25	47	49	53	68
Depreciation, impairment and other non-cash charges	6	(17)	61	47	22
Net operating expenditure	67,326	65,485	62,395	58,567	56,798
Shared service costs (included in operating expenditure above)	14	33	36	31	33
Average staff numbers (whole numbers)	829	1,779	1,749	1,694	1,852

2022-23 staff costs, operating expenditure and shared service costs have reduced due to structural changes and headcount reductions made in line with the ALB review recommendations.

The vast majority of expenditure (99.9%) is accounted for by resource funding to providers. The biggest element of this is National Funding Formula (NFF) grants to local authority maintained schools (26%) and academies (36%). Core 16 to 19 funding represents 10% of resource funding to providers.

Resource programme expenditure increased by £1.9 billion (2.9%) from 2021-22 to 2022-23. This included:

- an additional £4.1 billion for 5- to 16-year-olds as announced in December 2021. This delivered on the Prime Minister's commitment, made in 2019, to level up school funding, as well as an increase of £1 billion for pupils with special educational needs and disabilities.
- an additional £0.4 billion for 16 to 19 education relating to the additional funding announced in October 2021 by the Chancellor in the 3-year Spending Review.
- a reduction of £2.6 billion for programmes transferred to the department, including apprenticeships, in line with the ALB review recommendations.

Statement of Financial Position (SoFP)

There has been an increase in net assets (total assets less total liabilities) of £133 million, the most significant elements of this were:

- a reduction in payables of £431 million primarily relating to the reduction in accruals due to the transfer of apprenticeships to the department.
- Offset by:
  - a reduction in receivables of £130 million primarily relating to accrued income due to the transfer of the European Social Fund programme to the department
  - a reduction of cash and cash equivalents of £133 million

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

Key risks and issues

The key risks and issues listed below are from the reporting year 2022-23, most of which remain on the agency's risk register to the date of this report. ESFA operates in a complex environment and its business is subject to a broad range of risks. During 2022-23, the agency took steps to mitigate and manage those risks and respond to issues that arose.

This is a summary of the significant risks and issues managed during this financial year. More details regarding ESFA's risk management can be found within the *'Governance statement'*.

Risks and issues	Potential impact	Mitigation	Direction for year
Issue: Ability to deliver all business-as-usual activity is impacted by the prioritisation to support FE colleges following reclassification of the sector.	ESFA may not be sufficiently resourced and/ or is rushed into delivering new functions so that the sector cannot respond in time.	A process was in place to manage reclassification work, including an engagement strategy with colleges and commercial banks to improve working relationships over the next 2 years. ESFA teams have reviewed resourcing and prioritisation to ensure delivery of reclassification activity.	Improving
Risk: Rising costs lead to higher numbers of trusts and local authority maintained schools facing financial pressures.	Additional financial support may be needed, such as emergency, short-notice payments to sector. This could lead to increased pressure on timeliness and accuracy of funding payments.	ESFA identifies and engages with vulnerable trusts. Financial support is put in place where needed. The agency has completed a formal risk assessment and modelled the impact of rising costs. Mitigations have been planned for the forecasted scenarios.	Static

Risks and issues	Potential impact	Mitigation	Direction for year
The agency's preventative approach to fraud does not have the intended impact of detecting and reducing fraud in the sector.	Funding would remain exposed to the risk of fraud which causes financial loss to ESFA.	ESFA has a Counter Fraud Strategy, Counter Fraud Policy and Fraud Response Plan in place, as well as a standardised process for fraud risk assessments. The counter fraud team is qualified according to the Government Counter Fraud Professional Standards and there is ongoing work to raise awareness of counter fraud activity.	Static
ESFA is unable to deliver its business objectives, due to a failure of digital and data services, including cyber security, following the move of digital teams out of ESFA into DfE.	There is a potential negative impact on the delivery of accurate and timely funding, increasing the risk to providers' financial viability. More staff resource may be needed for manual workarounds, affecting ESFA's ambition to develop digital services.	Delivery plans are now in place for digital teams with an agreed programme of work. The sponsorship escalation process has been established to support the resolution of any disputes. ESFA also continues to hold budgets for embedded data science teams in the department.	Improving
Impact of resource prioritisation affecting operational delivery.	Continuing pressures on the budgets may lead to further controls and budgetary constraints. This could lead to a lack of agility in workforce planning and forced reprioritisation of existing resource if growth or new posts are restricted.	Directorates ensure they prioritise planned recruitment to remain within revised pay budgetary levels. ESFA has a robust process to collect and review performance against key performance indicators at all levels to highlight risks to delivery and take early corrective action. Directorates regularly review resourcing, stop-start lists and contingency plans.	Static

Risks and issues	Potential impact	Mitigation	Direction for year
Risk that people/ staff will fail to engage with the restructured agency.	This could result in a worse engagement score in the Civil Service People Survey, as well as increased attrition and missed opportunities for learning and development.	The vision and values for ESFA have been communicated with staff, with ongoing engagement activity. Grade groups have been established and the People strategy has been reviewed. Plans for site-based collaborations are in place.	Improving

Other information

Complaints to the Parliamentary Ombudsman

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

In 2022-23, we were made aware of 4 ESFA-related complaints escalated to the PHSO, who declined to investigate 2.

Of the remaining complaints, 1 was upheld and the other is still with the PHSO to decide whether it will be accepted for full investigation.

PHSO report full data with a year delay and ESFA is not always made aware at the time that a complaint has been made. This figure represents a small proportion of total complaints made to ESFA and the department. Work is ongoing to re-categorise ownership of those complaints handled internally to accurately reflect the agency's new remit.

ESFA is aligned with DfE in respect to the following matters:

Respect for human rights

Under the *Equality Act 2010,* DfE encourages and supports the development of a society in which:

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

Disclosures relating to policies on modern slavery are made within the DfE group annual report and accounts.

Anti-corruption and anti-bribery matters

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

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

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

DfE regularly reviews whistleblowing arrangements to ensure employees feel able to raise cases and they are handled appropriately. Whilst we have adopted the department's whistleblowing arrangements, ESFA has a dedicated lead who works with staff and the department.

Effectiveness of whistleblowing arrangements

ESFA shares its external whistleblowing policy with the department. This policy is set out on GOV.UK, which explains the process for where and how to make an allegation. The effectiveness of these arrangements will be reflected in the DfE group annual report and accounts. We have reinforced our internal processes for managing external cases following the ALB review so that responsibilities between ESFA and DfE are clear.

ESFA also shares its internal whistleblowing policy with the department. It is communicated to all staff through the intranet and explains how a concern about something that affects others, such as work colleagues, customers or the general public can be raised.

There were no internal whistleblowing cases specific to ESFA within 2022-23.

Sustainability

Sustainability information can be found in annex A.

Forward look

In November 2022 ESFA internally launched its new strategic purpose document which set out our new vision. The vision for the agency speaks specifically to our role and sets the direction for ESFA over the coming years, as well as reflecting our role in delivering DfE's vision of realising learner potential. This means that for the final few months of the year ESFA continued to report against its 2022-23 business plan, whilst also embedding its new strategic purpose.

The business plan for 2023-24 is built around the new strategic purpose, reflecting the agency in its final form following the post ALB review transitional period.

As mentioned earlier, the new business plan will focus on 3 'outcomes':

Certainty

Those we fund have certainty in their funding, enabling them to plan effectively.

Support

Those we fund can access high quality support and guidance, protecting against financial difficulty.

Assurance

Taxpayers' money is used for its intended purpose.

ESFA continues its core focus of allocating funding to education and skills providers, and alongside this, will deliver a number of activities to improve funding administration and consistency across ESFA and the department, and strengthen ESFA's ability to take on additional funding lines in future.

Providing assurance over the proper use of public funds within the education and skills sectors remains a key priority for ESFA. We will maintain strong links with the department to continue to provide support and improve the health, financial governance, and efficiency of providers.

During 2023-24, we expect to implement the outcomes of the department's Regulatory and Commissioning Review, including building on the commitments of the ALB review to deliver the single, unified voice at a regional level on pre-16 issues, setting out how ESFA will work with Regions Group in the department to provide oversight of, and support for, school and trusts. We will also – through the 2023 Academy Trust Handbook – set out how we will improve the financial oversight framework for academy trusts; as well as continuing to support academy trusts where appropriate given the challenging economic circumstances.

We also expect a continued focus on supporting FE colleges through the impacts of FE reclassification, especially across consolidation and accounting, governance, and financing.

CEO appointment and senior leadership changes

In August 2022 David Withey joined ESFA as the new permanent Chief Executive Officer.

Full details surrounding changes of senior leadership are provided in the *'Directors' report'*.

David Withey
Chief Executive
5 July 2023

Accountability report

Accountability report

The *'Accountability report'* sets out how we meet the key accountability requirements to Parliament. It is broken down into 3 areas:

1. The *'Corporate governance report'* which provides an overview of the leadership of ESFA and our risk management approach.
2. *'Remuneration and staff report'* which details remuneration and staff expenses and policies.
3. *'Parliamentary accountability and audit report'* which contains parliamentary accountability disclosures and the audit certificate.

Corporate governance report

The corporate governance report details the composition and organisation of ESFA's governance structures and explains the role of the Accounting Officer. It sets out our risk management, internal control arrangements and how our governance supports the achievement of ESFA's objectives for the financial year 1 April 2022 to 31 March 2023 and up to the date of approval of the Annual Report and Accounts (ARA).

The directors' report

Non-executive directors (as at 31 March 2023)

Martin Spencer
Chair: Management Board

Hunada Nouss OBE
Chair: Audit and Risk Committee
Management Board

Peter Kane
Audit and Risk Committee
Management Board

John Lakin
Audit and Risk Committee

Paul Woodgates
Audit and Risk Committee

Executive Team members (as at 31 March 2023)

David Withey
Chief Executive and Accounting Officer

Owen Jenkins
Interim Director of Funding

Warwick Sharp
Director of Schools Financial Support and Oversight

Andrew Thomas
Director of Finance and Provider Market Oversight

Movement in directors and non-executive directors in 2022-23

At the start of the 2022-23 financial year John Edwards was in post as Interim Chief Executive and Accounting Officer from 26 July 2021 until 13 July 2022.

From 13 July 2022, John Edwards took up a new role as Director General for Regions Group in DfE and Warwick Sharp was appointed Interim Chief Executive and Accounting Officer to 15 August 2022.

On 15 August 2022, David Withey joined ESFA as Chief Executive and Accounting Officer on a permanent basis.

Kirsty Evans, Peter Mucklow and Sue Lovelock moved to the department on 1 April 2022 following implementation of Future DfE and the ESFA ALB review, through which their areas were transferred back to the department.

Sarah Whitehead left the Executive Team on 1 April 2022 on a secondment outside the public sector.

Matthew Atkinson stepped down as Director for Finance and Provider Market Oversight on 31 August 2022. This role was temporarily filled by David Brown from 1 September 2022 until 28 October 2022. There was then a short gap in the appointment of the role, which was temporarily covered by existing directors, until 3 January 2023 when Andrew Thomas joined ESFA as permanent Director for Finance and Provider Market Oversight.

Stuart McMinnies was a non-executive director on the Management Board and Audit and Risk Committee until his term ended on 31 May 2022. Paul Woodgates was appointed non-executive director on 1 September 2022.

Throughout all the changes in officials, assurances have been provided by predecessors to enable David Withey to sign this ARA.

Dates officials commenced or departed roles during 2022-23 are summarised in the meeting attendance table on page 41.

Register of interests

ESFA maintains a register of interests to ensure that potential conflicts of interest are identified, and appropriate mitigations are put in place. Executive and non-executive board members are required to declare details of company directorships and other significant interests on appointment to the board and on an annual basis. ESFA publishes the register of interests[9] annually alongside the ARA on GOV.UK.

ESFA collects details of any outside employment held by senior civil servants. In 2022-23 no senior civil servant declared having any outside employment.

Compliance with the Corporate Governance Code

Following a review of the relevant areas of the *Cabinet Office's Corporate Governance in Central Government Departments: code of good practice,* no major departures from the code were identified in 2022-23.

ESFA also reviews its approach to risk management annually and ensures compliance with *The Orange Book,* a HM Treasury (HMT) document which outlines key principles and concepts of risk management. More information on ESFA's management of risk is available on page 42.

Personal data breaches

A personal data breach is defined as a loss, unauthorised access/disclosure, insecure disposal, or compromise of personal data.

Personal data breaches could cause harm to the rights and freedoms of an individual. The following personal data held by the organisation falls within the scope of a personal data breach:

- information that links one or more identifiable living person(s) with information about them
- any source of information about identifiable individuals, other than information sourced from the public domain

No personal data breaches were formally reported to the Information Commissioner's Office in 2022-23 (2021-22: 1).

9 https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2022-to-2023/register-of-esfa-board-members-interests-for-the-financial-year-2022-to-2023

Statement of Accounting Officer's responsibilities

Under *Section 7 of the Government Resources and Accounts Act 2000,* DfE has directed ESFA to prepare a statement of accounts for each financial year, in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of ESFA and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the accounts direction issued by DfE including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgments and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis
- confirm that the annual report and accounts as a whole is fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Accounting Officer of DfE has designated ESFA's Chief Executive as the Accounting Officer of ESFA.

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

This report covers the 2022-23 financial year and therefore partly pre-dates my appointment on 15 August 2022. I have received assurances from my predecessors and discussed the report with Management Board, staff across the agency, and our auditors. My predecessors have assured me that they have discharged their responsibilities properly and that they have taken all steps to make themselves aware of any relevant audit information and to establish that ESFA's auditors are aware of that information.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that ESFA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Governance statement

The purpose of the governance statement

This statement sets out our governance, risk management, the assurances I have received as Chief Executive and Accounting Officer of ESFA, and our compliance with Cabinet Office's *'Corporate governance in central government departments': code of good practice.*

Changes implemented following the ALB review, which were effective from 1 April 2022 and 1 July 2022, have resulted in governance structure and leadership changes in ESFA.

ESFA consists of 3 directorates carrying out a revised remit refocused on core funding delivery. Governance structures have adapted accordingly, with a reduction in the number of sub-committees and boards to reflect a smaller organisation with a more focused remit. However, the Management Board, Audit and Risk Committee and Executive Team continue to provide leadership and direction to ESFA.

ESFA has worked closely with the department to ensure an efficient and effective transfer of functions. Appropriate documentation and formalisation of roles and responsibilities are in place following the changes, such as an Accounting Officer remit letter, budget delegations and service level agreements.

Controls and assurance activities have continued to operate effectively, with no significant weaknesses identified. This governance statement details the control systems in place during 2022-23 and notes the main features that support regular risk management, monitoring, review and assurance.

ESFA's internal control and risk management framework

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

Following the assurances I have received from my predecessors in the financial year, I am satisfied that effective internal control of risk has been in place from 1 April 2022, through to 31 March 2023 and up to the date of approval of the ARA.

The scale and complexity of ESFA's work requires us to operate a system of governance, internal control and risk management that can manage risk to a reasonable level.

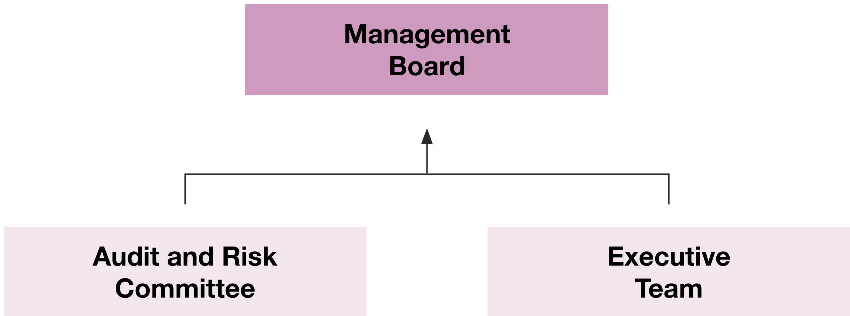
For all types of risk, we adopt the '3 lines of defence' approach to effective management, supported by strong governance arrangements employed by our boards and committees.

Line of defence	Description	Governance oversight Detailed in the board and committee structure (page 37)	Examples
First line of defence: management and controls	The organisation's culture, people, processes, systems, and controls that drive the day-to-day operation of controls and risk management.	• Management	• Risk management (page 42) • Financial management (page 42)
Second line of defence: oversight	Risk oversight and compliance functions which are in place to support, advise and challenge the first line of defence on risk management processes.	• Executive Team	• Assurance Framework Record (page 43) • Assurance of funding to providers (page 43) • Counter fraud and prevention (page 44) • Assurance of shared services functions (page 45) • Assurance of interests and business appointments (page 45)
Third line of defence: independent assurance	Internal audit functions which provide independent and objective assurance over the effectiveness of risk management and compliance processes.	• Management Board • Audit and Risk Committee	• Summary of Government Internal Audit Agency (GIAA) activity (page 46)
Other sources of external assurance	Independent assurance provided by an external organisation.		• Summary of National Audit Office (NAO) and Public Accounts Committee (PAC) reports (page 46) • The Comptroller and Auditor General (C&AG)'s audit certificate (page 67)
Overall			• Conclusion on governance, controls and assurance (page 46)

Board and committee structure during 2022-23

ESFA's governance structure enabled the Executive Team to undertake effective and transparent decision making and provided appropriate support, challenge, and assurance by non-executives.

The organisational structure presented below was in place throughout 2022-23. Meeting attendance is detailed on page 41.



Management Board

The board provided strategic direction, support and guidance, to ensure the delivery of the business plan objectives, organisational effectiveness, and alignment with the department's mission, strategy and purpose.

The board advised the Chief Executive on arrangements that provided assurance on risk management, governance, and internal control. It advised how to improve the performance of ESFA and supported the Chief Executive to discharge obligations set out in *Managing Public Money* for the proper conduct of business and maintenance of ethical standards.

Chair

Martin Spencer

Members

Lead non-executive, non-executive board members, ESFA's Chief Executive.
Other executives attend as relevant to the agenda.

Frequency

6 per year

Highlights

Reports and discussions on:

- FE sector financial health and ESFA approach to supporting the sector through reclassification
- financial pressures in the schools sector and the impact of increasing energy costs
- agency change and transition following the completion of the ALB review and the subsequent setting of agency strategy and business plan
- internal ESFA People strategy approval.

Following the outcomes of the ALB review and the new outcome-based approach to business planning, the agency has reviewed the effectiveness of its governance arrangements in totality, including how Management Board takes assurances on risk and performance from the agency. Following this review, a number of changes have been identified and implemented from the start of 2023-24 which will delegate detailed performance conversations from Management Board to 3 strategic performance boards linked to the new outcomes. This will allow for more detailed and broader strategic conversations to take place at the board itself.

The board has worked closely with ESFA to improve the quality of reports it receives. Following approval of changes to reporting for information relating to people, performance, and finance, the board is content with the quality of information received.

The Chair of the board has held appraisals with board members for 2022-23.

Our governance is compliant, where relevant, with the *'Corporate Governance in Central Government Departments: code of good practice'*. No departures from the code were identified in 2022-23.

The register of interests [10] and summaries of meetings [11] are published online.

10 https://www.gov.uk/government/publications/education-and-skills-funding-agency-esfa-annual-report-and-accounts-2022-to-2023/register-of-esfa-board-members-interests-for-the-financial-year-2022-to-2023
11 https://www.gov.uk/government/organisations/education-and-skills-funding-agency/about/our-governance

Audit and Risk Committee

The Audit and Risk Committee (ARC) supported the Management Board on issues of risk, control and governance, including overseeing internal and external audit activity. ARC was also responsible for giving assurance to DfE's Board on ESFA audit and risk activity.

Chair

Hunada Nouss OBE, non-executive director

Members

Chair (non-executive board member of ESFA Management Board). Three additional non-executive directors, one of whom should also be a member of the Management Board.

Others who are normally invited to ARC meetings include: Chief Executive, Finance and Provider Market Oversight Director, DfE's Operational Finance Director, an observer from the NAO, and an observer from GIAA. Other officials from ESFA and DfE are invited to attend ARC meetings when necessary.

Frequency

At least quarterly, with additional meetings if deemed necessary to discuss particular issues.

Highlights

- reviewed ESFA's effectiveness in its management of risk
- deep dives into cyber security (in collaboration with DfE representatives), investigations and enforcement, counter fraud, FE sector reclassification and finance risks
- received reports on year-end assurances of shared services from DfE
- received regular progress reports on our audit and assurance programme, monitored and scrutinised the production of the 2021-22 ARA
- regular reports from GIAA throughout the year against the 2022-23 audit plan and proposed audit plan for 2023-24
- reports from NAO on the planning for, and progress of, the annual financial audit, and updates on the progress of, and plans for, new NAO value-for-money audits
- non-executive directors provided challenge and scrutiny over a sample of Assurance Framework Record (AFR) returns, testing the AFR process and the overall controls in place to manage risks across ESFA

Executive Team

The Executive Team assisted the Chief Executive, as the Accounting Officer, to discharge his duties and ensured the efficient and effective management of ESFA. The Executive Team was responsible for implementing the strategies agreed by the Management Board and for overseeing operational delivery, performance and risk against ESFA's business plan. This is a forum in which to hold each other and their programmes to account, along with carrying out forward-looking strategic thinking.

Chair

John Edwards, Interim Chief Executive (to July 2022)

Warwick Sharp, Interim Chief Executive (from July 2022 to August 2022)

David Withey, Chief Executive (from August 2022)

Members

Chief Executive, ESFA directors

Frequency

Twice monthly

Highlights

- Reviewed and agreed strategic plans relating to the strategic functions of people and stakeholders, as well as receiving updates on the embedded data, digital and technology functions.
- Incorporated the agency's performance and risk management discussions, providing a forum for:
  - ensuring consistency, clear accountability, and management and mitigation of risks that may jeopardise the achievement of our objectives
  - monitoring operational performance against the agreed business plan objectives through key performance indicators, agreeing actions to improve delivery and performance as appropriate
  - agreeing risks and performance issues to escalate to ARC, Management Board and DfE, to provide assurance risks are being managed effectively and to enable scrutiny and challenge of actions and mitigations at the highest level.
- Interrogated monthly finance dashboards to effectively and efficiently manage public money and achieve value for money for the taxpayer.
- Approved new governance arrangements for ESFA following the ALB review including:
  - scrutinised and approved service level agreements between DfE and ESFA
  - developed and agreed the agency's new strategic purpose and outcomes
  - scutinised and approved a new performance management governance structure to come into effect in 2023-24 for reporting against the strategic purpose

Meeting attendance by executives and non-executives during 2022-23

Attendance records for members, but not attendees, are given below:

	Date started or left role if in 2022-23	Management Board	Audit & Risk Committee	Executive Team
Non-executive directors				
Martin Spencer	Interim chair from 31 October 2021, permanent chair from 1 August 2022	5/5	n/a	n/a
Hunada Nouss OBE		5/5	5/5	n/a
Stuart McMinnies	To 31 May 2022	1/1	1/1	n/a
Peter Kane	Appointed to Management Board from 1 August 2022	2/3	5/5	n/a
John Lakin		n/a	5/5	n/a
Paul Woodgates	From 1 September 2022	n/a	3/3	n/a
Executive team members				
John Edwards	Interim CEO to 13 July 2022	1/1	1/1	4/6
Warwick Sharp	Permanent Director throughout 2022-23. Interim CEO from 13 July 2022 to 15 August 2022	4/5	4/5	17/21
David Withey	CEO from 15 August 2022	3/3	3/3	13/13
Owen Jenkins		5/5	4/5	18/21
Matthew Atkinson	To 31 August 2022	1/1	2/2	5/9
David Brown	From 1 September 2022 to 28 October 2022	1/1	1/1	4/4
Andrew Thomas	From 3 January 2023	1/1	1/1	5/5

Risk management

ESFA has a clear risk management framework and statement of risk appetite that define and guide the agency's approach to risk. The framework aligns with the department's framework and complies with risk management guidance used across government such as HMT's Orange Book.

ESFA reviewed the risk management framework which was then endorsed by ARC in December 2022. The risk appetite statement was also updated in July 2022. The purpose of this framework is to help teams make informed judgements on how much risk is acceptable in agency operations. ESFA adopted a more cautious approach following the period of increased flexibility and innovation to manage the impact of COVID-19.

Directors are accountable for programme delivery and they 'own' risks to support delivery of our strategic objectives. Directors manage risks by promoting and supporting risk management within their projects, programmes, and directorates. The Executive Team meeting is responsible for scrutinising ESFA's key risks and supporting improvements.

ARC was sighted on significant risks and issues pertinent to ESFA to ensure effective challenge and oversight of their management. Where risks were deemed to have wider departmental impact, these were escalated to the department's Performance and Risk Committee. The key risks identified and managed in 2022-23 are in the *'Key risks and issues'* section of this report.

Financial management

As Accounting Officer, I and my predecessors in the year, have responsibility for ensuring that effective systems to manage and monitor all funds for which ESFA has responsibility are in place. Following assurances received from my predecessors, I am content that processes, controls, risk management and fraud prevention strategies delivered good financial management, propriety, regularity, and value for money during 2022-23. I consider that ESFA's financial management was sound.

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

All Senior Civil Servants (SCS) received finance training during 2022-23 to ensure that the knowledge of those who are responsible for managing taxpayers' money is kept up to date. Accounting Officer training was also delivered to each interim Chief Executive and the permanent Accounting Officer on a timely basis.

During 2022-23, ESFA adopted Adaptive Planning, an IT system utilised by the department, which enables users to input financial forecasts and review expenditure and budgets. This change aligns agency finance processes with those in the department, enabling greater consistency of data across systems and providing further opportunities to bring financial, workforce and contracting information together, across the departmental group.

Assurance Framework Record

SCS are members of staff at deputy director level and above. ESFA SCS are responsible for maintaining effective systems and processes across their areas of responsibility to ensure cross-departmental control frameworks are appropriately upheld and monitored. With the support of the Management Board, we have ensured there are robust governance, risk management and internal control arrangements across the whole ESFA.

For the Accounting Officer to take assurance that relevant controls have been implemented, every SCS working within ESFA is required to complete an Assurance Framework Record (AFR) on an annual basis. This acts as an area-specific assessment of the effectiveness of the control framework, covering a range of areas including governance, risk management, financial management, business strategy and planning, project and programme management, commercial and grant management, and people, capacity and capability. These records detail SCS's compliance with DfE's assurance framework and set out the arrangements for risk, control systems and use of resources. SCS also communicate any issues which might prevent sufficient, continuous, and reliable assurance of cost-effective public services.

In 2022-23, all SCS in ESFA completed and returned an individual AFR. Subsequent sample validations were conducted to evaluate the effectiveness of management, controls, risk and oversight within each selected SCS's area of responsibility and recommendations were provided on how these areas could be strengthened.

Overall, SCS reported high confidence in the ESFA control environment, but noted a few challenges ESFA faced in the financial year. New teams and processes have been embedded following the ALB review and transformation projects across the department, requiring time for those teams to adapt to the changes.

Assurance of funding to providers

The ESFA Head of Assurance has provided me with their annual report, based upon their full year's programme of work, incorporating their opinion on whether funds have been used by providers for the purposes intended by Parliament. The Accounting Officer and Audit and Risk Committee were regularly updated on progress, risks, emerging findings and issues during the year.

The programme of work includes a wide range of routine planned and responsive activity, including:

- maintaining the accountability framework for academies and colleges
- analysis and risk assessment of financial data, which underpins our assurance work
- reviews of audited financial statements, governance returns, financial health assessments
- funding audits and other assurance reviews of providers and their funding claims

A key assurance risk continues to be in relation to grants paid to local authorities. Our assurance approach includes a review of a number of sources of evidence, including audited and draft financial statements, schools' forum minutes, audit committee papers, external and internal audit reports, which allow us to form an overall opinion over the use of funds by local maintained schools and other providers. In recent years, the number of outstanding audited financial statements has increased and this year the trend has continued, with over 80% of all local authority 2021-22 audited financial statements outstanding at the point of completing our work. We understand that two of the main reasons for the outstanding financial statements continue to be local authorities' finance teams and external auditor capacity issues. This has been exacerbated by an ongoing technical accounting issue, unrelated to ESFA funding, and the impact of local government pension scheme valuations on delayed accounts. The lack of independently audited financial statements required us to revisit our risk assessment and seek more detailed assurance for those local authorities, assessed as presenting an increased risk, considering whether there is a potential assurance gap. We were able to conclude that, overall, funds had been used for the purposes intended, but recognise this will continue to be an area of risk and therefore focus in future years.

The reclassification of colleges into the central government sector on 29 November 2022 requires the sector to comply with HMT's *Managing Public Money* requirements. This has required an update to our financial framework for colleges including publication of six reclassification bite-size guides, and additional assurance activity covering the period from 29 November 2022. The main areas of additional activity include ensuring that: appropriate debt consents are in place for any new or amended college borrowing and colleges have complied with any other *Managing Public Money* transactional requirements. This additional assurance activity will continue in 2023-24 and will be incorporated within our normal assurance activity.

In arriving at its overall assurance opinion, the ESFA Head of Assurance considered the value of funding and their assurance opinions for each funding stream and provider type. Of the three possible opinions (substantial, moderate, or restricted), the ESFA Head of Assurance concluded a substantial assurance opinion for 'business as usual' funded activity and a moderate assurance opinion for funded activity for COVID-19 and education recovery grants. The ESFA Head of Assurance concluded that, in all material respects, providers had applied ESFA funds for the purposes intended by Parliament.

Counter fraud and prevention

ESFA has its own dedicated Counter Fraud and Prevention team who provide support and guidance to identify and mitigate fraud and financial risk. ESFA takes the protection of public funds extremely seriously and will take steps to investigate where appropriate to prevent its misuse. Where organisations and individuals are found to have misused public funds, we seek to maximise recoveries and sanctions.

In 2022-23, ESFA's counter fraud and error governance structure was strengthened through developing a new counter fraud strategy. The agency also increased the number of counter fraud professionals and officers who have successfully completed the Public Sector Fraud Authority training in fraud risk assessment.

The agency has continued to focus on fraud and error prevention through increasing use of data analytics, collaboration with other government departments and the provision of advice alongside our internal stakeholders to support the education sector. As part of the prevention strategy, the growth of our funding risk and proactive compliance activity also means we are able to manage emerging risks early and support the sectors we work with to improve their internal controls.

Assurance of shared services functions

ESFA receives several corporate services from the department including technology, estates and security, transactional finance, legal and HR. Key monthly metrics are reported to the Executive Team each month on finance services, including payments, cash forecasting and financial position. Directors are sent monthly prompt payment data which is used to improve ESFA's use of finance services.

2022-23 is the second full year operational services were provided to ESFA by the department with key controls assured by the Financial Controls Team. Following ALB review, revised service level agreements between the department and ESFA were agreed and finalised.

The Financial Controls Team concluded that key controls were operating generally satisfactorily with some improvements required. Actions to address findings were agreed and will be followed up during 2023-24. No impact on the accounts was identified.

Assurance of interests and business appointments

ESFA follows DfE policies for managing conflicts of interest. All ESFA staff must declare potential conflicts, including any outside remunerated employment, directorships, office, profession or activity, unremunerated and miscellaneous positions, and significant shareholding or interest in public or private companies.

Potential conflicts are managed within each business area, through conversations with the individual's line manager to establish whether it represents an actual conflict and establish a plan for its management.

For assurance purposes, as part of their AFR, each SCS in ESFA is asked to confirm whether any conflicts of interest were identified in their areas and, if so, confirm that they are appropriately managed in line with departmental policy. For 2022-23, conflicts of interest that were identified were appropriately managed in line with guidance and declared. A sample of those returns was subject to further validation. All SCS chosen for validation confirmed they maintained and periodically updated a register in their areas.

A link to the register of interests is on page 33.

Summary of Government Internal Audit Agency (GIAA) activity

Internal audit services are provided by the GIAA. The GIAA's Head of Internal Audit has provided a summary of each audit to ARC and an annual report, which incorporates an opinion on the system of governance, risk management and internal control. The opinion is informed by the internal audit work completed during the year in line with the internal audit plan agreed by me, the Executive Team and ARC.

Of the 4 possible opinion ratings (substantial, moderate, limited or unsatisfactory), the rating given by GIAA for 2022-23 was moderate. A moderate rating states that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management, control and assurance. I have accepted this assessment and implemented all the recommendations from GIAA's findings by the timescales agreed.

Summary of National Audit Office (NAO) and Public Accounts Committee (PAC) reports

The regularity of the ESFA's expenditure is subject to audit and scrutiny by the Comptroller and Auditor General, through the NAO. The NAO also undertakes around 60 value-for-money studies each year, which Parliament uses to hold the government to account for how it spends public money.

There were no NAO reports or PAC hearings during 2022-23 that resulted in recommendations for ESFA.

ESFA has continued to implement NAO and PAC recommendations from prior years. Updates on progress against recommendations are published by the NAO on the recommendations tracker. [12]

Conclusion on governance, controls and assurance

I have considered the evidence provided by my predecessors, staff across the agency and the independent advice and assurance provided by ARC. Although there were changes in the holder of the CEO post over the period, and governance and structural changes due to the ALB review from 1 April 2022, there has been good continuity in the remaining 3 directorates of the agency, functions and delivery at directorate level. ESFA's governance, controls and assurance arrangements remained robust during the year and up to the date of signing the accounts.

We have faced an on-going challenge with undertaking assurance activity in relation to grants paid to local authorities because of the increasing number of outstanding audited financial statements in comparison to prior years. We have continued to respond to this by seeking more detailed assurance for those local authorities assessed as presenting an increased risk. We were able to conclude that, in all material respects, funds had been used for the purposes intended but acknowledge this will continue to be an area of risk and greater focus in future years.

Despite the increased risk around the local authority assurances, I conclude that ESFA has a sound system of governance, risk management and internal controls in place with effective plans to ensure continuous improvement.

12 https://www.nao.org.uk/recommendations-tracker/

Remuneration and staff report

Overview

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

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

Remuneration report part A: unaudited

Chief Executive and Executive Team members' remuneration policy

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

As staff employed by an executive agency of the department, the Executive Team's performance management and contractual terms are as described in the department's Annual Report and Accounts. As such, the department manages performance management and non-consolidated performance awards for members of the Senior Civil Service within the framework set by the Cabinet Office. The contractual terms of Executive Team members also comply with requirements set centrally by the Cabinet Office. More on the Cabinet Office's framework and standards can be found on the Civil Service website. [13]

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Readers can find further information about the work of the Civil Service Commission on its website. [14]

13 https://www.gov.uk/government/organisations/civil-service
14 https://civilservicecommission.independent.gov.uk/

Remuneration report part B: audited

Remuneration (including salary) and pension entitlements

					2022-23
	Salary	Bonus	Benefits-in-kind	Pension benefits	Total
	£000	£000	(to nearest £100)	£000	£000
David Withey from 15 August 2022 annualised value	85-90 *(125-130)*	0-5	5,900	82	175-180
John Edwards to 13 July 2022 annualised value	45-50 *(140-145)*	-	3,200	16	65-70
Warwick Sharp	95-100	5-10	-	31	135-140
Peter Mucklow to 1 April 2022	-	-	-	-	-
Matthew Atkinson to 31 August 2022 annualised value	55-60 *(135-140)*	-	-	22	75-80
Sarah Whitehead to 1 April 2022	-	-	-	-	-
Sue Lovelock to 1 April 2022	-	-	-	-	-
Kirsty Evans to 1 April 2022	-	-	-	-	-
Owen Jenkins	90-95	5-10	5,200	36	140-145
David Brown from 1 September 2022 to 28 October 2022 annualised value	15-20 *(95-100)*	-	-	66	80-85
Andrew Thomas from 3 January 2023 annualised value	25-30 *(105-110)*	-	-	18	45-50

Peter Mucklow, Kirsty Evans, Sue Lovelock and Sarah Whitehead left their board roles at the start of 1 April 2022 so received no remuneration for their Executive Team roles.

					2021-22
	Salary	Bonus (Restated)	Benefits-in-kind	Pension benefits	Total (Restated)
	£000	£000	(to nearest £100)	£000	£000
John Edwards	135-140	5-10	3,900	54	200-205
Eileen Milner to 25 July 2021 annualised value	75-80 *(150-155)*	-	-	29	105-110
Peter Mucklow	105-110	5-10	4,200	6	120-125
Matthew Atkinson	135-140	5-10	-	53	195-200
Sarah Whitehead	100-105	5-10	-	41	145-150
Charlotte Briscall to 31 January 2022 annualised value	95-100 *(115-120)*	0-5	500	45	145-150
Sue Lovelock	90-95	5-10	-	25	125-130
Kirsty Evans	90-95	0-5	-	25	120-125
Warwick Sharp	95-100	10-15	-	38	145-150
Stuart Proud to 30 September 2021 annualised value	45-50 *(90-95)*	0-5	-	34	80-85
Owen Jenkins from 17 August 2021 annualised value	60-65 *(90-95)*	0-5	1,900	23	85-90

Figures in (brackets and italicised) are full year equivalent totals for staff who present part-year totals.

John Edwards received a bonus for 2021-22 which was paid early in 2022-23 and the table has been restated to include this payment.

Salary

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

Benefits-in-kind

The monetary value of benefits-in-kind covers any benefits provided by the agency and treated by HM Revenue and Customs as taxable emoluments. Three directors received benefits-in-kind in 2022-23 (2021-22: 4), in relation to multi-site working and childcare vouchers.

Bonuses

The department awards bonuses as part of the performance management process. ESFA 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. ESFA follows the arrangements for the senior civil servants as set out in the Performance Management Arrangements for the Senior Civil Service [15], and the department's performance management framework for managing and rewarding performance throughout the year.

All performance awards are awarded in the current year.

Non-executive director fees

The following non-executive directors received a fee for their work.

	2022-23	2021-22
	£000	£000
Hunada Nouss	10-15	10-15
Martin Spencer	10-15	5-10
Stuart McMinnies (to 31 May 2022)	10-15	15-20
John Lakin	0-5	5-10
Peter Kane	5-10	0-5
Paul Woodgates (from 1 September 2022)	0-5	-
Ian Hickman	-	0-5
Nigel Johnson	-	5-10
Dame Irene Lucas-Hays	-	-

Dame Irene Lucas-Hays, Ian Hickman and Nigel Johnson left their roles in the prior year.

Dates of office can be found in the Governance Statement.

15 https://www.gov.uk/government/publications/senior-civil-service-performance-management

Pay multiples

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

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.

	Salary	2022-23 Total pay and benefits	Salary	2021-22 Total pay and benefits
Band of highest paid director's remuneration (£000)	125-130	135-140	135-140	145-150
Range (£000)	22-130	22-140	21-140	21-150
Upper quartile (£)	51,636	52,895	50,401	51,567
Median (£)	38,068	39,208	36,959	38,050
Lower quartile (£)	31,323	32,565	30,198	31,115
	Ratio	**Ratio**	**Ratio**	**Ratio**
Upper quartile	2.5:1	2.6:1	2.7:1	2.9:1
Median	3.3:1	3.5:1	3.7:1	3.9:1
Lower quartile	4.1:1	4.2:1	4.6:1	4.7:1

Removal of the pay freeze has seen an average increase in employee pay of 2.6% with different rates of increase depending on grade. The remuneration of the highest paid director dropped following the changes in board membership and the ratios of this to the upper, median and lower quartile have all reduced in response.

In 2022-23, no employees (2021-22: nil) received remuneration in excess of the highest paid director. Remuneration ranged from £22,000 - £140,000 (2021-22: £21,000 - £150,000).

The banded remuneration of the highest-paid director in 2022-23 was £135,000-£140,000 (2021-22: £145,000-£150,000). This was 3.5 (2021-22: 3.9 times) the median remuneration of the workforce, which was £39,208 (2021-22: £38,050). The 75% percentile ratio was 2.6:1 (2021-22: 2.9:1) which means that the highest paid director would receive £2.60 (2021-22: £2.90) compared to an individual in the 75% percentile receiving £1.00. For the 25% percentile the value is £4.20 for the highest-paid director compared to the individual receiving £1.00 (2021-22: £4.70).

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.

Percentage change in the total salary and bonuses of the highest paid director and the staff average

	2022-23		2021-22	
	Highest paid director	Staff average	Highest paid director	Staff average (Restated)
	% change	% change	% change	% change
Salary and allowances	(7.3%)	2.6%	(9.8%)	(0.2%)
Bonuses	(66.7%)	16.6%	(200%)	(10.8%)

The average bonus paid has increased from last year's reduced value following that year's pay freeze and is now comparable with 2020-21. On average employees, excluding the highest paid director, had a pay and benefits increase of 2.6%. The prior year bonus percentages are restated to take account of a bonus restatement within the Remuneration Report.

Pension benefits

	Accrued pension and related lump sum at pension age as at 31 March 2023	Real increase in pension and related lump sum at pension age	CETV at 31 March 2023	CETV at 31 March 2022	Real increase in CETV
	£000	£000	£000	£000	£000
David Withey	15-20	2.5-5	225	-	46
John Edwards	15-20	0-2.5	207	184	9
Warwick Sharp	20-25	0-2.5	218	191	10
Matthew Atkinson	15-20	0-2.5	190	174	10
Owen Jenkins	10-15	0-2.5	121	94	15
David Brown	30-35	2.5-5	367	-	33
Andrew Thomas	35-40	0-2.5	429	-	8
Peter Mucklow	-	-	-	1,121	-
Sarah Whitehead	-	-	-	152	-
Sue Lovelock	-	-	-	345	-
Kirsty Evans	-	-	-	503	-

CETV: Cash Equivalent Transfer Value

There are no employer contributions to partnership pension accounts.

Civil Service Pensions

As an executive agency of the department, ESFA staff have access to Civil Service pension arrangements that provide pension benefits. The department's Annual Report and Accounts provides information on these arrangements, so we do not reproduce them here. Readers can find details on the scheme at the Civil Service Pension's website. [16]

Civil Service Pension arrangements

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 4 sections: 3 providing benefits on a final salary basis (classic, premium, or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 switch into alpha sometime between 1 June 2015 and 1 February 2022. Because the government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values (CETV) shown in this report – see below). All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha (pension figures quoted for officials show pension earned in PCSPS or alpha as appropriate – where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the 2 schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

16 http://www.civilservicepensionscheme.org.uk/

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

Partnership pension

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

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

Further details about the Civil Service pension arrangements can be found at the Civil Service Pensions' website. [17]

17 https://www.civilservicepensionscheme.org.uk/

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the PCSPS. 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.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HMT published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.

Real increase in CETV

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

Compensation on early retirement or for loss of office

The agency paid no compensation on early retirement or for loss loss of office in 2022-23 (2021-22: £nil).

Staff report Part A: audited

Staff costs

	Permanently employed staff	Others	2022-23 Total	2021-22 Total
	£000	£000	£000	£000
Wages and salaries	35,325	237	35,562	75,672
Social security costs	4,027	-	4,027	8,549
Pension costs	8,937	-	8,937	20,062
	48,289	**237**	**48,526**	**104,283**
Less recoveries in respect of outward secondments	-	-	-	(39)
	48,289	**237**	**48,526**	**104,244**

Other staff payments are a flat fee which includes social security, holiday pay, and pension costs. This note discloses the total sum as wages and salaries.

Average number of persons employed

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

	Permanently employed staff	Others	2022-23 Total	2021-22 Total
	Number	Number	Number	Number
Directly employed	**828**	**1**	**829**	**1,779**

Pension schemes

ESFA operates 2 pension schemes for its employees: Principal Civil Service Pension Scheme (PCSPS) and partnership pension accounts.

Principal Civil Service Pension Scheme

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

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

For 2022-23, employer contributions of £8.9 million (2021-22: £19.9 million) were payable to the PCSPS and CSOPS at one of 4 rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The scheme's actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2022-23 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Two individuals (2021-22: none) retired early on ill-health grounds, the total additional accrued pension liabilities in the year amounted to £nil (2021-22: £nil).

Partnership pension accounts

Employees can opt to open a partnership pension account which is a stakeholder pension with an employer contribution. Employer's contributions of £80,000 (2021-22: £149,000) were paid to one or more of the panel of 3 appointed stakeholder pension providers.

Employer contributions are age-related and range from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £3,000 (2021-22: £5,000) 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS and CSOPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £5,000 (2021-22: £15,000). Contributions prepaid at that date were £nil (2021-22: £nil).

No individual (2021-22: none) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2021-22: £nil).

Reporting of Civil Service and other compensation schemes

			2022-23			2021-22
Exit package cost band	Compulsory redundancies	Other departures agreed	Total exit packages	Compulsory redundancies	Other departures agreed	Total exit packages
	Number	Number	Number	Number	Number	Number
<£10,000	-	2	2	-	-	-
£10,001-£25,000	-	3	3	-	-	-
£25,001-£50,000	-	11	11	-	-	-
£50,001-£100,000	-	12	12	-	-	-
Total number of exit packages	**-**	**28**	**28**	**-**	**-**	**-**
Total costs (£000)	**-**	**1,381**	**1,381**	**-**	**-**	**-**

During the year the department and its agencies ran a voluntary exit scheme. Under the applicable accounting standard, the costs for this are shown in 2022-23 as the departures were agreed in March 2023, with the staff exiting the agency by 31 May 2023.

Staff report Part B: unaudited

Analysis of staff policies and statistics

Our people

Recruitment practice

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

Sickness absence

	2022-23	2021-22	2020-21
Sickness absence days per FTE	6.2	6.6	6.3

The figures disclosed above are lower than the Civil Service average for 31 March 2022 of 7.9 working days lost per Full Time Equivalents (FTE). [18]

Staff by grade and gender

			2022-23			2021-22
Grade	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
CEO	1	-	1	1	-	1
Director	2	1	3	3	3	6
Deputy Director	10	5	15	21	15	36
Grade 6	30	23	53	77	78	155
Grade 7	82	90	172	205	237	442
Senior Executive Officer	122	144	266	258	316	574
Higher Executive Officer	90	116	206	203	291	494
Executive Officer	19	36	55	64	115	179
Executive Assistant	1	2	3	7	14	21
	357	**417**	**774**	**839**	**1,069**	**1,908**

Table showing headcount for permanent staff at their substantive grade, as at 31 March.

18 https://www.gov.uk/government/publications/civil-service-sickness-absence

Staff turnover

	2022-23	2021-22
Civil Service turnover	9%	4%
Agency turnover	5%	7%

Turnover in ESFA has remained steady over the last few years, with most people leaving to transfer to another government department rather than resigning from the Civil Service. Turnover in ESFA is lower than other executive agencies under the DfE umbrella, as well as being less than turnover in the core department.

Commitment to improving diversity

ESFA adopts the department's new diversity and inclusion strategy 2022-26, launched in June 2022, with a vision to create an inclusive agency, which nurtures talent and reflects the ever-increasing diversity of our agency, mirroring the country we serve.

The agency strategy has commitments and actions against 3 aims:

- to be diverse
- to be inclusive
- to realise potential in all

We continue to be transparent with diversity data, publishing a quarterly diversity and inclusivity data dashboard, using data to support decision making and accountability. Alongside other characteristics, this dashboard includes data to support us to measure socio-economic background to progress work on social mobility.

ESFA makes use of the department's active diversity networks, including an ethnic minorities network, an LGBTQ+ network, a disability group and a neurodivergence network. It also takes advantage of mental health first aiders providing first line support.

Diversity and inclusion training is provided through leading inclusive teams workshops and disability confident line manager focus groups.

Addressing under-representation

The department's diversity and inclusion strategy includes specific targets which are agreed by Cabinet Office. ESFA is working to support representation of ethnic minorities and disabled staff at all levels.

Staff policies for disabled people

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

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

People management

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

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

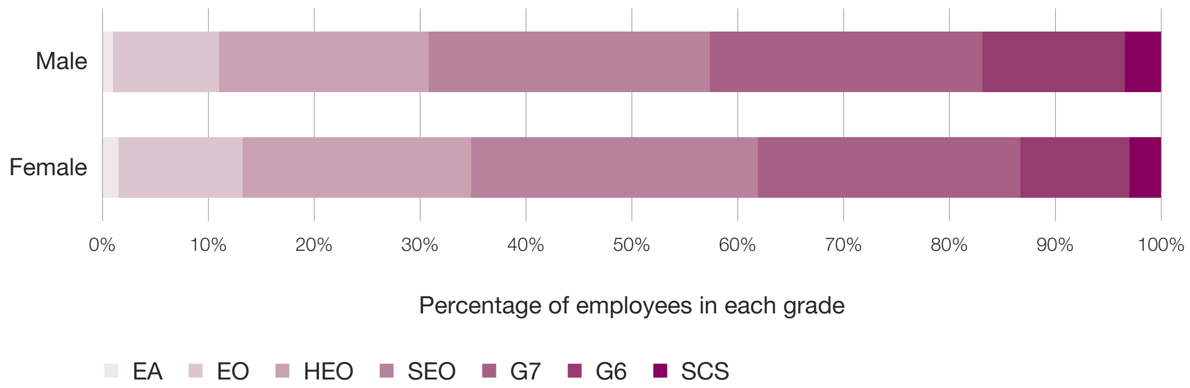
Fire, health and safety

The agency is committed to ensuring the health, safety and wellbeing of staff, contractors and all others who could be affected by its activities. It fully accepts its responsibilities under the Health and Safety at Work etc. Act 1974.

We recognise that effective management of fire, health and safety makes a significant contribution to our overall business performance and strategic aims, as well as a positive impact on the wellbeing of staff. The agency acknowledges that positive, proportionate health and safety risk management prevents harm and enables efficient delivery of services across the agency.

Gender pay gap reporting

ESFA is included within the department's gender pay gap reporting. The department now has the fourth lowest gender pay gap across Whitehall. The department's median gender pay gap as at March 2022 was 4.9% (2021:4.0%) the latest date of available data. Our analysis has identified that over-representation of females in more junior grades is likely to be a significant contributor to the remaining pay gap. The 2022 graph below shows that whilst both the median male and female salary continues to be within the SEO pay band, the higher proportion of women in EA to HEO grades means the overall female median is closer to the middle of the SEO grade distribution for females while the median male's pay is closer to the top end of the SEO grade distribution for males. The figure for 2023 is not available at the time of publication and will be included in the department's 2023-24 ARA.



Engagement with employees

The department and agencies work with trade unions engaging with them both formally and informally to promote an open and constructive relationship. We aim to promote a positive employee relations environment where staff and the trade unions can contribute constructively to our objectives.

The department launched the strategic workforce plan in May 2022. Our vision for the future is to create a workforce with world class skills and capabilities, which is flexible and makes the best use of excellent talent by supporting increased diversity and social mobility as well as ensuring colleagues have well-defined development plans, and that clear career paths are set out for all those who want to progress and develop their expertise. The strategic workforce plan is aligned to the Government Reform Agenda and clearly articulates the ambitions for the future workforce.

The agency participates in the annual Civil Service People Survey with the results published each December.

	2022-23	2021-22
Engagement index	61%	71%
Response rate	78%	90%

2022-23 was a unique year with the ALB review and leadership changes coupled with a post-pandemic office return. The information from the survey is used to support development of the agency strategies and continually improve our levels of employee engagement.

Consultancy and temporary staff

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

The agency's consultancy expenditure was as follows:

	2022-23	2021-22	2020-21
	£000	£000	£000
Agencies	345	726	754

This expertise was mainly used to support change programmes across the agency and specialist research contracted out to third parties. It has reduced this year following the ALB review and transfer of functions to the Department.

Review of tax arrangements of public sector appointees

As part of the *Review of Tax Arrangements of Public Sector Employees* published by the Chief Secretary to the HMT 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, during 2022-23. The tables below set out this information.

Highly paid off-payroll worker engagements as at 31 March 2023, earning £245 per day or greater

	2022-23
Number of existing engagements as at 31 March 2023:	6
Of which the number that have existed for:	
less than one year at time of reporting	5
between one and 2 years at time of reporting	-
between 2 and 3 years at time of reporting	-
between 3 and 4 years at time of reporting	-
4 or more years at time of reporting	1

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. Assessments are completed for a change to contract or when any new contract is agreed.

All highly paid off-payroll workers engaged at any point during the year ended 31 March 2023, earning £245 per day or greater

	2022-23
Number of temporary off-payroll workers engaged during the year ended 31 March 2023	9
Of which:	
not subject to off-payroll legislation	-
subject to off-payroll legislation and determined as in-scope of IR35	8
subject to off-payroll legislation and determined as out-of-scope of IR35	1
Number of engagements reassessed for compliance or assurance purposes during the year	-
Of which: No. of engagements that saw a change to IR35 status following review	-

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2022 and 31 March 2023

	2022-23
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-
Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure includes both on payroll and off-payroll engagements	13

Trade union facility time

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

Parliamentary accountability and audit report

Overview

This section presents the disclosures to support Parliamentary accountability of ESFA. The balances disclosed in this section are subject to additional controls due to their nature and sensitivity. The audit report from the C&AG is also included in this section.

Parliamentary accountability disclosures: audited

We are a custodian of taxpayers' funds and have a duty to Parliament to ensure the regularity and propriety of our activities and expenditure. We manage public funds in line with *Managing Public Money.*

The importance of operating with regularity and the need for efficiency, economy, effectiveness and prudence in the administration of public resources to secure value for public money, is the responsibility of our Accounting Officer. The Accounting Officer's responsibilities are also set out in *Managing Public Money.* They include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable.

To discharge this responsibility, the following activities are in place:

- formal delegation of budgets
- detailed monitoring of expenditure
- robust controls and assurance activities to ensure taxpayers' funds are spent in line with Parliament's intentions.

In addition, we operate the 3 lines of defence model, which is included in our risk management framework. We have provided details of this in our *'Governance statement'.*

Public sector losses and special payments: audited

A1 Losses statement

	2022-23	2021-22
Number of cases		
Cash losses	7	78
Fruitless payments	20	40
Claims waived or abandoned	5	12
	32	**130**
Value	**£000**	**£000**
Cash losses	2,321	4,710
Fruitless payments	1	2,648
Claims waived or abandoned	5,796	5,808
	8,118	**13,166**

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

A1.1 Cash losses over £300,000

	Value of cash losses
	£000
Overpaid grant recoveries	
Local authority National Funding Formula overpayments	1,514
Waiver of academy grant recovery	580

Overpaid grant recoveries

Balances owed by local authorities arising from grant overpayments may in some circumstances be waived to support education provision. Schools National Funding Formula payments to a small number of local authorities were overpaid due to an error in the complex allocation calculation. The overpaid funds continued to have terms restricting their application to use for education provision as determined by conditions of grant. Consequently, ESFA decided to waive recovery of the balances to minimise disruption to schools.

In certain circumstances over-payments of grants can occur when grant payment profiles for educational bodies are based on expected learner numbers which are not supported by actual numbers. One example relates to academies which are funded based on expected pupil numbers that are not matched by actual numbers sourced from the October pupil census. The agency seeks to recover the over-funding across the rest of the funding year. However, in a limited number of occasions the agency may decide to waive its claim to recover the over-payment to support its wider policy aim to supporting education. Examples include to facilitate the transfer of an academy to a better performing multi-academy trust to strengthen the educational outcomes of the pupils, and support trust or academy closure.

A1.2 Fruitless payments and constructive losses over £300,000

There were no fruitless payments or constructive losses over £300,000.

A1.3 Claims waived or abandoned over £300,000

	Value of claims
	£000
Re-brokerage debt forgiveness	
Greater Brighton Metropolitan College	2,105
Challenger Multi Academy Trust	2,049
Steiner free schools	1,152
Health Futures UTC	459

Re-brokerage debt forgiveness

Balances owed by academies and colleges may in some circumstances be waived to facilitate the re-brokerage of the academy or college to a more sustainable academy trust or college, or support closure.

A2 Special payments

	2022-23	2021-22
Total number of cases	-	2
	£000	£000
Total value of cases	-	3,220

A2.1 Special payments over £300,000

There were no special payments over £300,000.

A3 Gifts and hospitality statement

There were no gifts or hospitality in either year covered by these accounts.

A4 Remote contingent liabilities

In addition to contingent liabilities reported within the meaning of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), ESFA also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

There were no remote contingent liabilities in 2022-23 or 2021-22.

David Withey
Accounting Officer
5 July 2023

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Education and Skills Funding Agency for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000.

The financial statements comprise: the Education and Skills Funding Agency's

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the Education and Skills Funding Agency's affairs as at 31 March 2023 and its net expenditure 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 regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022).* My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019.* I am independent of the Education and Skills Funding Agency in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Education and Skills Funding Agency's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Education and Skills Funding Agency's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Education and Skills Funding Agency is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the *'Remuneration and staff report'* to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Education and Skills Funding Agency and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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

- adequate accounting records have not been kept by the Education and Skills Funding Agency or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the *'Remuneration and staff report'* to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Education and Skills Funding Agency from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ensuring that the annual report, which includes the *'Remuneration and staff report',* is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing the Education and Skills Funding Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Education and Skills Funding Agency will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Education and Skills Funding Agency's accounting policies.
- inquired of management, the Education and Skills Funding Agency's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Education and Skills Funding Agency's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Education and Skills Funding Agency's controls relating to the Education and Skills Funding Agency's compliance with the Government Resources and Accounts Act 2000, Managing Public Money, the Education Act 2002 and other relevant education funding legislation;
- inquired of management, the Education and Skills Funding Agency's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team and the relevant internal specialists, management's expert for grant regularity, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Education and Skills Funding Agency for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals, complex transactions, and grant expenditure. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Education and Skills Funding Agency's framework of authority and other legal and regulatory frameworks in which the Education and Skills Funding Agency operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Education and Skills Funding Agency. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, the Education Act 2002 and relevant education funding legislation.

I considered the susceptibility of the Education and Skills Funding Agency's financial statements for material misstatement and judged there to be a significant risk of irregularity within grant expenditure.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- in addressing the risk of irregularity within grant expenditure, I considered the processes in place to provide regularity assurance; I tested the allocation of grant funding and tested the assurance work undertaken by the Education and Skills Funding Agency to ensure that the grant has been used by recipients in line with the Education and Skills Funding Agency's framework of authorities.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [19]. This description forms part of my certificate.

Other auditor's responsibilities

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.

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
10 July 2023

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

19 https://www.frc.org.uk/auditors/audit-assurance-ethics/auditors-responsibilities-for-the-audit

Financial statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2023

	Note	2022-23 £m	2021-22 £m
Operating income		-	(106)
Total operating income		**-**	**(106)**
Staff costs	3	49	104
Policy funding	4	67,246	65,457
Operating expenditure	5.1	25	47
Depreciation, impairment, and other non-cash charges	5.2	6	(17)
Total operating expenditure		**67,326**	**65,591**
Net operating expenditure		**67,326**	**65,485**
Finance income		(2)	1
Other (gains)/losses		7	7
Net expenditure for the year		**67,331**	**65,493**
Other comprehensive net expenditure			
Net loss on transfer of function	2	199	-
Comprehensive net expenditure for the year		**67,530**	**65,493**

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

The notes on page 78 to page 95 form part of these accounts.

Statement of Financial Position

As at 31 March 2023

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets		27	55
Loans	7	65	68
Receivables	8	3	4
		95	**127**
Current assets			
Loans	7	25	28
Receivables	8	78	208
Cash and cash equivalents	9	23	156
		126	**392**
Total assets		**221**	**519**
Current liabilities			
Payables	10	(499)	(930)
		(499)	**(930)**
Total assets less current liabilities		**(278)**	**(411)**
Non-current liabilities			
Financial guarantees		(1)	(1)
Assets less liabilities		**(279)**	**(412)**
Taxpayers' equity			
General Fund		(279)	(412)
		(279)	**(412)**

David Withey
Accounting Officer
5 July 2023

The notes on page 78 to page 95 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2023

	Note	2022-23 £m	2021-22 £m
Cash flows from operating activities			
Net expenditure for the year		(67,331)	(65,493)
Adjustments for non-cash transactions		14	22
Decrease in receivables	8	7	13
Increase/(Decrease) in payables	10	(76)	221
Finance income		(2)	1
Financial guarantee movement		-	(2)
Other losses		7	7
Net cash outflow from operating activities		**(67,381)**	**(65,231)**
Cash flows from investing activities			
Purchase of intangible assets		(7)	(17)
Loans – net repayments	7	16	24
Net cash inflow from investing activities		**9**	**7**
Cash flows from financing activities			
Net parliamentary funding – drawn down		69,399	65,076
Transfer to DfE and spent on behalf of DfE		(2,160)	-
Net cash inflow from financing activities		**67,239**	**65,076**
Net increase/(decrease) in cash and cash equivalents	**9**	**(133)**	**(148)**
Cash and cash equivalents at beginning of the year	**9**	**156**	**304**
Cash and cash equivalents at end of the year	**9**	**23**	**156**

The notes on page 78 to page 95 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2023

	Note	General Fund £m
Balance at 1 April 2021		**(48)**
Net Parliamentary funding – drawn down		65,076
Net expenditure for the year		(65,493)
Cost borne by the department		17
Non-cash balances		3
Notional shared service recharges	5	33
Balance at 31 March 2022		**(412)**
Transfer of function to DfE	2	199
Revised balance at 31 March 2022		(213)
Net Parliamentary funding – drawn down		69,399
Net expenditure for the year		(67,331)
Cost borne by the department		(2,165)
Non-cash balances		17
Notional shared service recharges	5	14
Balance at 31 March 2023		**(279)**

The notes on page 78 to page 95 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These accounts have been prepared in accordance with the 2022-23 government Financial Reporting Manual (FReM) issued by HMT. This is set out in a statutory Accounts Direction issued pursuant to section 5(2) of the Government Resources and Accounts Act 2000.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the agency for the purpose of giving a true and fair view has been selected.

The particular policies adopted by ESFA for 2022-23 are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Going concern

The department's Estimates and forward plans include provision for ESFA's continuation. Therefore it is appropriate to prepare the ESFA's accounts as a going concern.

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

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments and underlying assumptions are reviewed on an ongoing basis and are believed to be reasonable.

Management has specifically made such judgements on accruals estimation which requires application of judgement for the existence and valuation of liabilities at the reporting date. More detail about the accounting policy for grant accruals is available in note 1.9.

1.4 Adoption of FReM amendments

There have been no significant amendments to FReM for 2022-23 that affect the agency. IFRS 16 Leases (IFRS 16) has been adopted into FReM, with adaptations and interpretations, from 1 April 2022. However, the agency has no leasing activities and so this change has no impact on these accounts.

1.5 Early adoption

ESFA has not early adopted any accounting standards in 2022-23.

1.6 IFRSs in issue but not yet effective

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

IFRS 17 Insurance Contracts (IFRS 17)

Effective for annual periods beginning on or after 1 January 2023. It has not yet been decided when FReM will adopt the new standard.

The standard makes changes to how insurance contracts are accounted for and may in certain circumstances widen the scope to include arrangements that may not have previously been viewed as insurance contracts. Changes may be more extensive for bodies that have not previously adopted the existing standard *IFRS 4 Insurance Contracts* (IFRS 4).

However, before endorsement by the EU and adoption by FReM, the final version for the standard applicable to ESFA has still to be decided. ESFA does not expect any significant impact from adopting the new standard.

1.7. Segmental reporting

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

1.8. Net parliamentary funding drawn down from the sponsoring department

ESFA has recorded all draw down of Supply by the department as financing, as ESFA regards draw down of Supply as contributions from ESFA's controlling party giving rise to a financial interest. ESFA records draw down of Supply as financing in the Statement of Cash Flows and draw down of Supply to the General Fund.

1.9. Policy funding

Expenditure to support ESFA's aims is delivered in 2 main ways:

1. grant funding payable under legislation, such as National Funding Formula (NFF) payments funding maintained schools and academies
2. contractual payments to providers, such as apprenticeship training providers

Recognition of the entitlement of policy funding varies according to the individual programme.

Grant funding

The majority of grants made by ESFA are recorded as expenditure in the period in which the allocation or claim is paid, as the grant funding cannot always be directly related to activity in a specific period and isn't designed to be, in line with legislation. The allocations or claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient.

Accruals accounting is adopted where timing gaps are known between entitlement and payment, or where entitlements can be quantified with an adequate degree of certainty in a given year. In such circumstances, the grant expense is accrued in the SoCNE and shown as a liability on the SoFP.

Contractual funding

Accruals accounting is adopted for contractual funding owing to the certainty of the agency's obligations. In addition, contractual funding is generally provided on the basis of post-activity claims made by the end user to the agency providing a measure of certainty of outcome.

1.10. Recoveries

Policy funding may generate overfunding or unspent amounts. ESFA does not recognise a prepayment if the end user has not spent the funding due to timing or delays. However, where recoveries of overfunding or unspent amounts cross a year end a receivable will be recognised.

Overfunding

Sometimes ESFA pays recipients according to a payment profile established before the final obligation is known. Overfunding can occur when the payment profile based on the initial assessment is larger than the final obligation, which results in accelerated funding.

ESFA will seek to recover overfunding through reprofiling future funding payments, to bring the total payments into line with the final funding obligation. When identification of overfunding is early enough in the funding's period, recovery will occur within the same programme period. If identification of overfunding is later in the funding period, recovery will occur in the next grant cycle. This approach is suited to annual funding payments which are paid evenly across a year, such as general annual grant funding academies.

Unspent amounts

Sometimes recipients are unable to apply time bound funding as intended, which means funds may be left unspent within the stipulated timescale. Where ESFA chooses to recover such unspent amounts, a claim will be made to the recipient to recover the funds. This approach is more common for single funding payments where there are no future payments to reprofile as described above.

1.11. Pensions

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

Further details of the pension schemes are available in the *'Remuneration and staff report'.*

1.12. Intangible assets

Assets are capitalised as intangible assets where expenditure of £2,500 or more is incurred. For ESFA, the main intangible assets are development of online digital services . Assets are amortised over their estimated useful economic lives. Development expenditure is not amortised but assessed for impairment annually.

Asset lives are in the following range:

Software licences 2 to 5 years or the licence period, whichever is shorter.

1.13. Financial instruments

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

1.14. Financial assets

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

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

Amortised cost

Financial assets held at amortised cost include:

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

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

1.15. Financial liabilities

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

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

Trade and other payables

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

Financial guarantees

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

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

1.16. Value added tax

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

1.17. Shared services

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

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

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

2. Transfer of function

The ALB review findings resulted in the transfer of certain activities, principally apprenticeship funding, from the agency to the department from 1 April 2022. The transfer has been accounted for as a transfer of function change in 2022-23, under the absorption approach as set out in FReM with no restatement of prior year balances. Consequently there has been no restatement of prior years. The net transfer at 1 April was £199 million, as disclosed in last year's published ARA (note 12.1.1).[20]

3. Staff costs

Staff costs detail can be found in the *'Staff report'* section of the *'Accountability report'*.

20 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1115611/ESFA_Annual_Report_2021-22_final.pdf

4. Policy funding

4.1. Policy funding summary

	Note	2022-23 £m	2021-22 £m
Schools & Early Years funding	4.2	60,840	56,702
Post-16, Skills and Support funding	4.3	5,536	7,500
Capital funding	4.4	17	110
COVID-19 response	4.5	853	1,145
		67,246	**65,457**

4.2. Schools & Early Years funding

	2022-23			2021-22		
	Academy	Local Authority	Total	Academy	Local Authority	Total
	£m	£m	£m	£m	£m	£m
Schools						
National Funding Formula (NFF)	24,350	17,607	41,957	21,892	17,233	39,125
High needs funding	745	8,075	8,820	689	6,872	7,561
Pupil premium	1,416	1,268	2,684	1,296	1,211	2,507
Primary sport premium	131	194	325	126	200	326
School improvements	38	20	58	48	46	94
Teachers' pay grant	18	13	31	140	16	156
Core funding schools	2,179	420	2,599	1,977	395	2,372
Teachers' pension employer contribution grant	104	-	104	402	-	402
Universal infant free school meals	227	345	572	222	356	578
Early Years						
Entitlements	-	3,651	3,651	-	3,547	3,547
Early years – pupil premium		39	39	-	34	34
	29,208	**31,632**	**60,840**	**26,792**	**29,910**	**56,702**

National Funding Formula (NFF)

NFF for schools allocates funding initially to local authorities based on standard criteria. For all mainstream state schools for the core 5 to 16 provision this is paid as dedicated schools grant (DSG) to local authorities and general annual grant (GAG) to academy trusts.

The majority of funding that goes through the schools NFF is 'pupil-led'. This funding is calculated based on the number of pupils in the school and their characteristics. All schools get a basic amount for each pupil (with different amounts for different ages), and extra funding for pupils with additional needs.

Schools also receive 'school-led' funding, based on the characteristics of the school itself. This includes a lump sum for every school, and extra funding for schools with certain characteristics, such as a school that operates across more than one site, or a school that is small and remote.

The school-level allocations are added up to create a total allocation for each local authority. Local authorities then set their own local formulae, based on the same factors in the NFF, but with more up-to-date pupil characteristics, to distribute their total allocation between all the schools in their area. Schools receive their funding based on their local authority's formula. This means that while the NFF determines how much money each local authority receives, it is the local authorities' own formulae that determine how much each of their maintained schools finally receives.

Actual payments are processed slightly differently in the 2 different school sectors; ESFA pays academies directly through the GAG. The remaining DSG is then paid to local authorities to pay their maintained schools' formula funding from the balance. The remaining schools block DSG for local authorities can also be used by them to fund pupil growth due to basic need at both maintained schools and academies.

The government has announced its intention to move to a 'direct NFF' whereby there would be a single national formula for all schools in the country. Consultations on detailed implementation are continuing, and local authorities will be required to start moving towards NFF values in their local formulae from 2023-24.

High needs funding

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

Pupil premium

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

Teachers’ pay and pension employer contribution grants

Teachers pay and pension employer contribution grants support schools and local authorities with the cost of teachers’ pay awards and the increase in employer contributions to the teachers’ pension scheme. These payments have been incorporated into the NFF during 2021-22.

Core funding

Core funding includes funding for 16- to 19-year olds across pre-16 providers including: sixth forms in schools and academies, special schools, special academies and local authorities and early careers framework payments to support the development of newly qualified teachers.

Early years entitlements

Local authorities are provided with 6 relevant funding streams which form their overall DSG in addition to NFF funds. They are:

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

4.3. Post-16, skills and support funding

	2022-23	2021-22
	£m	£m
Post-16 and skills		
Core funding	3,912	3,493
Apprenticeships	-	2,187
Adult education	511	555
Bursary funding	200	192
High needs (16 to 19)	678	654
Free School Meals (16 to 19)	37	33
Other post-16 and skills	6	30
Professional and technical education	-	5
Teachers' pension employer contribution grant FE	176	166
Operations		
European Social Fund	-	106
Support funding		
Adult Education Budget	7	36
Apprenticeships	-	33
Professional and technical education	-	6
Other post-16 and skills	9	4
	5,536	**7,500**

Core funding

Core funding[21] includes funding for 16- to 19-year-olds across all providers including: sixth-form colleges, FE colleges, ITPs, special post-16 institutions and some higher education providers. We fund these institutions to provide study programmes for young people.

Apprenticeships

Apprenticeships spend relates to funding (paid to training providers and employers) to cover apprenticeships training, assessment and certification, together with associated additional costs to support the apprenticeship (for example, English and maths requirements). Accountability for apprenticeships was transferred to the department from 1 April 2022 and therefore no spend is recognised in ESFA's accounts in 2022-23.

High needs

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

21 https://www.gov.uk/guidance/16-to-19-funding-how-it-works

4.4. Capital

	2022-23	2021-22
	£m	£m
T Level Technology Enhancement	-	71
Investment in Colleges	8	35
Other capital grants	9	4
	17	**110**

4.5. COVID-19 response

	2022-23	2021-22
	£m	£m
Schools		
Wellbeing for education return	6	17
Universal catch-up premium	-	270
National Tutoring Programme	197	217
Exceptional school costs	522	228
Workforce fund	(5)	13
Education recovery package	11	14
Alternative provision	-	4
Tuition Fund	69	13
High value courses	-	9
Exam support	-	2
Post-16 and Skills		
Plan for Jobs – apprenticeships incentive	-	219
Plan for Jobs – traineeships	18	26
Plan for Jobs – support for school and college leavers	33	10
16 to 19 tuition fund	2	81
Year 11 alternative provision	-	1
Support Funding		
Plan for Jobs – National Careers Service	-	21
	853	**1,145**

Wellbeing

A training programme run by mental health experts to help improve schools' and colleges' response to the emotional impact of the coronavirus pandemic on their students and staff.

Catch-up fund – including National Tutoring Programme (NTP) and tuition fund

A package to directly tackle the impact of lost teaching time. The catch-up premium was a one-off grant to support pupils in state education, recognising that all young people have lost time in education as a result of the pandemic. The NTP and tuition fund are providing access to high-quality tuition for the most disadvantaged young people.

Exceptional costs

Funding for additional costs incurred by schools for the period April to July 2020, including increased premises costs and free school meals costs not covered by the national voucher scheme. During 2021-22 these were costs of summer schools which delivered a blend of academic education and enrichment activities and recovery premium funding to support pupils whose education has been impacted by COVID-19.

Plan for Jobs

Funding launched in July 2020 to support the UK's economic recovery while continuing to prioritise people's health. The funding included payments for employers who hire new apprentices, funding for employers who provide trainees with work experience, funding to give all 18- to 19-year-olds in England with limited employment opportunities, the opportunity to study targeted high value Level 2 and 3 courses and individualised advice on training and careers through the National Careers Service.

5. Expenditure

5.1. Operating expenditure

	2022-23	2021-22
	£m	£m
Shared service recharge	14	33
Staff related costs	-	4
Consultancy and other professional fees	3	3
IT and telecommunications costs	7	6
Travel and subsistence	1	1
	25	**47**

5.2. Depreciation, impairment, and other non-cash charges

Included in non-cash values are audit fees of £428,000 (2021-22: £400,000), amortisation charges of £5 million and a net impairment charge of £2 million.

Staff costs detail can be found in the *'Staff report'* section of the *'Accountability report'.*

6. Financial instruments

6.1. Financial assets by category

		2023	2022
	Note	£m	£m
Amortised cost			
Loans	7	90	96
Receivables	8	76	101
Cash	9	21	156
		187	**353**

6.2. Financial liabilities by category

		2023	2022
	Note	£m	£m
Amortised cost			
Payables	10	499	909
Financial guarantees		1	1
		500	**910**

Deferred income is excluded from the payables figure.

6.3. Financial risk

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

Credit risk

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

Liquidity risk

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

Interest rate risk

ESFA does not consider itself exposed to any significant interest rate risk.

7. Loans

	2023	2022
	£m	£m
Amounts falling due within one year		
Loans to academy trusts	14	14
Loans to colleges	11	14
	25	**28**
Amounts falling due after more than one year		
Loans to academy trusts	6	17
Loans to colleges	59	51
	65	**68**

Loans to academy trusts

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

Loans to colleges

Loans are provided to further education and sixth form colleges in England that were impacted by a substantive area review recommendation and needed to make major changes, or to further education colleges who are encountering financial difficulties to support the continuation of education provision.

Impairment

Impairment is recognised where management judge the academy trust or college to be at risk of non-repayment of the outstanding loan balance.

7.1. Loans 2023

			2023
	Academy trusts	Colleges	Total
	£m	£m	£m
Opening balance at 1 April	31	65	96
New lending	3	9	12
Repayments	(9)	(16)	(25)
Impairment movement in year	(1)	14	13
Write-offs	(4)	(2)	(6)
Balance as at 31 March	**20**	**70**	**90**
Gross value	33	117	150
Closing impairment allowance	(13)	(47)	(60)
	20	**70**	**90**
Presented as:			
Current loans	14	11	25
Non-current loans	6	59	65
	20	**70**	**90**

7.2. Loans 2022

			2022
	Academy trusts	Colleges	Total
	£m	£m	£m
Opening balance at 1 April	36	69	105
New lending	3	-	3
Repayments	(10)	(17)	(27)
Impairment movement in year	4	15	19
Write-offs	(2)	(2)	(4)
Balance as at 31 March	**31**	**65**	**96**
Gross value	43	126	169
Closing impairment allowance	(12)	(61)	(73)
	31	**65**	**96**
Presented as:			
Current loans	14	14	28
Non-current loans	17	51	68
	31	**65**	**96**

8. Receivables

	2023	2022
	£m	£m
Amounts falling due within one year		
Trade receivables	16	30
VAT receivables	-	1
Other receivables	57	66
Prepayments	5	5
Accrued income	-	106
	78	**208**
Amounts falling due after one year		
Trade receivables	3	4
	3	**4**

Trade receivables are stated net of an impairment allowance of £24.5 million (2022: £21.3 million).

9. Cash and cash equivalents

	2023	2022
	£m	£m
Balance at 1 April	**156**	**304**
Transfer of function	(2)	-
Revised balance at 1 April	**154**	**304**
Net change in cash and cash equivalent balances	(131)	(148)
Balance at 31 March	**23**	**156**
The following balances are held at:		
Cash at bank and in hand:		
Government Banking Service	22	155
Cash held with solicitors	1	1
Balance at 31 March	**23**	**156**

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

10. Current payables

	2023	2022
	£m	£m
Trade payables	9	21
Other payables	1	6
Tax and social security payables	1	2
Accruals	488	880
Deferred income	-	21
	499	**930**

11. Other commitments

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

11.1. Schools policy funding

ESFA cannot quantify the commitments as ESFA typically agrees funding for one year even though the Secretary of State's commitment is for a much longer period. The main funding element for maintained schools is the dedicated schools grant [22] and for academies is the general annual grant. [23]

11.2. Post-16 funding

	2023	2022
	£m	£m
Not later than one year	2,648	2,725
Later than one year and not later than five years		-
Later than five years		-
	2,648	**2,725**

ESFA has commitments to post-16 providers for the remainder of the academic year to July 2023. In March 2022 ESFA had commitments to fund apprenticeship training which have moved to the department from April 2022. Commitments for COVID-19 elements of this funding are also included.

22 https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2022-to-2023
23 https://www.gov.uk/government/publications/academies-general-annual-grant-allocation-guides-2022-to-2023

12. Contingent liabilities disclosed under IAS 37

The agency has no contingent liabilities in 2022-23 (2021-22: £75,000).

13. Related party transactions

DfE is ESFA's parent and ESFA regards DfE as a related party. During the year, ESFA had a number of material transactions with the department and with other entities in the departmental group. In addition, ESFA had a number of transactions with other government departments and central bodies. Most of these transactions have been with Department for Business, Energy and Industrial Strategy and Department for Work and Pensions. ESFA also makes pension contributions into public sector pension schemes.

As well as the disclosures in the *'Remuneration and staff report',* the following relationships are also considered as related parties and have therefore been disclosed in line with IAS 24 Related Party Disclosures. Transactions are classified as related party transactions if they occurred during the period the board member named held office.

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

A link to the published register of interests can be found in the *'Governance statement'.*

The following are related party disclosures for board members during the year:

- **Martin Spencer is:**
  - non-executive director and Chair of Ofsted's Audit and Risk Assurance Committee
- **Paul Woodgates is:**
  - independent governor and Chair of De Montfort University's Finance and Performance Committee
- **Owen Jenkins is:**
  - Trustee of Broad Horizons Education Trust

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

	2022-23		2021-22	
	Net payments / (receipts)	Receivable / (payable)	Net payments / (receipts)	Receivable / (payable)
	£000	£000	£000	£000
Ofsted	320	-	3,778	-
Broad Horizons Education Trust successor to Yare Education Trust	41,880	-	10,727	-
De Montfort University	150	-	-	-

Payments to Ofsted relate to inspections, to Broad Horizons Education Trust are schools' funding payments and to De Montfort University are AEB and 16-19 funding payments. All transactions are on an arm's length basis.

14. Events after the reporting period

14.1. Authorisation

These accounts were authorised for issue by the Accounting Officer on the date they were certified by the Comptroller and Auditor General.

Annexes

Annex A: Sustainability reporting

Background

The agency adopts the department's policies on sustainability which are managed by departmental teams owing to the level of shared workspaces across the department and its executive agencies. This is the first year detailed agency-level information is available.

The agency recognises its responsibilities to the Greening Government Commitments (GGCs), 25 Year Environment Plan, and forthcoming Environmental Principles – and we are incorporating climate change considerations in our operational delivery. The GGCs affect how we operate as an organisation and our ways of working. We have plans of how the agency staff can support us in ensuring we meet these centrally mandated targets, along with the close support of department staff.

The department set up a Sustainability and Climate Change Unit in April 2021 to embed sustainability across the education system as well as into the department's operations and education policies, which included the agency's operations.

In April 2022, the department launched the Sustainability and climate change: a strategy for the education and children's services systems [24]. This set out how the department supports education settings so that the UK's education sector can become world-leading in sustainability and climate change by 2030. It also included a commitment to launch a Corporate Sustainability Strategy. This was published in March 2023, outlining the department's commitments up to 2025 to align with corporate plans to achieve the GGCs.

We aspire to lead our organisation towards a more sustainable future, as well as being active contributors to cross-government priority outcomes, strategies and programmes.

More sustainability reporting can be found in the department's consolidated ARA; which also includes commentary on how the department, supported by its executive agencies, is working to improve sustainability over the education sectors.

Scope of the following disclosures

This annex has been prepared in accordance with HMT's Sustainability Reporting Guidance 2022-23 [25] and covers

GGCs – quantified disclosures along with policy statements relating to the agency's own activities.

GGC information is collected centrally by the department as the tenant to the buildings occupied by the department and its 3 executive agencies. The information is disaggregated across the 4 bodies based on desk count in the buildings they occupy, which has been taken as a proxy to usage. The baseline has been disaggregated across the 4 bodies in a similar manner to allow for valid comparisons.

Greening Government Commitments

For the first time the agency is reporting against the 2017-18 baseline to meet our GGCs, and we have effectively reduced utilities usage and waste across the whole estate. The department has developed an operational estates sustainability management plan that applies to the agency, and which outlines our values and intended interventions required to reach the GGC targets.

24 https://www.gov.uk/government/publications/sustainability-and-climate-change-strategy/sustainability-and-climate-change-a-strategy-for-the-education-and-childrens-services-systems
25 https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2022-to-2023

On behalf of the agency, the department has developed a corporate office Estates Sustainability Strategy which comprehensively outlines our Net Zero road map for the next three years and the strategy required to meet the GGCs targets set out by 2025.

The department recruited sustainability expertise and a corporate office Estates Sustainability Manager to bring focus to our office estate, operations, and policies support resilience and adaptation.

Corporate Sustainability and Climate Change Strategy

The department's Corporate Sustainability and Climate Change Strategy demonstrates how we will embed sustainability across everything we do – from how we maintain and use our office estate, to our decision-making and business processes, policy development and training our people.

The strategy sets out how the agency will protect and enhance the environment in the agency's operations as an organisation, including our offices, business travel and use of ICT, in line with the GGCs.

As part of this, climate literacy training is now available to staff. This is accredited by the Carbon Literacy Project [26] and includes the science of climate change, how this links with education policy and disadvantage, and how to comply with the Environmental Principles.

Greening Government Commitments reporting

The agency is committed to a number of targets including the mandatory GGCs for reducing energy, water, paper, travel emissions and waste management. These targets were updated during 2021-22 with a new target period to 2025. The greenhouse gas emissions target for the department is a reduction of 56% in total emissions, 36% in direct emissions and to reduce water consumption compared to the 2017-18 baseline. Waste targets are less than 5% sent to landfill and at least 70% sent to be recycled.

Governance and data validation

The Government Property Agency (GPA) was responsible for managing the property portfolio for the department and its executive agencies in 2022-23. However, overall responsibility for sustainability remains with the agency. Internal data validation checks are carried out by our landlord (GPA) to monitor performance. In order to report the greenhouse gas emissions associated with activities, 'activity' data such as distance travelled, litres of fuel used, or tonnes of waste disposed has been converted into carbon emissions. The greenhouse gas conversion factors used in this report can be found in the government environmental impact reporting requirements for business. [27]

Governance

On behalf of the agency, the department undertakes a monitoring regime in relation to GGC performance management working closely with the GPA as property asset managers.

This is supplemented by periodic audits conducted by the Government Internal Audit Agency (GIAA), reported to the Accounting Officer for DfE, via the department's finance function.

Internal and cross-governance arrangements are also in place for the phases of development and delivery of initiatives set out within the department's Sustainability and Climate Change Strategy for the education and children's services systems. These are regularly reviewed by the GIAA.

26 https://carbonliteracy.com/
27 https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting

In addition to the internal governance process, external audits are also undertaken to assure processes and systems including methodologies for recording, analysing and verifying data, as well as the calculations for quarterly GGC returns. These external validation audits are carried out by Carbon Smart on behalf of the Department for Environment, Food & Rural Affairs (Defra). The majority of this report has been compiled using accurately measured data, verified through internal controls. This includes checking samples of automatically generated meter-reading data with manual meter reads. Where complete data sets have not been available, (for example through lack of detail, or due to landlord service charges), internal benchmark figures have been applied based on known parameters and data sets.

Summary of GGC performance

It has not been possible to disaggregate the performance metrics at agency level. Using average FTE as a comparative measure, ESFA is 6% of the departmental group workforce. A summary of performance against the GGC quantitative targets for the departmental group is disclosed in the department's published consolidated ARA.

Performance indicators for these years relate to the previous GGC targets.[28]

Overall GGC performance emission scopes

The emission scopes[29] can be explained as:

- Scope 1 (direct greenhouse gas (GHG) emissions) – these occur from sources owned or controlled by an organisation. Examples include emissions as a result of combustion in boilers owned or controlled by the organisation and emissions from organisation-owned fleet vehicles
- Scope 2 (energy indirect emissions) – these are emissions a body makes indirectly, like when the electricity or energy it buys for heating and cooling buildings, as a result of electricity consumed which is supplied by another party. For example, electricity supply in buildings or outstations; also includes other purchased indirect emission source such as heat, steam and cooling
- Scope 3 (other indirect GHG emissions) – all other emissions which occur as a consequence of activity, but which are not owned or controlled by the accounting entity, this is primarily business travel emissions

Operational activities

Travel emissions were heavily reduced during periods of COVID-19 restrictions.

Consumer single use plastics

Within the office estate, the agency remains committed to removing consumer (avoidable) single use plastics from its office estate in line with the government's pledge in the 25-year environmental plan. Considerable success has already been achieved across the agency office estate, where possible we have made every effort to remove plastic cutlery, cups, straws and to improve the recyclability of takeaway containers. Other initiatives included the introduction of "bring your own" policies so that reusable coffee cups, containers and cutlery is used over other disposable or recyclable alternatives. The agency plans to expand on these initiatives to further reduce plastics as well as work more closely with landlords and their caterers, where facilities are indirectly managed, to make stakeholders aware of the elimination scheme and encourage their participation.

28 https://www.gov.uk/government/publications/greening-government-commitments-2016-to-2020
29 https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance

ICT waste

The agency continues to utilise technology to improve our overall environmental impact. Recent initiatives include replacing desk phones with software for making telephone calls over the internet. Encouraging the use of this software over mobiles further supports a reduction in our physical impact and footprint. In addition, improvements to our videoconferencing provision seeks to aid and enable effective hybrid working, reducing the need for travel.

More broadly, sustainable ICT solutions will be integrated into new build schools as standard, via sustainable procurement, design, implementation, and management.

Accounting for shared, offset, renewable and sequestered carbon

The agency does not purchase or utilise carbon credits at all across the office estate.

Adapting to climate change

The agency's offices will be adapted to the effects of climate change in line with the activities of other departments. The agency through the department:

- has begun the process of assessing climate risk across its own buildings and operations
- is making use of a new climate risk assessment tool, commissioned by the GPA, to screen for priority risks

Sustainable procurement

Within the agency we take account of social value in the award of central government contracts. Procurement Policy Note 06/20 is applied to all new in scope procurements from January 2021, with at least one of five social value themes being assessed in the procurement and subsequent contract with suppliers. Themes are selected which are most relevant to the subject matter of the contract and one of the themes is fighting climate change. In addition, new contracts require that suppliers meet the Government Buying Standards on sustainability. We have implemented Procurement Policy Note 06/21: Taking account of carbon reduction plans in the procurement of major government contracts, which came into effect on 30 September 2021 for all in scope procurements. Commercial staff involved in letting and managing contracts undertake Chartered Institute of Procurement & Supply ethics e-learning which covers 3 key pillars of the ethical procurement and supply profession, one of which is environmental procurement.

More broadly, by 2023 we will ensure sustainability is part of the assessment and validation criteria for including suppliers on procurement frameworks that the agency signposts through its Get Help Buying for Schools service, to support sustainable purchasing of products and services in schools. We will also support schools to purchase from procurement frameworks that offer sustainable goods and services through this service, although schools still retain their full autonomy in their contracting decisions.

Procurement of food and catering services

Using both the department and GPA supply chain, food provided in catering outlets is local and in season, where possible. The department buys food from farming systems that minimise harm to the environment, such as produce certified by Linking Environment and Farming, the Soil Association or Marine Stewardship Council. Fairly traded and ethically sourced products are also available. The amount of food of animal origin eaten is being reduced, as livestock farming is one of the most significant contributors to climate change, and caterers ensure that meat, dairy products, and eggs purchased are produced to high environmental and animal welfare standards. The amount of palm oil used is also being reduced.

Annex B: Glossary of key terms

Acronym	Full name
AFR	Assurance Framework Record
ALB	Arm's length body
ARA	Annual report and accounts
ARC	Audit and Risk Committee
CEO	Chief Executive Officer
CETV	Cash equivalent transfer value
CSOPS	Civil Servant and Other Pension Scheme
C&AG	Comptroller and Auditor General
DfE, department	Department for Education
DSG	Dedicated school grant
ESFA, agency	Education and Skills Funding Agency
FE	Further education
FPMO	Finance and Provider Market Oversight
FTE	Full time equivalents
FReM	Financial Reporting Manual
GAG	General annual grant
GGC	Greening Government Commitment
GHG	Greenhouse gases
GIAA	Government Internal Audit Agency
GPA	Government Property Agency
HMT	HM Treasury
HR	Human resources
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
ISA	International Standards on Auditing
ITP	Independent training provider
LGBTQ+	Lesbian, gay, bisexual, transgender, queer and other minority sexual orientations and gender identities
NAO	National Audit Office
NFF	National Funding Formula
NTP	National Tutoring Programme

Acronym	Full name
PAC	Public Accounts Committee
PCSPS	Principal Civil Service Pension Scheme
PHSO	Parliamentary and Health Service Ombudsman
PYG	Plan Your Grant
SCS	Senior Civil Servant(s)
SoCNE	Statement of Comprehensive Net Expenditure
SoFP	Statement of Financial Position
SRMA	School resource management advisers
ULEV	Ultra low emission vehicle
VAT	Value added tax

Throughout this ARA, financial years are written as, for example, '2022-23' and run from 1 April to 31 March.

Academic years are written as, for example, '2022/23'. Academy and school academic years run from 1 September to 31 August. College academic years run from 1 August to 31 July.

Education & Skills Funding Agency

An executive agency of the Department for Education

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