



Education
Funding
Agency

Education Funding Agency
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

Tel: 0370 000 2288
[efa-enquiry-form](#)

22 August 2016

Nick Tyler
Interim Chair of Lilac Sky
Schools Academies Trust
Lilac House
Church Lane
Ford End
Chelmsford
CM3 1LH

Dear Mr Tyler,

Lilac Sky Schools Academies Trust – Financial Notice to Improve (FNtl)

I am writing to you in your capacity as Chair of Lilac Sky Schools Academies Trust (“the Trust”) following our recent review of the Trust and investigation visits.

I know that discussions have been continuing with my colleagues about our significant concerns about the Trust’s financial management as identified under these visits and also about the current financial position of the Trust. I also know that you and other trustees have recently joined the Trust and have immediately taken action to secure fundamental improvements to the overall management of the Trust and the academies. I am very grateful to you and all new trustees for taking on this challenge and for responding so rapidly to this situation. I am aware of the now agreed plans to transfer the Trust’s academies to other strong trusts.

However, in light of the significant irregular financial and governance practice over a number of years alongside the now presented budget situation, it is crucial that I set out expectations on the actions that now need to be taken forward and to hold the Trust to account for continuing to address the weaknesses in financial management. I would expect these actions will build on those you have already begun but they will need to address our lack of confidence in the previous budget forecasts supplied and the implications of our stopping the use of the Capital Improvement Fund (CIF) to cover revenue costs. I do require from you a detailed recovery plan and as a result I am writing with my decision to issue a Financial Notice to Improve (“the Notice”) to the Trust.

This letter and its annex serve as a written notice for the Trust to improve financial management, control and governance. It also reflects the actions that will need to be taken to improve the management of the budget and achieve a balanced budget as soon as possible.

The Trust is required, pursuant to the provisions of the Academy Financial Handbook (AFH) and the Funding Agreement (FA), to comply with the terms of this Notice. These

terms are set out at Annex A. In addition, the Notice will be published in due course on gov.uk.

Upon receipt of this Notice, all of the delegated authorities as identified in the AFH will be revoked, and all transactions by the Trust previously covered by these delegations (regardless of size) must come to the EFA for approval. For clarity this would include committing spending on public relations or legal advice without prior approval. These delegated authorities shall be returned to the Trust/academy providing that the terms set out in the Notice have been complied with, and continue to be complied with, to the satisfaction of the Secretary of State.

We will monitor progress made towards meeting the requirements associated with this Notice. We will lift the Notice when the requirements set out in the annex have been met. In the event that the Trust fails to meet the requirements of this Notice, to the satisfaction of the Secretary of State, the Trust/academy will be considered to have failed to comply with the terms of the AFH, which all academies must comply with by virtue of the terms of the FA. As a result of this breach of the AFH, and therefore also of the FA, the termination process in the FA may be triggered. Depending upon the severity of the breach, this may be considered a material breach of the terms of the FA and lead to termination.

I should be grateful if you would acknowledge receipt of this letter by email and within five working days of the date of this letter to [REDACTED].

I am copying this letter to Dominic Herrington, Regional Schools Commissioner (RSC) for the South East and South London.

Yours sincerely,



Sue Baldwin
Director: Academies and Maintained Schools Group

Cc. Dominic Herrington, RSC for the South East and South London

Annex A

Financial notice to improve

1. The Education Funding Agency (EFA) has decided to issue a Financial Notice to Improve (the 'Notice') as a consequence of Lilac Sky Schools Academies Trust's ("the Trust"):
 - failure to manage conflicts of interest;
 - failure to prevent one individual controlling and directing the Trust;
 - failure to have sufficient oversight over financial management and governance of the Trust;
 - failure to prevent irregular practices and decisions;
 - breaches in procurement rules including those related to party transactions;
 - failure to prevent the employment of a number of the senior management team on an off payroll basis;
 - failure in demonstrating assurances of value for money;
 - failure to take action to avoid the expected cash flow deficit position of the Trust;
 - failure to submit financial statements to Companies House; and
 - mis-use of capital funds to cover deficits in revenue funding.

Governance

2. The Trust is required to implement new financial management and monitoring structures and undertake further actions to strengthen challenge in managing the budget and finances. Specifically, this should include:
 - ensuring that proper arrangements are put in place whereby the trustees with no connection to the former CEO/sponsor are able to hold to account independently the current Accounting Officer and other members of the trust;
 - conducting a review of all central trust income and expenditure after 31 March 15;
 - ensuring all trustees are aware of their responsibilities as directors under the companies Act and as trustees under Charity Commission guidance;
 - ensuring strong processes are in place for the Trust to monitor adequately financial performance and the financial risks to its operation; and
 - taking immediate action to work towards securing a balanced budget.

Finance

3. The Trust is required to:
 - provide a detailed recovery plan by end of September 2016. This acknowledges that there is still work to be completed to establish the exact budget position;
 - to begin action to return the Trust to a surplus position as soon as possible;

- demonstrate that every possible economy is being made to achieve a balanced budget – including in relation to curriculum provision and staffing costs across the nine academies; and
- provide the EFA with monthly monitoring reports mapping progress in these areas to work towards securing a balanced budget.

4. The Trust is also required to:

- comply with the funding agreement requirement to submit all audited financial statements to the EFA on time by 31 December 2016, without qualification;
- submit 2014/15 audited statements to Companies House as soon as possible;
- contact the EFA at an early stage if it believes that progress is falling behind the schedule set out in the requested recovery plan; and
- engage external financial and educational support to recover the position as advised by the EFA.

Please note however:

- the Trust is responsible for its own financial management, control and governance and is expected to take appropriate action to strengthen the control weaknesses identified;
- the Trust should take all appropriate actions to ensure the recovery plan is fully implemented; and
- the EFA must be satisfied that the Trust is doing everything it can to rectify the financial management and control failings.

Timescales

5. The Trust must review and submit the revised recovery plan to the EFA by 30 September 2016.
6. The Trust must provide regular detailed reports updating the EFA on specific progress to improve management and financial control during 2016/17 – EFA will expect these reports every 2 months while this FNTI remains in place starting from August 2016.

Monitoring and Progress

7. The Trust is required to meet the specific conditions outlined above to enable the EFA to monitor progress.
8. The Trust must supply the EFA with monthly financial monitoring information by the 20th working day of each month for one year from the date of this Notice or until the Trust is dissolved.

9. Should it become evident that the Trust is unlikely to fulfil the conditions and / or requirements set out in this Notice and / or within the above timescales, the EFA will begin to consider other options available.

Compliance and End of Notice Period

10. Compliance with this Notice will be demonstrated when:

- the Trust has met the conditions set out above;
- the EFA receives financial information clearly demonstrating that no further financial support will be required and that any advances of funding can be repaid in line with agreed terms;
- the EFA receives audited financial statements with an unqualified audit opinion, which confirm that the Trust is performing, at minimum, to the standards agreed in the recovery plan; and
- the EFA receives an auditor's management letter which does not raise concerns.

11. When the Trust meets the conditions outlined in this annex, the Notice will no longer apply and the EFA will write to the Trust again to confirm that the Notice has been lifted.