



Education & Skills
Funding Agency

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

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

26 November 2018

Mrs Madeline Russell
Chair
Stratton Upper School
Eagle Farm Road
Biggleswade
SG18 8JB}

Dear Mrs Russell

Financial notice to improve (FNtl): Stratton Education Trust

I am writing to you in your capacity as the Chair of Stratton Education Trust (“the Trust”). As you are aware, the Trust did not submit its audited financial statements and auditor’s management letter on time (due by 31 December 2017). This was a condition of the FNtl Warning Letter and it is a formal requirement of the Trust’s Funding Agreement (FA) as set out in the Academies Financial Handbook (AFH).

Paragraph 1.4.2 of the AFH clearly states:

“As companies, academy Trusts must produce audited accounts....The audited accounts must be submitted to the ESFA by 31 December each year.”

The financial statement and auditor’s management letter were eventually submitted on 17 May 2018. Failure to submit this return by the due date is therefore a breach of the condition set out in the FNtl Warning letter, AFH and the FA.

Additionally, as a result of a formal investigation conducted during 30 July 2018 to 1 August 2018, a number of governance and financial management issues have been identified and highlighted in an ESFA report. The report cited a number of material weaknesses in the governance and financial management of the Trust. The evidence reviewed does not provide the ESFA with assurance of good financial management and governance, and breaches elements 3.1.3, 3.1.1, 2.3.2, 2.3.3, 2.2.4, 2.5.2, 3.1.20, 4.74, 2.4.4, 2.4.7, 2.1.10, 3.1.22, 3.74, 3.77 of the AFH. The evidence reviewed, also breaches elements of the Academies Accounts Direction 2016/17 Direction 7.61.

I recognise the cooperation and extensive discussions that have taken place between the Trust and officials and am pleased to note the steps the Trust are considering to strengthen

accounting, financial management and internal financial controls. However, my concerns remain in relation to the weak financial position and financial management and governance at the Trust and also due to the number of the material weaknesses and breaches identified in the ESFA financial management and governance review report. This letter and its annex serve as a written notice to improve financial management, control and governance at the Trust. It reflects the continued concerns in respect of governance and oversight of financial management by the Board. The Trust is required, pursuant to the provisions of the AFH and the FA, to comply with the terms of this Financial Notice to improve ("the Notice"). These terms are set out in Annex A.

Upon receipt of this Notice, all of the delegated authorities as identified in the AFH (sections 3.6-3.10) will be revoked, and all transactions by the Trust previously covered by these delegations (regardless of size) must come to the ESFA for approval. These delegated authorities shall be returned to the Trust 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 will be considered to have failed to comply with the terms of the AFH. 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 within three working days of the date of this letter to [REDACTED].

I am copying this letter to Martin Post, the Regional Schools Commissioner (RSC) for North West London and South Central, Roz Hodges, the Accounting Officer (AO) at Stratton Education Trust and to all the members and trustees at Stratton Education Trust.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Pettifer', written over a horizontal line.

Mike Pettifer

Director: Academies and Maintained Schools Directorate

CC. Martin Post (RSC), Roz Hodges (AO) and all members and trustees at Stratton Education Trust.

Financial notice to improve

1. The Education and Skills Funding Agency (ESFA) has decided to issue a Financial Notice to Improve (the 'Notice') as a consequence of Stratton Education Trust's ('the Trust'):
 - failure to demonstrate adequate financial controls and governance
 - multiple breaches of the Academies Financial Handbook
 - breach of the Accounts Direction
 - breach of your Funding Agreement

Conditions

2. The Trust is required to meet the following conditions:
 - i. The Trust will need to develop its action plan, setting out a full set of actions to address the weaknesses in its financial management and governance arrangements that have led to the issue of this Notice. The final plan must be submitted to the ESFA by 31 January 2019. We will agree milestones and monitoring as part of finalising the plan. We would expect all underpinning systems and processes to be fully operational by 31 August 2019. Full implementation of the plan by the Trust should be complete within a timeframe to allow externally audited 2018/19 audited financial statements to be submitted on time.
 - ii. The Trust must refresh the board to ensure there is significant degree of separation between those who are members and those who are Trustees in accordance with 1.4.4 of the Academies Financial Handbook 2018.
 - iii. The Trust must commission a full independent governance review to identify any gaps and recommendations for improvement and ensuring:
 - The terms of reference of the review and the outcome are shared with the ESFA.
 - The scope of the review includes but not be limited to; Trust governance arrangements; Trust procedures and policies; Trust operations; Personnel records; HR Policy; Contracts and contract management.
 - The review should consider the above areas in view of the regulatory framework governing academies and provide assurance on the level of compliance with those requirements. In particular, the Trust's Articles of Association, the Funding Agreement, the Academies Financial Handbook and the Companies Act 2006.
 - Where non-compliance or improvements are identified, the Trust should provide ESFA with an action plan and timeline to address those issues.
 - If the review identifies any gaps in skills and experience, at board level, the ESFA will expect the Trust to approach Academy Ambassadors to help fill those gaps.

- iv. Develop and implement an action plan to address any recommendations on the report of this governance review
- v. Address and implement any recommendations from the governance review.
- vi. Submit the Trust's monthly financial management accounts, cash flow, creditors report and balance sheet from the date this letter is issued, to the ESFA, until further notice. These should be submitted no later than the 21st of the following month (for example, the management accounts covering December 2018 will be due by 21st January 2019).
- vii. Submit latest documentation on the Trust's internal audit programme. If the programme of work was more than 6 months ago, the Trust should update their internal audit work.
- viii. Confirm and agree with ESFA the date of when the next internal audit will be carried out and a commitment to send the findings to ESFA within 1 week of its submission to the board.
- ix. Develop and implement a robust and transparent procurement policy meeting the requirements of the Academies Financial Handbook and evidence of its proper use.
- x. Ensure all payments are correctly declared in the audited accounts.
- xi. Explore and adopt National Deals for contracts, unless evidence is provided to the ESFA that an alternative provides better value for money.
- xii. Confirm with ESFA by 31 December 2018 that a schedule of Board meetings has been established, particularly Audit & Finance Sub-Committees and provide evidence of regularity of these meetings. Share minutes of board meeting with ESFA by no later than the 21st of the following month (for example, minutes for the meeting held in December 2018 will be due by 21 January 2019).
- xiii. Agree a repayment schedule with ESFA for £120,000 deficit funding support provided in October 2018, ensuring the full amount is repaid within 5 years from the date the recovery plan is agreed
- xiv. Review and agree a revised recovery plan with ESFA ensuring:
 - the recovery plan shows any repayment to ESFA is on track and meets key milestones as agreed with ESFA.
 - the recovery plan must show requirement for any additional projected cashflow deficit funding and the amounts fully repaid within 5 years from the date the recovery plan is agreed.
 - the recovery plans must show 5-year budget forecast and set a balance budget for each of the financial years.
 - the recovery plan must show the Trust's recovery from the cumulative budget deficit within 5 years from the date of the revised recovery plan.
- xv. The Trust is required to submit the Budget Forecast Return (BFR) by the deadline required by the Education and Skills Funding Agency.

- xvi. The Trust is required to submit 2017/18 accounts by the deadline required by the Education and Skills Funding Agency.
- xvii. The Trust must consider Stratton Upper School joining a strong MAT.
- xviii. Provide a full response to any recommendations identified by auditors within the management letter and internal audit assessment. This should include confirmation from the Chair that all points raised have been addressed and resolved.
- xix. The Trust is required to provide confirmation to ESFA from the Chair that all points raised by auditors within the management letter and internal audit assessment of the 2016/17 accounts have been addressed and resolved.
- xx. The current clerk to the Trustees being related to one of the Trustees does not provide sufficient impartially. The Trust to ensure that there is no conflict of interest as per clause 2.1.5 of the Academies Financial Handbook.

Financial management requirements

- 3. The Trust is responsible for its own financial management, control and governance and is expected to take appropriate action to strengthen the weaknesses identified.
- 4. The Trust should take all appropriate actions to ensure an action plan is fully implemented.
- 5. The ESFA must be satisfied that the Trust is doing everything it can to rectify the weaknesses identified.

Timescales

- 6. The Trust must agree timescales with ESFA to deliver these conditions and adhere to the deadlines associated with conditions, monitoring and progress actions and compliance set out in this notice. The overall plan containing all FNtl actions and timescales for implementation must be submitted to the ESFA by 31 January 2019.

Monitoring and progress

- 7. Provide the ESFA with monthly management accounts and cash flow reports by no later than the 21st of each month, initially for the first twelve months of the Notice. The frequency of the reports thereafter will be determined by the ESFA, based on progress against the Trust's recovery plan.
- 8. The Trust is required to meet the specific conditions outlined above to enable the ESFA to monitor compliance and progress.
- 9. From the date of this letter is issued, the Trust is required to provide a progress report and attend meetings with the ESFA at every six month interval to provide evidence of progress made on the FNtl conditions.

10. 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 ESFA will begin to consider and explore the contractual intervention options available.
11. The ESFA reserves the right to amend and add further specific conditions to this Notice should they be required.

Compliance and the end of the notice period

12. Compliance with this Notice will be demonstrated when all the conditions on point 2 of this annex has been completed by the timescale in accordance with point 6 of this annex.
13. When the Trust meets the conditions outlined in this annex, the ESFA will write to the Trust to confirm that the Notice has been lifted.