



Education & Skills
Funding Agency

Financial management and governance review

Langdale Free School

February 2019

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Executive summary

1. Allegations were received in October 2018 in relation to Langdale Free School, (hereafter referred to as the school), which raised concerns about their financial management arrangements. As a result, the ESFA commissioned an initial on-site fact finding visit to take place between 8 and 9 January 2019.

2. The ESFA review identified a number of failings and weaknesses in financial management and governance arrangements that breach the Academies Financial Handbook (AFH) 2018, the Academies Accounts Direction 2017/18, the school's articles and their funding agreement. Our findings also validate a number of the concerns raised. Key findings of the review have confirmed:

- ongoing **financial viability** and **financial management** concerns (paragraphs 9 to 13 refer)
- non-compliance with **related party transactions** reporting requirements (paragraphs 14 to 18 refer)
- the school is not following recommended guidance on publishing **pupil premium** information on the school's website. Non-compliance with **sports premium** reporting requirements and potential non eligible activities (paragraphs 19 to 26 refer)
- whilst the school's funding agreement permits them to procure corporate services from an alternative source, it places limitations on the costs payable, with further costs over and above this having been invoiced by **Montague Place** (paragraphs 27 to 31 refer)
- the school has not been transparent in reporting **governance information** on their website and there is an error in the structure reported in the audited accounts (paragraphs 32 and 33 refer)
- the **governance structure** is not in line with recommendations and is in breach of the school's articles (paragraphs 32 and 34 and 32 and 35 refer)
- the school currently does not have a separate committee, fulfilling **audit committee** functions (paragraphs 32 and 36 refer)

Background

3. Langdale Free School was previously a fee-paying independent school run by Montague Place. The school is based in Blackpool and was incorporated in May 2011. It converted to a free school in September 2013. It has a capacity for 144 pupils, with 125 currently on role.

4. Montague Place is a group of established independent schools and is based in Wales; it also owns Westbourne School, an independent school in Glamorgan. They also provide certain corporate services to the school, in line with a clause in the school's funding agreement. In addition, two Montague Place employees are trustees at the school, one of which is also a member.

5. Ofsted last visited the school in June 2015, the full inspection report grades the school as good, with behaviour and safety of children and early years provision being rated as outstanding.

Objectives and scope

6. The objective of this review was to establish whether the anonymous allegations received by the ESFA were evidence-based and, in doing so, identify whether any non-compliance or irregularity had occurred with regard to the use of public funds.

Specifically, the allegations related to:

- poor financial management
- the use of public funds for overseas meetings
- redundancies being made due to high salaries
- misuse of pupil premium and sports premium
- school finances overseen by another organisation who are all on the governing body and whose salaries are paid by the trust

7. The scope of the work conducted by the ESFA in relation to the allegations, included assessing the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money. This included:

- review of relevant documentation, including governing body minutes and supporting policies
- testing of financial management information
- interviews with key staff and trustees

8. Our review covered the arrangements in place up to and including the dates of the review. In accordance with ESFA investigation publishing policy, (August 2014) Langdale Free School has had the opportunity to comment on the factual accuracy of the report.

Findings

9. Findings from the review have confirmed that there are weaknesses in financial management, governance, breaches of the AFH, the school's articles and funding agreement and a lack of transparency over reporting arrangements. The school is also reporting an in-year deficit in their 2017/18 accounts, which is far larger than the reported in year deficit in their 2016/17 audited accounts. In respect of the allegations made, our findings are as follows.

Poor financial management

10. Allegations were made in respect of the controls over budget monitoring. From our review of the budget forecast return (BFR), management accounts and the audited accounts, we identified a number of issues:

- the school's BFR for 2018, submitted to ESFA, forecast a cumulative revenue surplus of £76,000
- from enquiries with school officers, it was discovered that the BFR submitted was known to be inaccurate, as it omitted non-staffing costs from the revenue expenditure
- the full year management accounts for August 2018 show a revised budgeted deficit of £12,000, however, for the year ended 31 August 2018 the school made a revenue deficit of £238,000. A significant increase from the year ended 31 August 2017 revenue deficit of £62,000
- the school's cumulative revenue reserves at 31 August 2018 were £83,000. The latest management accounts available (November 2018) forecast an in-year deficit of £96,000 for 2018/19, such that the school is forecasting that it would have used up all of its revenue reserves by the end of this financial year
- although the 2017/18 financial position was discussed at the Autumn 2018 board meeting, and it was agreed that a plan to address the deficit was to be produced, there was no evidence that this had been completed
- the minutes from the Autumn 2018 board meeting indicate that the trustees had not been made aware of the deteriorating financial position, until after the year end

11. In summary, these findings raise serious concerns over the long-term viability of the school. The latest financial information available indicates that the school will be in a net revenue deficit position by the end of the academic financial year 2018/19. There is also evidence from our review of board minutes, that trustees were not adequately informed of this until after year end. The school submitted an invalid BFR for 2018 and did not notify ESFA of the error.

12. The AFH states in this respect of this at 2.1.1, that the academy trust must take full responsibility for its financial affairs and use resources efficiently to maximise outcomes for pupils. At 2.1.2, that the board and its committees must meet regularly enough to

discharge their responsibilities and ensure robust governance and effective financial management arrangements. Given the financial position the school is in, meetings more frequently than the minimum requirement of at least three times a year, should have taken place.

13. The AFH also states at 2.3.3, that the board of trustees, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management.

- Budget setting – The board must ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and are reflective of lessons learned from previous years

Using public funds for overseas meetings

14. Allegations were made in relation to trips to Ibiza for trustees and a trip to China for the Executive Director. We confirmed, however, that whilst the trip to China did occur, it was not funded by the school and was not connected to school activity. The trip to Ibiza also took place in February 2018, however, Montague Place paid for the flights to Ibiza and there were no further costs incurred or payable by the school.

15. The costs incurred for the flights to Ibiza, for a board meeting, should have been reported in the audited accounts as a related party transaction. This is therefore a breach of the 2017/18 academies accounts direction, which specifies that:

- Transactions with related parties, and those identified as connected per the AFH must be disclosed fully and openly so that the users of the accounts can gain a proper understanding of them, and any issues that might have influenced them. Some transactions may attract public interest and so disclosure provides accountability and transparency to the public, and demonstrates that potential conflicts of interest are being identified and managed.

16. In accordance with SORP 2015 (Statement of Recommended Practise), disclosure of related party transactions must include:

- the names of the related parties
- a description of the relationship between the parties
- a description of the transactions the amounts involved
- the amounts due to or from the related parties at the balance sheet date, and any provision for doubtful debts or amounts written off
- details of any guarantees given/received
- terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement

- other elements of the transactions which are necessary for the understanding of the accounts

17. The 17/18 accounts direction at S7.6.3 refers further to the SORP 2015, para 23.4, which states that related party transactions between a parent charity and its subsidiaries, associates and joint ventures must be disclosed. Academy trusts must therefore disclose all inter-group transactions and cannot take up the exemption afforded in para 33.1a of FRS102.

18. In addition, the AFH at 3.10.3 specifies that the trust must keep sufficient records, and make sufficient disclosures in their annual accounts, to show that transactions with these parties, and all other related parties, have been conducted in accordance with the high standards of accountability and transparency required within the public sector.

Use of pupil premium

19. Allegations that the school had not used pupil and sports premium funding for its intended purposes were made.

20. In respect of pupil premium, we reviewed the report on how funding had been spent in 2016/17, as posted on the school's website and requested the same information for 2017/18, noting that this had not been posted to the website. Pupil premium guidance specifies that the grant may be spent in the following ways:

- for the purposes of the school, that is for the educational benefit of pupils registered at that school
- for the benefit of pupils registered at other maintained schools or academies
- on community facilities; for example, services whose provision furthers any charitable purpose for the benefit of pupils at the school or their families, or people who live or work in the locality in which the school is situated

21. We identified that whilst the report documented what the funding had been spent on, which was in line with intended purposes, it did not demonstrate how this contributed to the conditions of receiving the grant. The school have therefore not complied with current guidance on what academies (and free schools) should publish on their websites, which states that, regardless of what your funding agreement requires you to publish, it is recommended that details of the pupil premium strategy are published. For the current academic year, it is also recommended that the following is published:

- how much pupil premium funding was received for this academic year
- details of the main barriers to educational achievement that the disadvantaged children face
- how pupil premium funding will be spent to overcome these barriers and the reasons for the approach chosen
- how the effect of the pupil premium will be measured

- the date of the next pupil premium strategy review

For the previous academic year, it is recommended that the following is published:

- how pupil premium funding was spent
- the effect that the pupil premium had on pupils
- the Teaching Schools Council has produced [guidance for schools on developing and presenting their pupil premium strategy](#), including a pupil premium strategy template which schools may choose to use

Use of sports premium

22. In respect of sports premium, we reviewed the report on how funding had been spent in 2016/17, as posted on the school's website and requested the same information for 2017/18, noting that this had not been posted to the website. The school have therefore not complied with mandatory reporting requirements, sports premium funding guidance specifies that trusts must publish what their funding has been spent on by the end of the summer term.

23. Guidance also specifies what must be published, online reporting must include:

- the amount of premium received
- a full breakdown of how it has been spent
- the impact the school has seen on pupils' PE, physical activity, and sport participation and attainment
- how the improvements will be sustainable in the future

24. Trusts are also required to publish the percentage of pupils within your year 6 cohort in the academic year who met the national curriculum requirement to:

- swim competently, confidently and proficiently over a distance of at least 25 meters
- use a range of strokes effectively
- perform safe self-rescue in different water-based situations

25. Attainment data for year 6 pupils should be provided from their most recent swimming lessons. This may be data from years 3, 4, 5 or 6, depending on the swimming programme at the school. To help plan, monitor and report on the impact of spending, the guidance recommends that a template to record and publish the activity is used. The template can be accessed through the Association for PE and Youth Sport Trust websites.

26. In addition, the school have potentially used part of their funding to pay non fundable activities. The report on how funding has been spent, identifies that funds have

been spent on term-time/school-time swimming lessons. Where guidance specifies what the funding cannot be spent on, trusts should not use their funding to:

- teach the minimum requirements of the national curriculum – with the exception of top-up swimming lessons after pupils' completion of core lessons (or, in the case of academies and free schools, to teach your existing PE curriculum)

Montague Place

27. Allegations were made in respect of trustees who are employed by Montague Place, also being paid by the school. The school's funding agreement contains a clause governing the involvement of Montague Place as a provider of corporate services to the school.

28. The school's funding agreement (clause 13 b) states that Montague Place and its connected companies may charge the trust a total of £50,250 per annum, adjusted for inflation, for 'Corporate Services' [delivered by ██████████ ██████████, ██████████ ██████████ and ██████████ ██████████]. The trust has paid a salary to each of the three individuals named in accordance with the annual limit prescribed.

29. The school has also used the services of two Montague Place employees, for payroll and finance administration, for which no additional charge had previously been levied. However, Montague Place have concluded that the school should pay for the additional services it is providing which, in addition to payroll and administration, includes the extra work performed by ██████████ ██████████ for dealing with issues including admissions, attendance and complaints. They have therefore charged the school an additional management fee for 2018/19 amounting to £20,000.

30. In addition, we established that the invoice raised by Montague Place, via Langdale Nurseries, a connected Montague Place company, is undated. It should be noted that although the invoice came from Langdale Nurseries, none of the services were provided by its staff. Also, the additional services provided by ██████████ ██████████, could be deemed a corporate service, or, specifically in the case of his work on admissions, not necessary. Where the need for this work could not be evidenced and the Local Authority provide this service. The school have not demonstrated that this arrangement offered value for money and stated that they have not made any approaches to ESFA to ascertain whether the management charge arrangement is in breach of the funding agreement.

31. This transaction also falls under the related party transaction reporting requirements and, if deemed an appropriate charge, must be recorded in line with reporting requirements.

Governance: transparency and structure

32. Prior to our visit, we reviewed the governance structure in operation at the trust and as identified in the 2017/18 audited accounts. This was compared to records on the school's website, Companies House, Get Information about Schools (GIAS) and the school's articles, where we identified a number of anomalies.

- there is an error in the governance structure reported in the 2017/18 audited accounts, there are only 4 members listed and this should be 5
- full disclosure has not been made on the school's website for its governance structure
- three members are also trustees
- the school's articles specify that a maximum of a one-third of school staff can be trustees, 2 of the 5 trustees are also school staff (article 50B)
- there is no separate committee fulfilling audit committee functions, whereas the 2017/18 audited accounts refer to such a committee being in place

33. This is a breach of the AFH at 2.10.1, which states that 'The trust must provide details of its governance arrangements in the governance statement published with its annual accounts, including what the board has delegated to its committees and, in MATs, to local governing bodies. The trust **must** also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:

- the structure and remit of the members, board of trustees, its committees and local governing bodies (the trust's scheme of delegation for governance functions), and the full names of the chair of each
- for each member who has served at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including governance roles in other educational institutions

34. The AFH states at 1.4.4, that the Department's view is that there should be a significant degree of separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.

35. The school is also in breach of its articles in respect of the number of employees of the school, also being trustees. The articles state at 50B, that the number of governors who are also employees of the Academy Trust (including the principal) shall not exceed one third of the total number of governors.

36. They are also in breach of the AFH also states at 2.9.1, that the academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and

operational controls, and to ensure that risks are being adequately identified and managed.

Conclusion

37. The trust needs to take urgent action to resolve the issues, including greater consideration given to the robustness of financial management arrangements by the board. Annex A includes a table of findings, breaches of frameworks and specific recommendations for the school.

38. In respect of the allegations received, our findings have upheld those raised in respect of poor financial management. That the school have not been open and transparent in reporting overseas travel costs, paid for by Montague Place, as a related party transaction. In addition, we confirmed there are weaknesses in the reporting of pupil and sports premium and potentially ineligible activity being claimed for. There are also breaches of the funding agreement and articles in respect of Montague Place, the current governance arrangements and the additional management charge levied.

Annex A

The following table lists the review findings, breaches and specific recommendations for the issues.

No	Finding	Breach of AFH / framework	Recommendation
Financial management			
1.	<p>Our findings raise serious concerns over the long-term viability of the school. The latest financial information available indicates that the school will be in a net revenue deficit position by the end of 2018/19.</p> <p>The school has failed to exercise effective control over its financial position.</p> <p>There is also evidence that trustees were not adequately informed of this.</p>	<p>This is a breach of the AFH 2.1, which states that trustees and managers must maintain robust oversight of the academy trust.</p> <p>2.1.1 The academy trust must take full responsibility for its financial affairs and use resources efficiently to maximise outcomes for pupils.</p> <p>2.1.2 The board and its committees must meet regularly enough to discharge their responsibilities and ensure robust governance and effective financial management arrangements.</p>	<p>The school must comply with AFH requirements in respect of financial management arrangements.</p> <p>They must also seek to urgently address its financial position and produce a recovery plan, to be agreed and monitored by ESFA.</p>
2.	<p>The school submitted an invalid BFR for 2018 and did not notify ESFA of the error.</p>	<p>This is a breach of the AFH at 2.3.3, which states that the board of trustees, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management.</p> <p>Budget setting – The board must ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets,</p>	<p>The board of trustees must ensure that budget forecasts, for the current year and beyond, are compiled accurately, based on realistic assumptions including any provision being made to sustain capital assets, and are reflective of lessons learned from previous years.</p>

		and are reflective of lessons learned from previous years.	
Related party transactions			
3.	<p>The school have not been transparent in reporting all transactions with Montague Place.</p> <p>Flights paid for my Montague Place, have not been reported as a related party transaction in the 2017/18 audited accounts.</p>	<p>This is a breach of the Academies Accounts Direction 2017/18</p> <p>Also, of the Charities SORP reporting requirements.</p> <p>Also, of the AFH at 3.10.3, which states that, the trust must keep sufficient records, and make sufficient disclosures in their annual accounts, to show that transactions with these parties, and all other related parties, have been conducted in accordance with the high standards of accountability and transparency required within the public sector.</p>	<p>The school must ensure that it keeps sufficient records, and makes sufficient disclosures in their annual accounts, to show that transactions with all related parties have been conducted in accordance with the high standards of accountability and transparency required within the public sector.</p>
Pupil premium and sports premium			
4.	<p>The school have not complied with recommended or mandatory reporting requirements for pupil and sports premium funding.</p> <p>In addition, funding has been claimed for potentially invalid activities.</p>	<p>Guidance on what academies should publish on their websites.</p> <p>Non-compliance with Sports premium funding guidance reporting requirements.</p>	<p>The school should ensure that consideration is given to recommended pupil premium reporting arrangements.</p> <p>The school must ensure that it complies with sports premium mandatory reporting requirements.</p> <p>The school should confirm if term time swimming is part of the free school PE curriculum and if this is the case, funds paid in respect of this activity should be repaid.</p>
Montague Place			

5.	The school has paid Montague Place (via Langdale Nurseries) for a management charge, over and above that which is specified in the school's funding agreement.	Funding agreement.	The school should urgently seek a ruling from the ESFA, as to whether the levying of a management charge by Montague Place is in breach of the school's funding agreement. They should also determine if the charges provide value for money and that the services are needed.
Governance: transparency and structure			
6.	<p>We identified a number of anomalies comparing the governance structure in operation to the 2017/18 audited accounts, the school's website, Companies House, Get Information about Schools (GIAS) and the school's articles.</p> <ul style="list-style-type: none"> • there is an error in the governance structure reported in the 2017/18 audited accounts, there are only 4 members listed and this should be 5 • full disclosure has not been made on the school's website for its governance structure • three members are also trustees • the school's articles specify that a maximum of a one-third of school staff can be trustees, 2 	<p>The AFH at 2.10.1, states that 'The trust must provide details of its governance arrangements in the governance statement published with its annual accounts, including what the board has delegated to its committees and, in MATs, to local governing bodies.</p> <p>The trust must also publish on its website up-to-date details of its governance arrangements in a readily accessible format, including:</p> <ul style="list-style-type: none"> • the structure and remit of the members, board of trustees, its committees and local governing bodies (the trust's scheme of delegation for governance functions), and the full names of the chair of each • for each member who has served at any point over the past 12 months, their full names, date of appointment, date they stepped down (where applicable), and relevant business and pecuniary interests including 	<p>The school must ensure that it complies with AFH mandatory reporting requirements in respect of governance arrangements.</p> <p>The school must also ensure that it considers the Departments strong preference in respect of the number of members who are also trustees.</p> <p>The school must urgently seek ESFA direction over the breach of their articles in respect of the number of staff who are also trustees.</p> <p>The school must also ensure that it establishes a committee to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.</p>

	<p>of the 5 trustees are school staff</p> <ul style="list-style-type: none"> • there is no separate committee fulfilling audit committee, where the 2017/18 audited accounts refer to such a committee being in place 	<p>governance roles in other educational institutions</p> <p>The AFH states at 1.4.4, that the Department's view is that there should be a significant degree of separation between the individuals who are members and those who are trustees. If members sit on the board of trustees this may reduce the objectivity with which the members can exercise their powers. The Department's strong preference is for a majority of members to be independent of the board of trustees.</p> <p>The school is in breach of its articles in respect of the number of school employees also being trustees.</p> <p>The AFH also states at 2.9.1, that the academy trust must establish a committee, appointed by the board of trustees, to provide assurance to the board over the suitability of, and compliance with, its financial systems and operational controls, and to ensure that risks are being adequately identified and managed.</p>	
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