Education & Skills
Funding Agency

Financial management and governance review

David Ross Education Trust, April/May 2017

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Executive summary

1. Between February and March 2017, the Education and Skills Funding Agency (ESFA) and Regional Schools Commissioner (RSC) received allegations and concerns relating to the governance arrangements and potential breaches of the Academies Financial Handbook (AFH) at David Ross Education Trust (DRET). The communications came from sources both at trust level and at individual academy level and specifically referenced financial management, breaches of the trust Articles and the AFH, and non-compliance with regulations and the trust policies. In response to concerns raised, the ESFA completed a financial management and governance review at DRET between 24 April and 9 May 2017.

2. Early in 2017, DRET received a number of resignations resulting in significant changes in senior personnel at the trust. The Chair of the DRET Board of trustees resigned in January 2017. The Chief Executive Officer (CEO), the Director of School Improvement and the Head of Public Relations and Communications also tendered their resignations. Documentation provided to the ESFA indicate resignations were because of perceived governance issues at the trust and relationships between the trust board, trust senior management and the David Ross Foundation. In addition to the senior personnel changes, in March 2017 the trust board suspended an executive principal at one of the academies and during our review, removed the chair of governors at the same school from post.

3. These changes have impacted relationships at a local level in a number of academies within the trust, raising concerns and fostering a lack of confidence in the leadership and governance of the trust. The trust board elected a new chair in February 2017 and has recently appointed a new CEO, new Director of Education and a new Director of Communications and Public Affairs.

4. Key findings from the review into the complaints and allegations are:

- concerns that recent board appointments were non-compliant were unfounded - the review confirmed that appointments had been made in compliance with the trust Articles of Association
- there was evidence that the potential procurement by the trust of consultants to conduct parental surveys at 2 schools had not followed trust procedures - although the David Ross Foundation had subsequently funded this project, which meant the trust's funds had not been used
- there was evidence that communications and relationships between the trust and its constituent academies needs to be improved and strengthened to ensure that academies are fully supported
- £4,614 irregular expenditure was identified in relation to the payment of relocation expenses

5. The current financial viability of the trust is also a significant concern. The trust is in a vulnerable financial position with limited revenue funds. In June 2017, it is forecasting an in year deficit of £0.9 million, reducing its overall funds balance to approximately £1 million. The central team is forecasting a deficit outturn of £4.9 million and has no means to recover this deficit from its 6% top slice. The trust financial strategy is to recover the deficit over a 3-year period by the introduction, from September 2017, of a shared service project forecast to generate savings from academy back office functions. Regional pooling of approximately 24% of academy budgets is estimated to generate savings from economies of scale. The strategy is currently untested and therefore presents a risk that the trust may not achieve the forecast savings.

6. The trust recruited a new CEO in June 2017. This appointment, in addition to the newly appointed Director of Communications and Public Affairs and the new Director of Education, provides an opportunity for the trust to take stock and review its strategic operations, communications and relationship management. Going forward it needs to ensure that the board is kept acutely aware of the financial position of the trust and that budgets are closely monitored and scrutinised. It needs to strengthen relationships and communications across its academies to provide greater transparency, fully support academies and maintain confidence at a local level in the trust’s senior decision makers.

Background

7. DRET is a multi-academy trust comprising 33 schools; 22 primary, 10 secondary and one special school for which it receives GAG funding of £66 million. The trust incorporated on 26 March 2007 as The Havelock Academy and subsequently became the David Ross Education Trust from 23 June 2011.

8. The trust is closely linked to the David Ross Foundation, which is the principal sponsor of the trust and a member of the trust. Under the trust Articles of Association, the principal sponsor can appoint up to 8 trustees.

9. The trust maintains the David Ross Foundation Endowment Fund, which holds endowment funds donated by the principal sponsor. To date, donations of £5.8 million have been made to this fund. The trustees are responsible for determining the specific uses of the endowment fund that are used to enhance the educational provision at trust academies. Recent uses have been the extension at Wold Academy and renovations at Charles Read Academy.

10. In January 2017 the chair of the board of DRET resigned. This was followed by resignations by the CEO and 2 other senior personnel at the trust. The sponsor was subsequently appointed as chair of the board in February 2017 and a new CEO was appointed in June 2017, with appointments to other senior positions being made immediately after that.

11. Early in 2017, the ESFA received allegations and concerns relating to financial management, control and governance at the trust. These came from sources at both trust level and academy level. The ESFA triaged the information to identify evidence of potential fraud or irregularity and determine if further follow up action with the trust was required.

12. While the evidence did not indicate fraud or irregularity, in view of the number and nature of the financial, leadership and governance issues raised, the triage recommended a financial management and governance visit to the trust by ESFA.

Objectives and scope

13. The objective of the visit was to review evidence in relation to the concerns received and assess the adequacy and effectiveness of governance, risk management and control, including propriety, regularity and value for money.

14. Work was undertaken in the following areas:

- relevant trust policies and procedures pertinent to the concerns raised including the financial procedures manual and scheme of delegation
- relevant trust information, including the trust Funding Agreement, Articles of Association, governing body and relevant committee minutes
- financial management information, including bank statements, credit card statements and procurement documentation

15. The relevant contents of the report have been cleared for factual accuracy with the David Ross Education Trust.

Findings

16. The review identified issues regarding the governance, financial management and reporting within the trust and the financial viability of the trust. It also identified concerns and areas for improvement in relation to communication and relationship management between the trust central staff and the constituent academies.

Board of trustee appointments

17. A number of the allegations received related to the recent changes within the trust at board level indicating that the appointment of the principal sponsor as chair and the appointment of additional sponsor trustees were non-compliant. Evidence provided through trust board minutes and other documentation confirmed that the appointments complied with the trust Articles of Association.

18. The principal sponsor was appointed as chair of the DRET board following the resignation in January 2017 of the previous chair. Minutes from the board meeting on 20 February 2017 record the appointment. The majority of trustees voted to elect the principal sponsor as chair, no other nominations were received.

The Articles of Association allow the principal sponsor, who is also a member and trustee, to appoint up to 8 trustees. Minutes of an additional trustees' meeting on 8 February 2017 attended by the principal sponsor (also a trustee) and 3 other trustees record the resignation of a sponsor trustee and the proposal and agreement to appoint 2 new sponsor trustees to the board.

Procurement

19. Allegations received indicated that 2 recent procurements had not followed trust procedures. The review found evidence that one of the procurements to engage a firm of head-hunters to support the recruitment of a new CEO was compliant with trust procedures. The second proposed procurement to engage a consultancy firm to carry out parental surveys at 2 of the academies, contract value £30,000, had not followed prescribed procedures. The trust procedures require that 3 quotes be obtained for medium value transactions, between £20,000 and £50,000, and a short business case should be prepared for consideration by the Director of Finance.

20. In December 2016, the principal sponsor notified the then chair of the board that he had received a proposal from a firm to conduct some parental research and that he wished the trust to proceed with the engagement. The engagement as requested was not compliant with trust procurement rules and the chair confirmed that as such, board approval to commit trust funds would be required. The sponsor indicated that if necessary the David Ross Foundation would fund the procurement.

21. Minutes from the 20 February 2017 board meeting record that the CEO, in her capacity as accounting officer had at the Executive Sub Committee, raised some concerns regarding the procurement process followed. She declined to expand on these concerns at the board meeting. The board minutes' record that the trustees were satisfied the procurement represented value for money and gave retrospective approval.

22. The review team were informed on 6 July 2017 that the David Ross Foundation had paid for the research and therefore there had been no cost to the trust and no requirement to follow trust procurement rules.

Wold Academy

23. In February 2017, the chair of the local governing body at Wold Academy (Wold) contacted the RSC to raise concerns over the governance and financial management arrangements at the trust and the level of support provided. A request that the academy be considered for re-brokerage to another trust was included in the communication.

24. The review found evidence that there had been some confusion regarding the agreed 2016/17 budget at Wold and the status of £560,000 funding provided through the DRET endowment fund.

25. The DRET Governors Handbook states "Local Governing Bodies (LGB) are required to draw up the budget, which is then submitted, to the Trust Board for approval. Academies can apply to access additional financial support from the DRET endowment fund and DRET annual enrichment grants".

26. A number of schools within the trust have received internal loans from the endowment fund, primarily to fund capital builds, which they are required to pay back over an agreed period at a 1% interest rate. However, the governors at Wold were under the impression that the funding provided from the endowment fund towards a building extension was a donation rather than a loan. Signed loan agreements between other academies in the trust and the centre were available, agreeing the terms of similar loans provided from the endowment fund. However, in the case of Wold the trust did not hold such an agreement. There appears to have been a misunderstanding between the trust and Wold over the status of the funding. The absence of a signed loan agreement has added to the lack of clarity and transparency regarding the provision of these funds.

27. The budget agreed by the Wold LGB and submitted to the trust board for approval, had been subsequently amended without further consultation. The trust CEO and Financial Director attended the January 2017 meeting of the Wold Finance and General Purposes Committee to address LGB concerns. This gave local governors the opportunity to raise their concerns regarding the level of support provided by the trust's previous regional business manager and the changes to the approved Wold budget. The minutes from the meeting record agreement to a revised outturn forecast and

acknowledge improvements in the support to the academy following the appointment of a new regional business manager.

28. The review team visited Wold on 3 May 2017. At that time, the academy had been without an executive principal for 2 months; the associate principal and the assistant principal were jointly overseeing the academy. This had put a strain on the leadership of the academy particularly in relation to financial management. Immediately prior to the visit, the trust removed the chair of governors from office.

29. The absence of leadership positions was discussed with trust representatives and it was agreed that local succession planning at Wold needed attention. In June 2017, the trust seconded an experienced head teacher from another academy to run the school in conjunction with the Academy Improvement Lead.

DRET Financial management and viability

30. The trust has a vulnerable financial position with limited revenue reserves available to it. Given that the main deficit is at the centre there is limited scope for recovery of these funds from the central 6% top slice budget. Revenue fund balances disclosed in DRET financial statements have declined significantly over the last 3 years. Table 1 illustrates that expenditure at the centre is a major contributing factor to this decline.

Table 1.

Revenue fund balances	2013/14	2014/15	2015/16	2016/17
Academies				
In year balances		£2,003,000	(£152,000)	*(£46,000)
Cumulative	£4,715,000	£6,178,000	£6,026,000	£5,980,000
Centre				
In year balances		(£2,257,000)	(£1,879,000)	“(£957,000)
Cumulative	£102,000	(£2,155,000)	(£4,034,000)	*(£4,991,000)
Total Trust Cumulative balances	£4,817,000	£4,023,000	£1,992,000	*£989,000

**forecast figures*

31. The central deficit appears to be the result of increased spending on school improvement by the previous senior team and the use of external consultants to provide

these services. The trust board and the accounting officer are responsible for ensuring the proper use of trust funds and for ensuring economy, efficiency and effectiveness. Incurring increasing deficits at the centre, over a number of years by the trust board and previous accounting officer, without adequate recovery plans does not represent proper stewardship of trust funds and contravenes key sections of the Academies Financial Handbook (AFH):

- S1.5.11 AFH 2016 states the board of trustees is responsible for the proper stewardship of trust funds and for ensuring economy, efficiency and effectiveness
- S1.5.20 AFH 2016 states the role of the accounting officer includes specific responsibilities for financial matters. It includes a personal responsibility to Parliament, and to ESFA's accounting officer, for the financial resources under the trust's control

32. The chair of the finance committee confirmed in the finance committee minutes dated 8 March 2017 that "any historical reserves built up should be earmarked to remain for the academy". A consequence of the current financial situation however, is that the trust does not have sufficient funds to earmark the reserves held on paper by the academies. Academies within the trust are therefore not able to access these reserves without preparing a business case for consideration and approval by the board. The academies we visited understood that surplus funds were needed to support secondary school deficits and appeared unaware of the situation regarding the central team deficit or the overall fund balance for the trust.

33. A further consequence has been that, as at April 2017, academy liabilities relating to outstanding loans from the endowment fund currently stand at £5.6 million. A number of academies have been granted internal loans from the DRET endowment fund, at an interest rate of base plus 0.5%, to pay for capital improvements. As academies are not currently able to access reserves, these loans have permitted investments to be made in circumstances where no other sources of funding were available. Repayment of these loans, some of which are behind schedule, will need to be factored into coming academy budget rounds.

Financial reporting

34. A review of trust board and trust finance committee minutes identified a lack of reporting and consideration of the trust's current financial position and in particular, the central team deficit. Discussion centred on the academy budgets and did not cover management of the central team budget. Financial reports were unclear in that they did not include details of the central team budget. The principal sponsor raised this as a point of concern last year, highlighting the need for the board to have effective visibility of trust finances.

35. There is no recorded discussion, budget information or financial plans to indicate that the trust has considered how to recover the central team deficit from within its 6% top slice budget. The trust financial strategy for recovery presented to both committees is to achieve further savings from academy budgets via its planned shared service project.

Shared services project

36. The trust has planned over a number of years, a shared service project to achieve savings and efficiencies in the delivery of academy back office functions. It is a general intention that MATs secure economies of scale and therefore a more effective application of education funding for the benefit of the academies with in the trust.

37. From September 2017, the trust financial strategy is for savings from the implementation of a shared services project. This will introduce pooled regional budgets for all academy back office functions. In practice, this will mean that academies will receive approximately 70% of their budget to fund education salaries and educational supplies, with approximately 24% pooled regionally to fund back office functions and 6% top sliced to fund the central team. The trust is forecasting savings of £1.7 million per annum over the next 3 years as shown in Table 2 below. The trust will use the majority of these funds to offset its central deficit rather than return savings to the academies.

Table 2.

Shared Service Project	2017/18	2018/19	2019/20	Total
Forecast savings	£1,750,000	£1,750,000	£1,850,000	£5,350,000
Academy dividends	£250,000	£250,000	£250,000	£750,000
Reduction in central team deficit	£1,500,000	£1,500,000	£1,600,000	£4,600,000

Source: *Trust project plans*

38. These figures forecast that the £4.9 million deficit at the centre will reduce by a minimum of £1.5 million per annum and provide an additional £250,000 of education funding for the academies.

39. The review team have been unable to obtain details of the shared service regional budgets as at the time of the review these were being prepared and were due to be signed off by the finance committee and the trust board in June/July 2017. However, the high-level figures provided by the trust represent a forecast annual saving of 10% of the shared services project budget.

Relocation expenses

40. The trust has a relocation policy that provides for up to £8,000 in relocation expenses if staff recruited to the trust are required to relocate. The policy includes details of the types of expenditure covered by the policy which in the main relates to transport, storage, professional fees and temporary accommodation. Testing of expense claim forms identified payments for expenditure outside the policy specifications and for items deemed to be an irregular use of public funds. Items included furniture and other household items and accessories to the value of £4,614 which were not covered under the relocation scheme.

Conclusion

41. Overall, there was evidence to support compliance in making senior appointments. Additionally, although a proposed procurement to engage a consultancy firm to carry out parental surveys had not followed prescribed procedures, we concluded as trust funds were not subsequently used to pay for these services the trust had not breached their policy.

42. However, there are some areas of concern relating to the financial management of the trust, particularly in respect of the central team function and the impact that is having on the financial viability of the trust. Also the level of financial oversight at board level and how financial information is shared and communicated across the academies.

43. Going forward it will be imperative that there is close monitoring, scrutiny and challenge of shared service regional budgets to ensure the achievement of forecast savings or the early identification of deficit variances. The board must be kept fully appraised of the ongoing revenue position and actively manage the ongoing risks to the financial viability of the trust.

44. The trust also needs to improve communications with the academies to ensure any concerns they have are addressed and that they are fully supported. The appointment of the new CEO provides a good opportunity to address these issues and review trust communications and relationship management.

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