



Investigation outcome report: Lilac Sky Schools Trust

Background

The Education and Skills Funding Agency (ESFA) visited Lilac Sky Schools Trust (LSST) (Registered Office Sheerness, Kent) in February and April 2016, to undertake a financial management and governance review of the multi-academy trust. The financial management and governance review prompted an investigation at the trust.

Outcomes of the investigation

The ESFA investigation established there were significant control failures and weaknesses within the trust's financial management and governance arrangements. The following were identified:

- LSST incurred £3,266,738 of expenditure that was deemed either contentious, irregular or improper, including:
 - expenditure with companies, and recruitment of individuals where connections existed, without following a due process - this was in contravention of trust policies and the Academies Financial Handbook (AFH)
 - some instances of misuse of public funds, including expenditure on alcohol.
- There was an absence of independent governance and financial control at the trust, with significant and extensive breaches of the AFH and related frameworks.
- There was a lack of separation between the trust and linked commercial or non-charitable companies, breaching AFH requirements on related party transactions and managing conflicts of interests.
- Failure by the trustees and accounting officers to maintain proper stewardship over public funds.

The following breaches of the AFH were identified.

Framework	Breach in sections	Issue
AFH 2014	<ul style="list-style-type: none"> • 1.4.1, 1.4.3 • 1.5.10 to 13, 1.5.19, 1.5.21 • 2.1.8 • 2.1.10 to 11 • 2.2, 2.27 • 2.4 to 2.4.9 • 3.1, 3.1.3 • 3.1.12 • 3.1.16 to 3.1.20 • 3.1.22 • 3.2 to 3.24 • 3.4.1 	<ul style="list-style-type: none"> • AT financial affairs • Roles and responsibilities – Trustees and accounting officers (AOs) • Financial oversight • Chief financial officer (CFO) • Financial planning • Internal scrutiny • Proper and regular use of public funds • Connected party relationships • Register of interests • Tax arrangements • Trading with connected parties • Borrowing
AFH 2015	<ul style="list-style-type: none"> • 1.5, 1.5.10 to 1.5.13, 1.5.19 • 2.3 • 3.1, 3.1.3 • 3.1.22 • 3.2 to 3.24 • 3.4.1 	<ul style="list-style-type: none"> • Roles and responsibilities – Trustees and AOs • Internal control • Proper and regular use of public funds • Tax arrangements • Trading with connected parties • Borrowing
AFH 2016	<ul style="list-style-type: none"> • Page 7 • 1.5.14 • 1.5.10, 1.5.13, 1.5.17, 1.5.19 • 2.3 • 3.1.16 to 3.1.20 • 3.1.21 	<ul style="list-style-type: none"> • De facto trustees • Roles and responsibilities - Trustees • Roles and responsibilities - Trustees and AOs • Internal control • Register of interests • Tax arrangements

Action

The ESFA and the Department for Education (DfE) took a number of actions, including:

- ESFA issued a [Financial Notice to Improve](#) to LSST in August 2016 which highlighted significant concerns identified by the ESFA and set out ESFA expectations on actions for the trust to undertake going forward. This notice was published in June 2017.
- LSST was dissolved in September 2017 and schools had been transferred to 4 new trusts.
- Following conclusion of the investigation into the actions of LSST, an investigation into the conduct of specific individuals was undertaken pursuant to section 128 of the Education and Skills Act 2008 (S128).
- On 10 January 2023 a direction was issued. The Secretary of State for Education found that 2 former LLST accounting officers had engaged in 'relevant conduct' and that because of that conduct, they were unsuitable to take part in the management of an independent school (including an academy or free school). For the purpose of this direction, 'relevant conduct' means conduct that is so inappropriate that, in the opinion of the appropriate authority, it makes a person unsuitable to take part in the management of an independent school, see regulation 2(5) of the 2014 Regulations'.
- One individual appealed against the Secretary of State for Education's decision, with a hearing listed at the Care Standards First Tier Tribunal. The appellant sought permission to withdraw his appeal during the hearing. Permission was granted by the tribunal and, consequently, the prohibition direction stands.