



Education & Skills  
Funding Agency

Education and Skills Funding Agency  
Earlsdon Park  
53-55 Butts Road  
Coventry  
CV1 3BH

[ESFA-enquiry-form](#)

Tel: 0370 000 2288

Mr Ed Pyke  
Chair of Governors  
St Michael's Academy  
Grass Royal  
Off St Michael's Avenue  
Yeovil, Somerset  
BA21 4JW

By email: Ed Pyke: [epyke@educ.somerset.gov.uk](mailto:epyke@educ.somerset.gov.uk)

02 February 2018

Dear Mr Pyke,

**Financial notice to improve: St Michael's Academy**

I am writing to you in your capacity as the Chair of St. Michael's Academy ("the Trust").

I recognise the cooperation and discussions that have taken place between the Trust and officials since your appointment as chair of trustees. The ESFA remains concerned by the urgency of the request for financial support and is not sufficiently confident in the Trust's ability improve its financial position without support.

As you are aware, the Trust is required to set a balanced budget each year, as set out in the Academies Financial Handbook (AFH). This is a formal requirement of the Trust's funding agreement (FA).

Paragraph 2.2.2 of the AFH states: The board of trustees must approve a balanced budget, and any significant changes to that budget, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years. The board must minute their approval(s).

Such non-compliance is often indicative of serious financial and/or governance issues. 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 regarding the financial controls, governance and oversight of financial management at the Trust.

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 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.

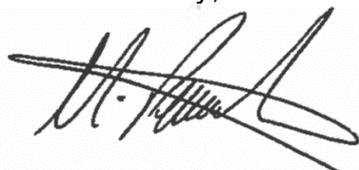
We will monitor progress made towards meeting the requirements associated with this Notice. We will lift the Notice when the requirements set out in the annex have been met. In the event that the Trust fails to meet the requirements of this Notice, to the satisfaction of the Secretary of State, the Trust 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 [Tracy.Mitchell@education.gov.uk](mailto:Tracy.Mitchell@education.gov.uk).

I am copying this letter to Mathew Vella, Accounting Officer and Lisa Mannall, the Regional Schools Commissioner for the South West.

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Pettifer', with a large, sweeping flourish extending to the right.

Mike Pettifer  
Director, Academies and Maintained Schools Group

CC. Mr Mathew Vella, Accounting Officer  
Lisa Mannall, Regional Schools Commissioner for the South West

**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 St. Michael's Academy ('the Trust'):
  - Failure to ensure robust governance arrangements (AFH 2.1.3)
  - Failure to ensure good financial management and effective internal controls (AFH 2.2.4)
  - Failure to ensure effective planning and oversight of capital projects (AFH 2.3.3)
  - Failure to ensure spending has been for the purpose intended and there is probity in the use of public funds (AFH 3.1.3)

**Conditions**

2. The Trust is required to commission a full and independent review of financial management and governance across the Trust which should include, as a minimum, an assessment of the oversight exercised by the Trust board, a skills audit of the current members and trustees and the scope for further efficiency savings, including using economies of scale to reduce staff costs. The review should also include the option of joining a MAT.
3. Provide the draft Terms of Reference for that review, together with the CV of the individual or company the Trust board seeks to carry out the review, to the ESFA by 2 March. Terms of reference and the reviewer must be agreed with the ESFA; the review must be completed by 13 April 2018. The trust must share all draft and final reports from the review with the ESFA. The review must consider as a minimum:
  - a) Whether and how governance arrangements currently in place at St Michael's Academy provide assurance that the trust is able to fulfil all of its responsibilities to comply with the Funding Agreement and the Academies Financial Handbook 2017 and, if not, what gaps there exist in the trust and how they may be addressed;
  - b) The current skills of the trustees and members of the trust, what gaps exist and how those gaps could be addressed, including the potential to join a Multi-Academy Trust;
  - c) Whether the Accounting Officer and the executive team has the necessary skills, experience and knowledge to provide 'assurance to Parliament, and the public, of high standards of probity in the management of public funds, particularly: value for money, regularity, propriety', in line with the AFH (AFH 1.15.19).

4. Prepare and submit an action plan setting the steps they will take to address the issues identified by the independent review. The action plan must be submitted to the ESFA no later than 30 April 2018.
5. Prepare and submit a revised financial recovery plan. The plan must be submitted no later than 16 March 2018 and must demonstrate that every possible economy is being made to reduce the overall amount of deficit. The recovery plan must include :
  - a) Evidence that the Trust is on the most efficient deals and has reviewed whether they would benefit from national deals;
  - b) Consideration for establishing share services, including re-establishing the academy's previous agreement with Pen Mill Academy;
  - c) Consideration for capital depreciation; and
  - d) Robust and evidenced pupil number forecasts
6. Adopt the latest Master Funding Agreement by 16 March 2018.
7. The trust to consider and agree with the ESFA how they will strengthen the financial expertise and scrutiny at trustee level and agree a development programme to support the finance lead at the trust.
8. Increase the frequency of trust meetings until the academy has responded to all the conditions of the FNtl.
9. Increase the frequency of audit committee meetings where the academy will share the minutes, actions and Management Information reporting with the ESFA.
10. The Trust is also required to:
  - a) Comply with the funding agreement requirement to submit all audited financial statements to the ESFA on time and without qualification.
  - b) Submit the Budget Forecast Return (BFR) by the deadline required by the Education and Skills Funding Agency.
  - c) Contact the ESFA at an early stage if it believes that performance is falling behind the schedule set out in their recovery plan.

### **Financial management requirements**

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

## **Timescales**

14. The Trust must provide a copy of the internal management letter produced by their external auditors and accounts that fell due on 31 December 2017.
15. The Trust must provide an deficit recovery plan to the ESFA by 16 March 2018.
16. The Trust, as part of the FNtl, must adopt the latest Master Funding Agreement by 16 March 2018.
17. The Trust must complete a full and independent review of financial management and governance across the Trust by 13 April 2018, including providing reports to the ESFA.
18. The Trust must share their latest internal audit report and provide future reports as they become available.
19. The Trust Terms of Reference for the review and the reviewer must be agreed with the ESFA by 02 March 2018.
20. The BFR return is due to the ESFA by 31 July 2018. The 2017/18 audited accounts are due to the ESFA by 31 December 2018.

## **Monitoring and progress**

21. The Trust is required to meet the specific conditions outlined above to enable the ESFA to monitor compliance and progress.
22. We will expect the Trust to supply the following financial information on a monthly basis for a period of 12 months from agreement of the plan. The frequency of reports thereafter will be determined by the ESFA, based on progress against the recovery plan:
  - A revenue income and expenditure report with a narrative explaining any significant variances for the current full academic year. Income and expenditure classifications in this report should follow those in the recovery plan;
  - A balance sheet showing the position at the end of the last calendar month and forecast to the end of the academic year; and
  - A detailed monthly cash flow forecast rolling 12 months ahead
23. All information should be emailed to Danae.Ablett@education.gov.uk.
24. The ESFA reserves the right to amend and add further specific conditions to this Notice should they be required. This may include the recovery of funds from the Trust.
25. Should it become evident that the Trust is unlikely to fulfil the conditions or requirements set out in this Notice and/or within the agreed timescales, the ESFA will begin to consider and explore the contractual intervention options available.

## **Compliance and the end of the notice period**

26. Compliance with this Notice will be demonstrated when:

- The Trust has implemented a deficit recovery plan which sets out a cumulative balanced budget outlining plans to repay all funding advances.
- The ESFA receives the findings of the external review of financial management and governance together with an action plan to implement the recommendations.
- The milestones within the action plan to address the underlying weaknesses in financial management and governance are discharged.
- The ESFA 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 Trust adopts the latest Master Funding Agreement by 16 March 2018.
- The Trust requests approval from the ESFA for any actions under the revoked freedoms in Part 3 and Annex B of the AFH. These requests should be sent to us using the [ESFA-enquiry-form](#).
- The ESFA receives the Budget Forecast Return, by 31 July 2018.
- The ESFA receives audited financial statements with an unqualified audit opinion by 31 December 2018.
- The ESFA receives the auditors' management letter which does not raise concerns by 31 December 2018.

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