Durand Education Trust

Report on the commercial arrangements between London Horizons Ltd and the GMG companies

prepared by

mm k

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Executive Summary

- MM&K have been asked by the Trustees of the Durand Education Trust (DET) to report on the reasonableness of past and possible future arrangements for the recompense of Sir Greg Martin ("GM") in leading the commercial business activities of London Horizons Ltd ("LHL") that contribute to the educational programmes of the Durand Academy.
- The two sequential Agreements for Services (dated 2001 and 2012) between LHL and GM's personal service companies represented a commercial deal entered into willingly by both parties (and by those charged with responsibility for the school assets). In our view this type of deal was entirely appropriate for the enterprise involved.
- This commercial deal has resulted in cash benefits to the schools and the Trusts amounting to £3.6m since the first contract in 2001 (up to FY14), plus substantial additional benefit to the school and community in free or discounted use of enhanced facilities. The principal revenue-earning assets are student accommodation and a sports and leisure complex, including a swimming pool, on the school sites. A summary of these benefits and the payments made to GM is shown in Exhibit S below. We have been told this scale of commercial activity and consequent benefit to the school(s) is unique in the UK education sector.
- A singular feature of this achievement is that any public money used has been repaid by the private income generated. There was an original legacy grant of £100,000 from the GLC in 1991, which was then invested in an all-weather sports pitch and the original swimming pool. The Durand primary school provided the land for the sport centre and free space within the Victorian school building for the original student accommodation. Commercial revenues from the first developments were re-invested to build the business. GM can fairly be said to have pulled the business up by its boot-straps.
- The business proposition has more the character of a "partnership" than an engagement to provide services. This proposition was originally brought to the Governing Body (GB) of Durand Primary School (DPS) by GM and was carried through by his own endeavours. It seems to us most unlikely

that the benefits to the schools and community would ever have happened without his abilities and enterprise. The Trustees themselves are certain that they would not have happened.

- This is quite a different proposition from running a pre-existing leisure centre or accommodation block. The Trustees recognise that in the medium term the contract to run these facilities can be handed over to a normal service contract.
- Durand's dependence on GM's talents and energies was thrown into greater relief at the time of the second agreement in 2012. It was becoming evident that Durand could not rely on EFA funding to complete the free boarding project at St Cuthman's in West Sussex, a project instigated by GM as Executive Head. The Trusts needed to find an additional £600,000 of annual cash to secure the future and the Trustees believed that GM's further enterprise would be essential to generating this income. He has now put in place the business projects to achieve this: they will more than double the current accommodation income of £610,000.
- We consider that a fair test for the reasonableness of the payments made to GM is normal commercial practice. Our benchmarking suggests that a reasonable share of the returns provided to the GB and DET through LHL would be 20% (returns comprise the profits gifted and the increase in the value of the business).
- An accurate assessment of the cost/benefit is complicated by the fact that LHL provided some benefits to the community at no charge or a reduced charge – so the value of this does not show up in the sums gifted to the GB or DET. Furthermore, GM has provided additional value in property acquisition and development which is entirely outside the remit of LHL. An estimate of these additional benefits and value is included in Exhibit S. Whilst the Agreements for Service place no obligation on GM to provide these other benefits nor on the Trusts to remunerate him additionally, it is evident that the Trustees had these in mind when agreeing the two deals and judging whether Durand was getting a fair deal. Since the only mechanism to reward GM is through the LHL contract, and given these additional benefits, we consider that a range of 20%-25% of the returns provided through LHL would not be excessive.
- The 2012 Agreement for Services contains an entitlement to a Special Payment which is payable on termination of the current Agreement and which is designed to reward GM for his contribution to the increased value of the LHL business and the associated assets. (This value payment subsumes any

value payment from the 2001 Agreement for Services.) Since the date of the 2012 Agreement, but before the current Inquiry was instigated, GM made a proposal to halve his entitlement under the Agreement and this has been accepted by the DET Trustees. Under the modified formula in the Agreement, GM would currently be entitled to 20% of our estimated value of the business (or 13% when the value of the new accommodation is included). This at the bottom end (or lower than) our benchmark range of 20%-25%.

- Taking the Basic and Special Payments together, **we consider that the overall level of payment he has received and the terms of future payments are reasonable.**
- There is a technical improvement that could be made to the structuring of payments, by calculating payments as a share of profits rather than of revenue. This would provide a better incentive to control costs. There is no evidence that GM has maximised sales revenue at the expense of profits – the profit margin is currently around 50%. But we do recommend that this change is made in any future new contract.