



Report to:	Sutton Shareholdings Board	Date:	4 January 2017
Report title:	Sutton Education Services - Launch update & resolutions agreement		
Report from:	Strategic Director - People's Directorate		
Ward/Areas affected:	Borough-wide		
Chair of Committee/Lead Member:	Cllr. Simon Wales, Deputy Leader of the Council		
Author(s)/Contact Number(s):	Tom Alexander, Head of Strategic Business - 020 8770 4522		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Smart Council • 		
Open/Exempt:	Open		
Signed:		Date:	07/12/16

1. Summary

- 1.1 The Children, Families & Education Committee (CFE) took the decision to transfer the Council's education support services to a new delivery model in February 2016. The business case was then agreed by CFE in June 2016. On November 1st, 2016 187 staff (headcount) transferred into a new company limited by shares which now delivers education support services under the trading name of Sutton Education Services Ltd. The Council is the majority shareholder (75%) with relevant local school governing bodies and academy trusts owning the remaining 25% between them. The Council and the initial minority shareholders may determine whether to invite additional minority shareholders to join. If they do so this would dilute the equity stakes of the minority shareholders.
- 1.2 Delivering these services in this way means that we can continue to fulfil our statutory obligations, protect discretionary services that would otherwise have been stopped and work in true partnership with local schools at a time when the Council's role in education is being reduced by national Government policy. Importantly we are also able to deliver £1.4 million in savings by 2018/19 from services we know are highly valued by local schools and have helped Sutton schools achieve the positive national reputation that they have.
- 1.3 Since the launch of SES Ltd., considerable effort has been committed to establishing a secure management structure to support staff through the changes ahead, ensuring appropriate governance through putting a strong Board in place, securing school and academy sign-up to the company and developing the company's offer, using a staff group to develop marketing options. A summary of key activity is set out below:
- Legal documentation signed by Council and SES Ltd. and executed by Legal Service.

- Contract Management to be delivered by Commissioning & Governance with the Authorised Officer (whose role is to be the Council's named individual accountable for ensuring our obligations are met) retained in the People's Directorate. Contract management meetings have taken place monthly since the service went live.
- Recruitment of 3 Non Executive Directors (NED) - This is being managed by the Council's HR service, advert has gone out in the following sites, LBS, Indeed.co.uk, linkedIn, NED Exchange, Sunday Times online and NEDonBoard website. The closing date for applications was Friday 9 December, shortlisting was w/c 12 December, with interview dates in late December.
- Recruitment of Managing Director and NED (Chair) - Are both being managed by Penna, with the Managing Director closing date being 19 Dec, a preliminary/technical interview w/c 9 Jan, and a final interview w/c 30 January. The Chair recruitment has a closing date 16 Dec, with a prelim/technical interview w/c 19 Dec, and a final interview w/c 16 January.

1.4 For a more detailed report on progress covering ownership, governance, management, initial development priorities, financial outlook and contract management please see appendix A.

2. Recommendations

The Sutton Shareholdings Board is recommended to:

- 2.1 Agree SES Ltd Articles of Association (appendix B).
- 2.2 Agree appointment of Directors that have been selected and recommended to date (names to be circulated to members in advance of the meeting) and;
- 2.3 Delegate authority to the Council's Authorised Officer (Kieran Holliday) to appoint the Chair on the timeline set out above (in consultation with the Chairs of the SSB and CFE Committee).

3. Background

- 3.1 This project was part of the Children's Service Redesign programme and was scoped in the Spring of 2015. In October 2015, once initial information gathering and stakeholder consultation had been completed, the project gained traction and a dedicated resource was bought in to recommend a delivery vehicle and business case and implement the changes in the event of business case approval being secured.
- 3.2 In order to reduce expenditure by the target of £1.4m per year it was agreed to reduce expenditure on some services in scope to the statutory minimum level. Half of this total has already been delivered. The business plan agreed by CFE Committee for the company forecasts a first year deficit of over £300k, recognising that the company would inherit an excess of expenditure over income, before restructuring can take effect to move the company into a breakeven position from year two onwards.
- 3.3 The company has already identified additional income from trading with schools of £200,000.



- 3.4 Since 13 July 2016, the Commissioning & Governance team have provided an interim NED and corporate assurance to help steer the project to completion. The interim NED will stand down as soon as the new Board members are appointed.

4. Issues

- 4.1 There continues to be uncertainty about the future national funding of education and this has implications for the company. The Department for Education consultation in March 2016 on the development of a national funding formula for schools indicated that there would be a second consultation following the first - this is still awaited. The ongoing uncertainty about the impact of the introduction of a national funding formula (predicted to be overall negative for schools in London) makes it harder for Sutton schools and academies either individually, or collectively through the Schools Forum, to commit to funding over the medium term and thus increases the company's uncertainty over income projections.
- 4.2 Of the £1.4m target reduction in the cost of education services savings target £243,000 was expected to be delivered through savings in back-office costs. The company is working with the Council's Finance team to clarify the extent to which this is achievable. To date SLA's have been agreed with ICT, Legal and Audit, with discussions with HR and Procurement nearing completion. The contract agreed between the Council and the Company says that additional budget that would have been available to the Council in relation to support services and premises leases, will be paid to the Company from April 2017.
- 4.3 The Schools Forum is considering at its meeting on 8 December proposals to reduce central spending on some specialist services (for pupils for whom English is an additional language, or who are on the autistic spectrum or who have speech and language difficulties). The outcome of those decisions could mean that the company will have to seek to trade these services with schools and academies if the existing level of capacity is to be retained.
- 4.4 Given the inherited funding deficit and the financial uncertainty it is clear that the company faces a challenging initial few months, including a significant staff consultation on re-organisation, new senior management and governance and the launch of the company to the wider market.

5. Options Considered

- 5.1 The Council considered the following options when reviewing the delivery of education support services:
- 5.1.1 Stop all non-statutory services and retain remaining services in house - rejected as unsustainable and unable to deliver required savings.
 - 5.1.2 Spin out statutory services only/spin out full education support services in their entirety - rejected given lack of staff interest in a spin out.
 - 5.1.3 Outsource the services - rejected given loss of control and ability to deliver statutory functions.
 - 5.1.4 Transfer the services into a Local Authority Trading Company - rejected in favour of a more collaborative model with local schools.



5.1.5 Transfer the services into a jointly owned trading company - accepted for the reasons given above (1.2)

5.2 Consultation took place with all key stakeholders (schools, staff etc.) to test different variations of a delivery model until the eventual arrangement was agreed with the Schools Forum in early 2016. Since then, schools have been offered the opportunity to be 'B' shareholders in the company, with 20 schools confirming they will be taking up the offer and a further 7 schools to respond in mid December after the outcome of Governor meetings.

6. Impacts and Implications

Financial

6.1 The planned general fund savings from this project are £946,000 in 2016/17 and a further £458,000 in 2017/18, totalling £1,404k annually from 2017/18. About half of the planned general fund savings were achieved prior to the launch of the company, mainly through restructuring. The balance of the savings will be achieved by reductions in the price paid by the Council to SES Ltd for the services provided under the contract between the parties. SES Ltd will need to reduce its net costs accordingly and this is expected to be achieved through income generation from schools and further restructuring.

6.2 In addition to the general fund savings the Schools Forum is considering a proposal to reduce central Dedicated Schools Grant funding (that would otherwise have been income to the company) by £798,000 over a three year period, starting with £200k in financial year 2017/18. This follows their earlier decision to remove all funding for one of the company's teams from January 2017 (£427,000 full year).

6.3 In the June report to the Children Families and Education Committee it was reported that it was expected that the Council would make a loan to SES Ltd to fund its working capital requirements. After further discussions it was agreed to schedule the payments made by the Council for the services provided so that the company's cash flow position remained in credit throughout the year. This meant that the loan was no longer required.

6.4 The June report also flagged a financial risk around higher than expected pension costs for the Company (estimated at an additional £106,000). These are being taken into account in developing the proposals for bringing income and expenditure into line.

6.5 For the first five months of the company's operation the Council is providing support services to the company on the same basis as it does to Council departments, avoiding financial risk to either party. The company has agreed SLAs with the shared ICT service and with SLLp and is seeking to reach agreement with other support services (e.g. HR, payroll, procurement) to inform the savings position referred to at para 4.2 above.

Legal

6.6 (Insert text here having first referred to the guidance notes)



6.7 (Insert text)

7. Appendices and Background Documents

Appendix letter	Title
A	Progress Report
B	Articles of Association

Background documents
Children, Families & Education Committee February 2016 - Education Services Spin Out
Children, & Education Committee June 2016 - Future Funding & Delivery of Education Services

Audit Trail		
Version	Final	Date: 19 December 2016
Consultation with other officers		
Finance	Yes	Phil Butlin
Legal	No	Awaiting comments
Equality Impact Assessment required?	Yes	Completed (part of June 2016 Committee submission)

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