

**SUTTON SHAREHOLDINGS BOARD 4TH JANUARY 2017**

## SUTTON EDUCATION SERVICES LTD

## APPENDIX

Introduction

1. The Council decided at its June 2016 CF&E Committee meeting to establish a company, jointly owned by the Council and by Sutton school governing bodies and academy trusts, to deliver a broad range of educational services, both statutory and discretionary, funded from a variety of sources (LBS, central DSG, individual school/academy purchases, grants, income from parents).
2. The company started delivering services on 1<sup>st</sup> November 2016 following the transfer of 187 employees from LBS.

Ownership

3. Initially the company is 100% owned by LBS. 33 governing bodies and academy trusts are in the process of making their final decisions as to whether to join the company. At the time of writing 22 have confirmed, five have indicated the date by which they will have decided, six are yet to confirm their position.
4. The Council will transfer 25% of its shares, split between however many schools have chosen to be involved, meaning that if, for example, 25 governing bodies/academy trusts were joining each would own 1% of the company, whereas with 30 governing bodies/academy trusts joining each would own 0.83%.
5. The Council has indicated that it will be for the shareholders to decide collectively whether and when to “re-open the window” to enable more governing bodies/academy trusts to join. The shareholding structure of the company means that there would be no impact on the Council's 75% shareholding, but increasing the number of minority shareholders would dilute each of the existing minority shareholders' shares – e.g. if there were 50 minority shareholders each would own 0.5% of the company.

Governance

6. The company is governed by a Board of Directors, initially consisting of two directors: Abi Macklin (chair) and William Clapp (Acting Managing Director). Recruitment processes are underway for a Chair (appointed by the Council), three other non-executive directors (appointed by the Council), two non-executive directors (appointed by the minority shareholders) and a permanent managing director. Certain matters are reserved for decision by the shareholders.

### Management

7. An initial senior team of seven is in place, with a blend of part-time, full-time, interim, permanent, employed and contracted staff. An Operations Director (with oversight of finance, HR and contractual issues) has been appointed and he will be joining the company in February.

### Initial development priorities

8. The Board has adopted four initial priorities as follows:
- *Financial balance*  
The company was set up at the same time as the Council was deciding to reduce its funding of education services to the statutory minimum, removing £946,000 from the education budget in the current financial year with a further £460,000 reduction from April 2017. Top priority for the company is to bring its income and expenditure into line so that it is operating on a sustainable basis from summer 2017.
  - *Growing income from a secure base*  
Securing mutually beneficial relationships with our existing customers (mainly shareholders) is fundamentally important before we pursue opportunities in the wider market, developing our offer and targeting sustainable income growth.
  - *Responding to changes in funding of education*  
Locally schools' budgets are under pressure with national funding changes in the offing also, creating a degree of uncertainty about future income sources. As well as paying close attention to these external factors we must also prepare our teams to enable them to win business from new commissioners – in particular reductions in central Dedicated Schools Grant is likely to sharpen the need for us to sell to individual schools or smaller groups of schools.
  - *Cultural transformation*  
We have an expert workforce with substantial knowledge about service delivery, the local schools context and operating in a local government environment. This has served us well in the past, but will not secure our future in a commercial environment, meaning that we need to help many of our staff to adjust to new ways of thinking and working.

### Financial outlook

9. The business plan for the company approved by the Council predicted a first year loss in excess of £300k, before the company moves into break-even territory in year two. Achieving this will represent a significant challenge given the funding reductions decided by the Council, those already decided by the Schools Forum, further decisions on DSG expected and the pressure on school and academy delegated budgets, both in Sutton and beyond.

10. As well as managing its own financial affairs the company is also responsible for administering certain budgets on the Council's behalf. The most significant of these is the SEND budget. The company has identified a substantial funding gap in 2017/18 which is being reported to Schools Forum. It is clear that unless significant, collective action is taken across the Sutton education system to change the way in which SEND is funded the ability of the company to continue to deliver collectively-funded value-adding services to Sutton schools and academies will be curtailed, as an ever-increasing proportion of Dedicated Schools Grant will be spent on this, reducing the funding available for other services provided by the company.
11. The future balance of funding within the DSG will have a material impact on the company and it is committed to support all efforts to mitigate the financial impact of SEND spending on delegated school budgets and on other central DSG funds.

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