



<b>Report to:</b>	Strategy & Resources Committee	<b>Date:</b>	29 October 2018
<b>Report title:</b>	Portage Service Spin Out		
<b>Report from:</b>	Niall Bolger - Chief Executive		
<b>Ward/Areas affected:</b>	Borough wide		
<b>Chair of Committee/Lead Member:</b>	Councillor Ruth Dombey		
<b>Author(s)/Contact Number(s):</b>	Shona Okeke - Public Health Project Officer, 0208 770 5506 Tom Alexander - Head of Strategic Business, 020 8770 4522		
<b>Corporate Plan Priorities:</b>	<ul style="list-style-type: none"> <li>• Making Informed Choices</li> <li>• Living Well Independently</li> </ul>		
<b>Open/Exempt:</b>	Open with the exception of Appendix A ,B and C which is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.		
<b>Signed:</b>		<b>Date:</b>	15 October 2018

## 1. Summary

- 1.1 As part of the Smarter Council initiative, the council has had a long standing policy of asking staff to rethink how they could best deliver their service in order to improve outcomes for local people within a reduced budget. In October 2014, the council agreed an offer to staff which sets out how they will be supported to consider new delivery models on this basis. This, along with our work on shared services, has enabled considerable changes to how the council is able to sustain and improve services and has specifically led to the setting up of:
- Cygnet ICT
  - Opportunity Sutton Ltd.
  - Encompass
  - Cognus
- 1.2 In summary the process has two parts. One is the completion of an expression of interest that needs to be agreed by the Corporate Management Team (CMT) and the Lead Member - this gives council staff a mandate to put together a detailed business plan to explain how they would transition into a new delivery model and sets out why this option would be favourable. That business plan including financial assessment of the proposed model is what is set out in the accompanying papers. This paper proposes letting the service manager open a Community Interest Company (CIC) and then transferring her service from the council into the new company (NewCo) so that it can offer new services and generate additional income.



- 1.3 Portage is an internally provided service covering the London Borough of Sutton only. The eligibility criteria are;
  - The child lives in the London Borough of Sutton
  - The child is between the ages of birth and three years old at point of referral
  - The child has two or more areas of developmental difficulties and are demonstrating a minimum of a six-month delay impacting on their learning.
- 1.4 An earlier version of this proposal was presented at Strategy and Resources in July 2018 and invited back to October committee for further clarification. See section 5.

## **2. Recommendations**

The Strategy & Resources Committee is recommended to:

- 2.1 Formally confirm the Council's support for the transition of the internal Portage service into a Community Interest Company (CIC) based on the externally validated business plan.
- 2.2 Delegate to the Strategic Director of People's Services, authority to negotiate contractual arrangements as part of the transfer needed (see appendix A).
- 2.3 Delegate to the Strategic Director of Resources, the authority to negotiate the transfer of office assets and buy-back arrangements based on previous experiences with other new delivery models.

## **3. Background**

- 3.1 The Sutton Portage Service is a pre-school home visiting education service providing a bespoke home visiting service for disabled children and those with special educational needs. The service provides a direct intervention with the children and a supportive and nurturing service for parents and carers. Sutton Portage also delivers similar services to community based groups around the borough.
- 3.2 Sutton Portage Service is funded entirely through DSG funding and whilst there are no specific savings target set against its budget, all services are expected to review the potential and opportunities that they have to contribute to the council's budget deficit and the improvements to the service that can be made for Sutton residents, staff and stakeholders.
- 3.3 There are currently limited equivalent home based services on offer locally and none expected to be established in the immediate future to the best of our knowledge.
- 3.4 The service is valued by both commissioners and its current users base and has demonstrably improved the lives of the people it has served to date.
- 3.5 There is potential for commissioning opportunities, for example through the Outcome Based Commissioning Reviews (OBCR) and in partnership with Sutton Clinical Commissioning Group



(CCG), in order to reduce demand on statutory services as the spin out broadens its offer. This should also support the Sutton Plan.

#### 4. Service offer

- 4.1 If the recommendations are agreed, this will be the first Portage Service to develop into CIC status in its own right and this new model of service delivery aims to be the lead in its field; developing a range of specialist and bespoke services for its local community and residents that are not currently on offer. A greater variety of support services will ensure a sustainable future, with the ability to target families who both meet and do not meet the current portage criteria. There should also be a reduction in the dependency of families on council services whilst maintaining high quality standards; all without increasing the Portage budget.
- 4.2 The NewCo intends on keeping the current portage service **free at the point of contact and only available to those who meet the portage criteria**, with a range of new additional services available for all families. Whilst the new services will be generate income, discounted prices will be made available to Sutton families including a discretionary fund to enable service to be purchased. This model is also dependent on financial support provided by external investors.
- 4.3 The NewCo expects a staff expansion (finance dependent). To manage this expansion in the first instance, current staff will be TUPED across on the current Local Government Pension Scheme and all new staff will be offered a market rate pension scheme.

#### 5. Issues for consideration and mitigating actions

- 5.1 Members asked for further clarification at July committee. These have been considered and mitigating actions have been taken;
- 5.2 A need for an independent review of financial planning
  - 5.2.1 An independent financial assessment of the NewCo was undertaken by Ian Pettman, head of finance at Virgin and chartered accountant. The assessment recommended that the NewCo 'work to the minimum expenditure scenario, with increasing cost only when further funding is confirmed' (see appendix B of the business plan). Please note that Ian Pettman has no vested interest in this proposal and has supported this project on a one-off pro bono basis.
- 5.3 Resilience of the service going forward
  - 5.3.1 The current service manager will become the managing director (MD) of the NewCo. In any eventuality where the MD is unable to make decisions, the NewCo will be governed by two executive directors and further supported by an advisory board including representation from parents, staff, professional services (such as lawyer/accountant) and two external networks in the private sector.



5.3.2 Staff will have the opportunity to be upskilled specifically in leadership qualities through support provided by the Mutuels Leadership Development Programme for emerging and early stage mutuals (Cabinet office).

5.4 Financial positioning of the service going forward

5.4.1 Prior to July Strategy and Resources, the service manager had already secured £25,000 of external funding. At the time of writing, the NewCo now has a bank account which will provide more opportunity to secure further funding, of which at least £100,000 is in line of sight.

5.4.2 The Council intends to contract the new CIC for a period of two years for the Portage Service only, from the date of spin out. The annual value of this contract will be £225,400 p.a. for this period (assuming members approval). The NewCo will then receive a 2 year contract with London Borough of Sutton to provide Portage services to Sutton residents after which they would have to compete with the wider market. This goes some way in short to managing the sustainability of the NewCo and the delivery of the Council's anticipated changes within children's social care.

5.4.3 Further work has taken place to review the reliability of the finance projections including a risk matrix and sensitivity analysis around income and expenditure assumptions. The internal finance service has reviewed the finances in line with these changes alongside the independent validation carried out by Ian Pettman.

**6. Options and opportunities**

6.1 The service will need mixed use accommodation and the rental costs are likely to be high. An interim arrangement is currently being arranged to house the service across 2 rooms in Central Sutton Library to provide a range of activities to enhance the provision for families. The view is still to find a more suitable location long term.

6.2 Business planning reflects accommodation costs at the higher end of the spectrum as a cautious approach but it may be possible to reduce this cost significantly if premises at lower rent can be identified.

6.3 Since July Committee, the NewCo is now registered on companies house with a registered bank account, now allowing the possibility for consideration from funders. There continues to be credible commitment from funders which could provide the platform for company and service growth.

6.4 Buy-back arrangements are yet to be decided. Whilst there are positives to continuing with LBS services, the CIC has the opportunity to access market rate services including but not limited to;

- IT (CIC is likely to continue with LBS/RBK services)
- Payroll



- Pensions (market rate to be offered to new staff. LGPS operate a closed scheme for TUPED staff)
- Financial management
- Insurance

## 7. Impacts and Implications

### Financial

- 7.1 This project, if agreed, will not, initially, save money from the general fund, however it should help the pressures on our Dedicated Schools Grant (DSG), either by enabling the service to operate more cheaply and / or by generating income that it currently cannot access.
- 7.2 To date, the costs of the project have been contained within the existing service budget, the Smarter Council and through the support from the internal services listed at section 7.
- 7.3 Included within the Business Plan is a 5 year budget plan, detailing all expenditure broken down by type (including initial set up costs and contingency), alongside all income / funding sources. The funding and financial viability for this project is dependent on both continued investment of some DSG funding contribution and a major new external funding contribution.
- 7.4 A cash flow forecast is also included for year 1. Assumptions have been made around timings of receipt of the 2 major funding contributions, this being crucial in determining the value of an initial loan so that obligations around payment of set up costs and month 1 expenditure items can be settled on time.

### Legal

- 7.5 The CIC was registered on the 20 July 2018 at Companies House as PLAYWISE LEARNING CIC, a community interest company limited by guarantee (registered CIC number is 1147564).
- 7.6 It is proposed that the new company will be a staff mutual providing the Portage Service to the Council. It will not be a company falling under regulation 12 (1) of the Public Contracts Regulations 2015 (PCR) (also known as the Teckal exemption) and so normally the Council would have to go out to the market and carry out a tender. As the services being provided to the council will fall under Schedule 3 of the PCR, the threshold levels to apply for the purposes of the PCR is £615,278. The proposal of a 2 year term would result in the contract value being under the threshold and so the PCR will not directly apply, though the Treaty principles of equality, transparency etc. would. As the council has advised they have not been able to identify an alternative provider this could be grounds for a waiver from Contract Standing Orders in order that the Contract could be awarded directly to the CIC.
- 7.7 If a direct award is made the legal documentation which will be required is a Transfer Agreement which will cover the actual transfer of the service from the Council to the CIC. A Commissioning Agreement will also be required to govern the relationships between the Council as a commissioner of the service and the CIC providing the services.

- 7.8 Any assistance provided to the CIC from the Council whether it be e.g. loans or provision of accommodation would need to be carefully considered in light of the State Aid rules.
- 7.9 As existing Council staff will be working for the new company there will need to be legal advice on TUPE and pensions.

## 8. Appendices and Background Documents

Appendix letter	Title
A	Portage Business Plan exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972
B	Independent Assessment by Ian Pettman exempt by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972
C	Delivery Model Impact Analysis exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972
D	Equalities Impact Assessment
E	Risk Register

### Background documents

Portage Service Impact Report

### Audit Trail

Version:	Final	Date 17 October 2018
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### Consultation with other officers

Finance	Yes	Matt Tizzard
Legal	Yes	Fabiola Hickson
Human Resources	Yes	Priam Samuel
Adult Social Services	Yes	Sandra Roche
Equality Impact Assessment required?	Yes	Completed