

Cabinet

Report Title:	Divestment of Schools' Choice
Meeting Date:	12 July 2016
Lead Councillor(s):	Councillor Gordon Jones, Cabinet Member for Children's services, Education and Skills
Local Councillor(s):	All Councillors
Director:	Sue Cook, Corporate Director of Children and Adults
Assistant Director or Head of Service:	Julia Dolan, Schools' Choice General Manager, Children and Young People Directorate 07717513520
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Brief summary of report

To present to members the case for divesting Schools' Choice. Schools' Choice trades back office support, school improvement and children's services to schools and academies. The proposed structure and format of the new company will be part of Suffolk Group Holdings, wholly owned by Suffolk County Council. The company will provide revenue to Suffolk County Council through dividend payments, interest payment and payments made for support services and accommodation provided by the Council.

What is Cabinet being asked to decide?

1. To approve the divestment of Schools' Choice in principle.
2. To agree to delegate further decisions in connection with this divestment including the exact date of transfer, the structure of the company and the governance arrangements to the Director of Resource Management and the Director of Children and Adults in consultation with the Cabinet Members for Finance and Children's services.
3. To approve the delegation of authority to the Director of Resource Management acting in consultation with Cabinet Member for Finance to provide the Company funding through a working capital loan of up to £1,000,000.

Reason for recommendation

4. The market for school support services has changed during the last three years and is expected to continue to change. The impact of this is the education services market has become more competitive and schools have a greater choice of supplier. Increased levels of academisation are expected to continue as a result of the white paper 'Educational Excellence Everywhere'. To remain competitive Schools' Choice is investing in developing a wider market base and stronger brand recognition beyond Suffolk. The divestment of Schools' Choice would allow the teams to work independently of the Council, which may make the product offering more attractive to schools in other Local Authority areas.
5. During the next four years, the increased rate of conversion means that a greater portion of Schools' Choice income will be received from Academies and given the current market conditions the level of income received from schools outside of Suffolk is expected to rise. Schools' Choice as a divested organisation will be able to act in a more agile way and to quickly take advantage of opportunities that arise to tender for new contracts and develop new product offers. Divestment will also allow Schools' Choice the freedom to invest in systems that are tailored to the needs of the education market. This will support the growth of the company and increase the quality of the products for schools.
6. Divestment will offer increased employment flexibility, with Schools' Choice able to recruit and employ staff via the company. This will provide the opportunity to introduce different terms and conditions that better meet modern business and employment needs.
7. Divestment will allow greater trading and potentially collaboration with the wider sector including other Local Authorities, academies, academy sponsors, multi academy trusts, diocese, private sector and voluntary sector organisations.
8. Schools' Choice aims to support schools to raise attainment by providing high quality, innovative products which represent best value to schools and academies. This will continue as a divested organisation. This will lead to a positive impact on outcomes for children and young people in the future.
9. Schools' Choice is able to trade currently under the Legal Services Act 1970, which gives the Local Authority power to provide services to public bodies. This limits the trading possibilities. The creation of a commercial company by the Local Authority exercising their trading powers remove these limitations.
10. Suffolk County Council has existing experience to draw upon with respect to trading companies having established Vertas Group Limited, Concertus Limited and Opus People Solutions Limited. Schools' Choice would be following an established model that is generating income for the Council.

What are the key issues to consider?

11. Schools' Choice generates income for the Council through a profit share and payment of support services provided by the Council. Schools' Choice will continue to generate income for the Council through payments made for support services, interest charges and dividends.

12. Other Local Authorities have set up traded companies focussed on school support services. One examples of this is Services for Education – Birmingham City Council, a trading company that provides services for schools and academies.
13. The establishment of the company will require a Memorandum and Articles of Association to be drawn up. These are the legal documents which set out the rules about how the company procedures operate, for example, the powers of the directors. The Company will be required to register with Companies House. Delegations are requested in this report to agree the terms of the documents.
14. TUPE transfer, at this stage, of approximately 130 full time equivalent (FTE) staff from the Council to the newly formed company.
15. The Government are looking at future roles and responsibilities of Local Authorities in Education

Currently the Local Authority has accountability for school performance and the distribution of school funding to maintained schools.

Following the publication of the white paper by the Government in March 2016 'Educational Excellence Everywhere' the roles around education in Suffolk may change to include:

Statutory functions delivered by Suffolk County Council	Accelerator of system leadership - School to school support partnership	Schools' Choice – Providing high quality traded support services
Admissions Place planning Vulnerable learners All SEN statutory functions	Schools to support each other and improve performance Sharing of best practice Building on existing partnerships and teaching schools	Providing back office support, school improvement and children's services to schools and academies No funding from Suffolk County Council Customers across Suffolk and beyond

16. The schools' funding reform consultation potentially removes the distribution of funding for schools from the Local Authorities' responsibilities by 2019.
17. The Council is committed to a smaller and ever more effective Council with a much greater emphasis on commissioning and lower levels of direct service. Divestment of Schools' Choice supports this direction.
18. An Equality Impact Assessment (EIA) has been completed: [EIA](#)

What are the risk implications?

19. The risk implications are detailed in the table below.

Risk to Suffolk County Council	Mitigation
Schools' Choice fails to deliver the financial returns.	<p>Financially the case for divestment is the most attractive to SCC.</p> <p>Employment of specialist financial consultant services to provide robust challenge to the business case.</p> <p>Sensitivity analysis carried out to test impact of negative movement on key assumptions.</p> <p>Strong governance arrangements to ensure that any financial downturn is quickly identified.</p>
Schools' Choice doesn't support SCC priorities.	By ensuring the Articles of Association and strong governance reflect the priorities this should not occur.
Schools' Choice increases the price of commissioned services.	Prices for commissioned services can be included in a 3-year contract to the LA, thus providing significant protection.
Schools' Choice act in conflict to SCC.	By ensuring the Articles of Association and strong governance include sufficient protection this should not occur.
Services require investment to support their growth.	Loan sought from Suffolk County Council to support development of technology. The loan will not exceed the current level of Schools' Choice reserves. In addition, a proportion of Schools' Choices profit will be used for future reinvestment.

What are the timescales associated with this decision?

20. The overall timetable and next steps to incorporate the Company are as follows.

July 2016	Cabinet Decision
August 2016	Final company structure agreed
August 2016	Final Gateway review
September 2016	Staff consultation starts
September 2016	Full business plan review
November 2016	Final decision
November 2016	Incorporation and Completion of Memorandum and Articles of Association
January 2017	Schools' Choice divested

Who will be affected by this decision?

21. Employees of Schools' Choice and other teams within Suffolk County Council trading services with schools.
22. Schools and academies who currently trade with Schools' Choice.
23. Departments within Suffolk County Council who commission services from Schools' Choice.

Main Body of the report

24. Schools' Choice was established in April 2014 as a 'one stop shop' for services for schools. Schools' Choice is part of the Children and Young People directorate and the two key objectives are to support Suffolk schools to improve pupil attainment and to be a leading provider across England for educational support services.
25. Schools' Choice trades a range of products to schools including academies both within Suffolk and beyond. The services include Education and Learning; Children's services; Governor Services; Human Resource Services; Finance Services and ICT.
26. Some of Schools' Choice services are bought by all Suffolk schools including Local Authority maintained schools, academies, free and independent schools. Schools' Choice currently has customers in Norfolk, Essex, Southend, Croydon, Cambridgeshire and Leicestershire.
27. Schools' Choice delivered a financial surplus in each of the first two years of operation.

28. Schools' Choice generates income for the Council through a profit share and payment of support services provided by the Council. Schools' Choice will continue to generate income for the Council through payments made for support services, interest charges and dividends.
29. The market for school support services has changed during the last three years and is expected to continue to change. The impact is that the education services market has become more competitive and schools have a greater choice of supplier. Increased levels of academisation are expected to continue as a result of the white paper 'Educational Excellence Everywhere'. To remain competitive Schools' Choice is investing in developing a wider market base and stronger brand recognition beyond Suffolk. The divestment of Schools' Choice would allow the teams to work independently of the Council, which may make the product offering more attractive to schools in other Local Authority areas.
30. During the next four years, the increased rate of conversion means that a greater portion of Schools' Choice income will be received from academies and given the current market conditions the level of income received from schools outside of Suffolk is expected to rise. Schools' Choice as a divested organisation will be able to act in a more agile way to quickly take advantage of opportunities that arise to tender for new contracts and develop new product offers. Divestment will also allow Schools' Choice the freedom to invest in systems that are tailored to the needs of the education market. This will support the growth of the company and increase the quality of the products for schools.
31. Development of some systems is needed to ensure the technology that supports the service delivery is efficient and effective. To ensure the developments continue once Schools' Choice is divested, funding through a loan is requested up to the value of £1,000,000.
32. The table below sets out the financial forecast for the next four financial years for a divested Schools' Choice.

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Income	11,485	10,906	10,467	10,745
Cost	11,153	10,380	9,967	10,067
Profit	332	526	501	678

Alternative option

33. The alternative explored by officers was to remain with Suffolk County Council and seek to achieve revenue and margin growth. Whilst this growth would still be achievable, the trading limitations may cause barriers.
34. Considering the advantages and disadvantages below of both options a divested company is believed to offer the best opportunities for growth which will maximise income return to Suffolk County Council.

35. Both options have been considered in terms of their advantages and disadvantages for Suffolk County Council.

Advantages and Disadvantages			
Divested company		In house organisation	
Advantages	Disadvantages	Advantages	Disadvantages
Supports the Council's objective of a smaller and ever more effective Council with a much greater emphasis on commissioning and lower levels of direct service	Compliance with company legislation	Suffolk County Council retains control and can ensure the services which will improve outcomes for children are designed, delivered and quality assured.	Growth outside of Suffolk is expected to take longer to establish. The financial return will be less
Improved financial return for Suffolk County Council through a wider trading base	Additional costs would be incurred in setting up the new company	No change may be preferable to staff and schools	Schools may assume that Schools' Choice doesn't have a long term future
More flexibility with staffing terms and conditions	Profits of the wholly owned company would be taxable	Schools, academies and the Local Authority receive continuity of services	Product development will be slower during the design to market phase as the resource is not dedicated to Schools' Choice
Schools' Choice is able to explore more opportunities to collaborate enabling the provision of fully joined up services for schools	There is an increased risk that with the creation of a new commercial company some of the strong relationships that exist with the Local Authority may be lost and may impact on weaker communication	Retains strong relationships with the Local Authority	
Opportunities to create			

Advantages and Disadvantages			
Divested company		In house organisation	
Advantages	Disadvantages	Advantages	Disadvantages
new market presence including further support for independent schools, charities and early years			
The creation of a new commercial company may make the services more attractive for academies and schools out of Suffolk			
Schools, academies and the Local Authority receive continuity services			
Suffolk County Council retains control of the service and the company			
In line with government policy			
Clear message to schools that Schools' Choice wants to be a provider of choice both now and in the future			

Conclusion

36. The proposed option is to divest Schools' Choice and create a separate company to provide services to schools and academies across England. However, this is subject to a series of gateway reviews and due diligence on the business case.

Sources of further information

- a. <https://www.gov.uk/government/publications/educational-excellence-everywhere>
- b. www.schoolschoice.org