

Children and Young People Select Committee		
Report Title	Schools Traded services	
Key Decision	Yes	Item No. 5
Ward	All	
Contributors	Executive Director for Children and Young People	
Class	Part 1	Date: 19 March 2014

1. Purpose of the Report

- 1.1 The Children and Young People's Select Committee has agreed to look at traded services with schools as part of its work programme for 2013/14. This report provides information on the services traded with schools and the work being undertaken to consider the future shape and level of services provided.

2. Recommendation

- 2.1 The Select Committee is asked to note the content of the report.

3. Policy Context

- 3.1 "Shaping our future" 2008- 2020 is a summary of Lewisham's Sustainable Community Strategy. There are six priority outcomes which say what our communities should look and feel like in the future. One is "ambitious and achieving" where people are inspired and supported to fulfil their potential by removing the barriers to learning and to encourage and facilitate access to education, training and employment opportunities for all our citizens.
- 3.2 One of the Council's corporate priorities is for young people's achievement and involvement; raising educational attainment and improving facilities for young people through partnership working.

4. Traded Services with schools

- 4.1 Since the delegation of budgets to schools, school support services have developed considerably and trading with schools has been part of the school funding and management landscape. After over 20 years of delegation, school support activities can be categorised into three areas:
- a Regulatory or imposed support services;
 - b. Support services with some regulatory aspects but which can be purchased from third parties but often provided by LAs;
 - c. Support services that are traded at economic cost that the LA does not have to provide

5 Regulatory or imposed support services

5.1 There is a range of activities that LAs are required to do some of which are regulatory or impositions on schools which you could not reasonably expect a school to pay for. The following are examples

- Attendance and Welfare prosecutions;
- School budget and quarterly monitoring returns;
- Strategic leadership of the LA;
- Co-ordination of school and staff census returns;
- Schools Asset Management Planning;

5.2 These and other LA responsibilities are funded through the Education Services Grant. Lewisham receives £116 per pupil or £4.2m. The funding is not ring-fenced and if a school converts to an Academy, a proportion of this funding is removed for the local authority.

5.3 The funding available for the Education Services Grant has been top-sliced nationally to provide funding for these services to existing Academies. Academies receive £150 per pupil.

6 Support services with some regulatory aspects but which can be purchased, in whole or in part, from third parties but often provided by LAs.

6.1 The following are examples and the work on minimum statutory functions will refine the final list.

- Schools VAT returns;
- Audit of schools performance of statutory maintenance responsibilities;
- Asbestos management and removal;
- Education Psychology advice to schools;

7 Support services that are traded at economic cost or market rates

7.1 These are activities that are traded by the LA with schools on the basis of a service level agreement but which can be purchased in the market from third party providers. The LA has regularly reviewed the costs of these services to ensure that all direct costs are recovered with a 15% oncost to reflect Council overheads. The LA does not include a rate of return in these costs.

7.2 In this category of traded activity there are some services that we provide and trade in Lewisham because they provide the opportunity through the trading interaction to gain intelligence about schools which in turn contributes to the school improvement work the Council does to ensure schools are performing well. The key services in this sub category are: Schools HR and Governors Services clerking service. These two services represent a significant portion of traded revenue raising £1,012k per annum. There could be an argument to include some level of subsidy to reflect this intelligence benefit: the absence of a rate of return for example.

TABLE 3	Income Received	Schools Purchasing some service	Insurance based	Fee Based	Cost recovery checked/ cost basis for charge/ market charge
HR/Personnel	677,091	85		Fee	Yes
Customer Services (Mail Collection)	57,800	79		Fixed Sum	
Performance	58,386	85		Fee	
Fire Assessment	47,425	57		Fee	
Asbestos Assessment	10,153	6		Fee	
Governor Services	335,238	68		Fee	Yes
Educational Psychology and Specific Learning Difficulties	291,457	75		Fee	
Catering Client Service	130,000	69	Yes	Fee	Yes
Audit	30,000	85		Fixed Sum	
Insurance & Risk	1,014,442		Yes	Fee	
Legal	29,500	30	Yes	Fixed sum	
Finance	24,674	19	Yes	Fixed sum	
Payroll	293,000	79		Fee	
Energy Management	2,000	5		Fee	
	3,001,166				

8 Relationship of Trading to Other Work

- 8.1 Many LAs do not trade services with schools preferring to focus on delivery of statutory responsibilities and allowing the market to respond to the needs of schools. This recognises that the management of trading arrangements adds a cost to the organisation and requires a set of skills that are different from those of providing a service outside of a trading arrangement.
- 8.2 In Lewisham where responsibilities have been delegated to schools a traded service has been introduced to support schools deliver the delegated responsibility. As a result there is a wide range of service level

agreements that are charged for on an insurance basis or on a fee/ charge basis e.g. legal services. In financial terms a small number of services are dominant and to cease their provision would impact on recovery of Council overheads.

- 8.3 Another consideration is the strategic significance of services in regard to the intelligence the trading activity provides about schools. This consideration is most relevant in terms of Schools HR service and the Governors Clerking service but to a lesser extent for performance services.
- 8.4 As a result of the relationship that is generated through the trading of these services the LA is able to gain a broader understanding of what is happening in schools and this can be married up with data and knowledge on school effectiveness issues at specific schools. The payroll service the third significant trading area does not feature in the same way as the other two services however access to knowledge about schools payroll facilitates the process of auditing the adherence to DBS checks in schools. There could be an argument for adapting the nature of the service and its prices to ensure that a large number of schools continued to buy into these services to avoid the potential loss of intelligence.

9 Service Efficiency

- 9.1 In financial terms the most recent focus on traded services has been in respect of ensuring costs are being recovered including overheads. Overheads have been assessed as a 15% addition based on corporate recharges to the Directorate. They are a reasonable estimate based on current knowledge. For the future a greater focus on the cost base of traded services would be appropriate to ensure costs closer to real costs can be achieved.

10 Price Sensitivity

- 10.1 Most services that are traded are relatively modest in terms of the charge to individual schools and there is little evidence currently that the charges are market sensitive.
- 10.2 In the case of Schools HR charges have been increased significantly above inflation for the last three years with no discernible impact upon take up. In respect of payroll there is a much wider range of potential providers for schools to consider and so price increases have been smaller.

11 Benchmarking

- 11.1 There are no nationally gathered statistics on the income and expenditure of traded services and attempts to gather information are often met with suspicion by providers because of market competition or financial sensitivities. The review will need to identify a school based approach to securing relevant pricing data but this will not give a significant insight into unit costs of other providers.

11.2 A benchmarking exercise has recently been carried out comparing Lewisham's traded services to five other London Boroughs; two inner London boroughs and three outer London. The benchmarking revealed that Lewisham's pricing was broadly in line with the London Boroughs. There was however considerable variation in the pricing structure, for example other boroughs chose to bundle certain services together and charge various tiers of service (gold, silver, bronze) where Lewisham currently does not. There is scope to review the pricing models used and to assess whether re-packaging of services may prove beneficial.

12 Delivery of traded services

12.1 Lewisham sells traded services to schools so that they can deliver their responsibilities and employs staff directly to do this. This provides the opportunity to sustain the delivery of some of its responsibilities by spreading overheads more widely to keep down unit costs or enables the employment of expertise that might otherwise not be possible for a smaller service.

12.2 It is possible for LAs to provide its traded services to schools in other LA areas. Historically, legislation discouraged LAs from doing this unless it was the trading of surplus capacity that existed for its own functions. However given the scale of traded services following the delegation of responsibilities and budgets to schools Government has been less concerned about this.

12.3 Where an authority trades outside of its area as a deliberate policy there are risks to be considered. External trading requires the employment of more staff and potentially the purchase of assets to support the activity. If however the schools opt to provide the traded services in-house or identify an alternative provider the LA must quickly find new customers or reduce costs to match the lost income. This risk is significant as schools buy services on an annual basis and rarely commit to longer term contracts. A further risk is that as local authorities tend not to have the relevant understanding of commercial risk and tend to be slower to respond to customer needs creating greater scope for trading losses.

12.4 Cost reduction will mean staff redundancies and the costs of these will fall upon the Council and cannot be recovered from the schools no longer buying services. Redundancies take time to implement and so the organisation may incur trading losses which would also fall upon the Council. When school budgets are buoyant this commercial risk is reduced but in the current climate schools are seeing their resources reduce in real terms and so the risk to Council traded services is greater.

12.5 Some authorities when thinking about ensuring some traded services continue to be provided to their schools have set up arms length companies to deliver the services with private sector partners. This facility allows the traded services to continue and expand more easily but it does mean that its best staff are not focused on their own schools. It does however provide a vehicle for the transfer of commercial risks. Such vehicles are not straight forward to establish and a lead in period of up to two years should be expected. A recent example is the Tri-Boroughs

organisation for school support services and an older one is the Surrey County Council – Babcock4s. Again, the question has to be asked in a climate of scarce resources, whether this is a priority for the Council.

13 Schools Forum role

13.1 Each year prior to setting the budget the Forum consider both price rises in current services and any new services that are offered. The Forum are presented with the typical impact on both Primary and Secondary schools of different sizes. The Schools Forum is also consulted on proposals to introduce new areas for trading so that they can consider the impacts on schools.

13.2 The typical impact on a school of the total increases (excluding inflation) over the past four years can be seen in the following table

All increase exclude inflation	Service Level Agreements with Schools			
	Increases agreed over the last 4 years			
	Primary School		Secondary School	
	210 Pupils	400 Pupils	850 pupils	1200 pupils
	8,750	10,650	17,400	21,300
	0.77%	0.49%	0.28%	0.23%
Cost to a typical school				
% of school budget				
School Budget				
	1,130,000	2,180,000	6,130,000	9,360,000

14 Current Project work undertaken by Lewisham Futures Board

14.1 Income from School SLAs has been reviewed a number of times since 2011. Since then charges have increased for certain areas quite considerably such as Human Resources. In addition new charges have also been introduced for services such as Educational Psychology and Schools are soon to be charged for Attendance and Welfare Services. As the Council considers how to make a reduction of £95m in its budget it is likely there will be a number of new proposals to charge schools for services provided by the Council.

14.2 The wider competition for services on offer to schools is variable dependent upon the service on offer. The ease of opportunities for schools to find alternative provision will shape the level of income that can be generated from any one service.

14.3 The Futures Board review is also considering the charges that are made to the Dedicated Schools Grant (DSG) to ensure that these are at an appropriate level. These are a mixture of services the schools receive such as Occupational Health, communications and media, anti-fraud team etc., but are not charged individually to schools but charged as a whole to the DSG. The review will also consider whether other services should be charged.

14.4 It is not possible at this stage to give an exact estimate for the level of income to be generated from this review and the work needs to dovetail with that for the Income Generation review to avoid any double counting of savings.

15. Financial Implications

15.1 There are no financial implications arising out of this report.

16. Legal Implications

16.1 There are no Legal implications arising out of this report.

17. Equalities Implications

17.1 There are no Equalities implications arising out of this report.

18. Environmental Implications

18.1 There are no direct environmental implications arising out of this report.

19. Crime and disorder implications

19.1 There are no direct crime and disorder implications arising from this report.

BACKGROUND PAPERS

Service level agreement booklet 2013/14 (Attached at **Appendix 1**)

