



Traded Services for Schools Review

Interim Report



lisabibbyconsulting

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Version 0.1 (Schools Forum Version)

Introduction

1.1 Local Context

Since 2010 Lewisham Council has saved £121million. Following the Government's budget in July 2015 it has become clear that local government budget cuts will continue. Lewisham Council has identified the need to save a further £83million by 2020.

Like many councils Lewisham Members are keen that the Council explores all the options for raising income to supplement the resources available to the Council. As part of this, a strategic review is proposed of Council services traded with schools.

1.2 Policy Context

Education Act 2011/Academies Act 2010: school autonomy, schools system leadership and diversification of provision are at the heart of current education policy. The role of local authorities has changed significantly with a move to their being commissioners of educational outcomes rather than the expected provider of education services. As a consequence there has been a significant growth in the provider market of services to schools including school led providers such as Multi-Academy Trusts and Teaching Schools.

Schools Funding Reform: the Government's aim is to ensure funding, intended for education, and reaches schools and the pupils that need it most through the introduction of a national funding formula. To achieve maximum delegation to schools the government has introduced regulations that ensure that only in exceptional circumstances should funding from the Schools Block be held by the local authority for the provision of central education services. Further restrictions have been put on de-delegation arrangements requiring the development of transparent buy-back arrangements at full cost recovery. Even with protection arrangements, the likely impact of the future national fair funding formula, that looks to ensure equity in pupil place funding wherever possible, will be significant in the Lewisham as school funding is currently ranked 11th highest in the country.

Education Services Grant: significant reductions in ESG to date (the un-ring fenced grant paid to local authorities and academies) mean that local authorities face additional corporate budget pressures. Some have already decommissioning all but statutory services and are instead supporting the school sector to access best value services from other providers, commercial or otherwise.

The Government's recent Autumn 2015 budget announcement that ESG is to be ended will mean that many councils need to review and redefine still further what they deliver as core education services and decommission or develop charged for service delivery models and/or traded services for services previously delivered free of charge.

Localism Act 2011: The Localism Act 2011 introduced a new General Power of Competence (GPC), which explicitly gives councils the power to do anything that an individual can do which is not

expressly prohibited by other legislation. This activity can include charging or it can be undertaken for a commercial purpose, and can be aimed at benefiting the authority, the area or its local communities. This power extends to discretionary education services and other services to schools.

1.3 The Traded Services Review

The original brief for the strategic review included the expected outcomes:

Stage 1:

- Provide a clear 'map' of current existing provision by Lewisham Council of 'charged for' and commercially 'traded' services to schools in the Borough¹
- Identify current charging policies in use e.g. whether current charged for services are delivered on a full cost recovery basis and/or are subsidised by the Council.

The outcomes of Stage 1 of the review can be found at appendix 1 of this report.

Stage 2:

- Identify wider Council strategic and business developments that may impact on the viability of traded services for schools in the future
- Assess current levels of schools satisfaction with traded services and identify the key factors that influence buying behaviours
- Assess the schools' market in terms of likely demand for/acceptance of new models of service delivery within the context of wider changes in the work of the Children and Young Peoples directorate e.g. the new School Improvement Strategy
- Map other current service providers to schools in Lewisham and those emerging in the locality to assess likely competition to future Council provision and identify associated risk
- Identify the potential opportunities and options for services to be delivered as full cost recovered charged for services and/or commercially traded services to supplement Council resources in the future
- Identify and submit for consideration a number traded service models available to the Council, identifying strengths, weaknesses, opportunities and threats associated with each model and indicate the scope for increased income generation.

Since the award of the original consultancy in October 2015 there have been a number of further changes in the education landscape in Lewisham including:

- the Government's announcement of the ending of Education Services Grant and proposed review of Council statutory duties,
- confirmation of planned implementation of a national fair funding formula by 2017
- identification of DSG funding pressures related to High Needs demands, and
- likely additional budget reductions for the Council arising from changes in Government grant funding to local authorities.

¹ The LGA's *Enterprising Councils 2012* publication differentiates between 'Trading (i.e. to generate efficiencies, surpluses and profits) and charging (i.e. to recover the costs of providing a discretionary service)'.

As a result it is vital that the traded services review dovetails with wider strategic reviews and transformation activities and not least looks to assist the Council identify and define:

- which services are statutory and **must** be delivered
- services that are 'business critical' and therefore **should** continue to be delivered by the Council free, on a subsidised arrangement or on a charged for basis
- those services that **could** be traded to help create the right environment in which schools can improve and succeed
- those services that **could** be traded effectively, both within and external to Lewisham, to generate income for the Council and enable it to continue to deliver high quality core services to the community.

1.4 Timeline

It is anticipated the review will be completed by the end of February to inform discussion with the Schools Forum in March 2015.

1.5 The Consultant

Lisa Bibby has over 20 years experience in children's services and education and has held a number of chief officer positions including Director of Schools and Education responsible for a major transformation programme.

1.6 Contact

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Appendix 1

Outcomes of Stage 1 of Traded Services Review

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1.1 Introduction

Stage 1 of the Traded Services Review has been undertaken as a desk top exercise using information and data provided by the Council. The source documentation included:

- the Service Level Agreement booklet for 2015/16
- individual service information for services not included in the SLA booklet
- select Committee Reports on traded services 2014 and 2015
- the interactive booking form which includes a cost calculator for those services within the SLA booklet charged for on a differential basis based on size and status of schools
- a costing model used historically to provide guidance to services manager on setting prices for services
- headline information on DSG funding and its allocation.

1.2 Map of current provision by Lewisham Council of 'charged for' and commercially 'traded' services to schools in the Borough

1.2.1 Scale of service provision

Lewisham Council sells over 92 services to Schools in the Borough with over 162 different service specifications offered to meet the differing needs of the different school phases, status of school and/or to offer flexibility on cost and accessibility.

There are a very few services sold to individual pupils and/or families and these are all music services.

1.2.2 Types of services charged for and/or traded

There are a range of service types that are provided to schools on a charged for basis including:

- | | |
|--|-------------------------------|
| - Brokerage (e.g. energy procurement) | - Equipment hire |
| - School business support | - Insurance |
| - Consultancy | - Monitoring and assurance |
| - Continuing professional development and training | - Specialist support services |
| - Curriculum support | - Professional services |
| - Personalised services (i.e. music tuition) | - Transactional services |
| - Transport | - Property related services |
| | - |

Some services are provided on a planned for basis and others on a responsive basis. Currently there appears to be no differential pricing policy in place for those services purchased in advance and those that are bought on an ad hoc basis.

1.2.3 Charged for and/or Traded

In its Enterprising Councils 2012 publication the Local Government Association differentiates between 'Trading (i.e. to generate efficiencies, surpluses and profits) and charging (i.e. to recover the costs of providing a discretionary service)'. Based on a desk top review of information provided, the vast majority of services provided to schools in Lewisham are provided on a charged for basis, that is to simply recover the costs of providing the service. More detail on full cost recovery pricing can be found in Section 2.

A small number of services such as energy procurement might be classified as 'trading' as the Council itself benefits from efficiencies arising from a lower tariff rate being secured as a result of larger scale bulk purchasing. Similarly by extending 'back office' services, such as payroll, to schools on a charged for basis means central overheads can be recovered from external customers and so efficiencies of scale are secured. However information reviewed suggests that full cost recovery is the favoured charging policy adopted by the Council for its services to schools.

There are a very small number of services where differential service pricing information (e.g. higher price for Academies and/or independent schools) would suggest that the generation of a surplus or profit does form part of the pricing policy. However this is not clear at this stage and more investigation is required to understand the costing methodology and pricing policies used by each service lead.

There are some services that are sold to schools outside of Lewisham e.g. Early Years Improvement Support Services, and, as with the vast majority of services, these appear to be provided on a charged for basis only with no surplus or profit generated.

1.2.4 The Market

Lewisham Council offers the majority of charged for and/or traded services to schools within Lewisham with a few being sold to schools outside of the Borough.

All but two services are offered to schools regardless of status i.e. to Community, Voluntary Aided, Foundation Schools and Academies. There are two services that are offered **only** to Community and Voluntary Aided schools, Asbestos Management Planning and Personnel Administration.

Services related to Newly Qualified Teachers are also sold to independent schools including non maintained nursery schools. As an Appropriate Body there is an expectation that the Council will fulfil its role regardless of setting.

There are two services that are for secondary schools only, relating to subject and middle leader development. Early Years services are only provided to the early years sector and assessment and moderation services are provided only primary schools.

1.2.5 Marketing and Promotion

For several years the majority of services provided for schools on a charged for or traded basis have been promoted to schools via the Service Level Agreement (SLA) Booklet. All services provided by teams within Resources and Regeneration and Community Services appear in the SLA Booklet. Some

services provided by teams in Children and Young Peoples Services appear in the booklet but not all. Analysis would suggest that historically services provided by the Standards and Achievement Service have been marketed directly to schools in a variety of ways.

Regardless of whether services are promoted to schools via the SLA booklet or not, there appears to be no consistent approach to the provision of service specification, quality standards, monitoring arrangements, contact details etc.

1.2.7 Coordination

Currently there is no overall coordination or leadership of all services provided to schools on a charged for basis or that are traded.

The responsibility for the collation of the Service Level Agreement Booklet currently lies with Resources and Performance Team (CYP).

An electronic booking form is produced by the Resources and Performance Team (CYP) to sit alongside the Service Level Agreement Booklet. It is pre-populated with individual school data to enable individualised pricing for those services that have a pricing policy based on factors such as pupil numbers. Several services however have their own booking forms

All services that do not appear in the SLA Booklet have their own individual purchasing arrangements.

No centralised data is collected on services other than those in the SLA Booklet.

1.2.8 Quality Control and Customer Satisfaction

Individual service providers are responsible for the monitoring and evaluation of charged for and/or traded services to schools.

1.2.9 Sales and Trends

A report presented to the Select Committee in October 2015 contained table 3 below which shows level of take up of core services promoted through the SLA booklet and a two year trend.

The income raised from these services totalled over £3.7 million in 2014/15.

Additional income raised from services not promoted through the SLA booklet is estimated to be £1.24 million including income streams as follows:

Service	Income 14/15	Service	Income 14/15
Music service	£479,000	Transport inc school swimming	£161,000
Work experience placements	£81,000	DBS checks	£129,000
Trade waste collection	£140,000	School Improvement Services	£247,000

TABLE 1 (fore brief details of each service see 8.1.)	2013/14 Income Received	2013/14 Schools Purchasing some service	2014/15 Income Received	2014/15 Schools Purchasing some service	Comment
	£		£		
School Support Service					
Performance – Data Returns	58,386	85	87,932	74	
Governor Services – training and clerking	335,238	68	317,612	73	
Educational Psychology and Specific Learning Difficulties	291,457	75	429,210	80	
Premises type service					
Insurance & Risk	1,014,442	85	1,184,256	84	
Fire Assessments	47,425	57	46,778	60	
Asbestos Assessments	10,153	6	8,900	7	
Energy Management	2,000	5			
School Business Support Services					
Internal Audit	30,000	85	41,910	85	
Catering Client Service	130,000	69	146,798	62	
Schools HR /Personnel	677,091	85	790,075	83	
Customer Services (Mail Collection)	57,800	79	59,379	84	
Legal	29,500	68	33,000	69	
Finance	24,674	19	29,652	20	
Payroll	293,000	79	342,285	77	
Total	3,001,166		3,517,787		

New services in 2014/15				
Attendance and Welfare	These services were introduced as part of the Council's budget reductions to meet reduced national funding.	169,518	56	Service commenced in Sept
Corporate information – data governance		18,435	35	

Table 3: Take up of Services sold through the SLA to Schools Booklet

1.2.10 Price sensitivity

Slight increases in service charges above increase in inflation have been implemented previously by the Council without significant impact on buy-in to services. This would suggest that Schools have to date not be unduly sensitive to price increases.

In 2014/15 new charges were introduced for Attendance and Welfare services that were previously delivered free of charge as part of the Council's budget reductions to meet the challenge of reduced national funding. The Schools Forum was supportive of this move and levels of purchasing of these services have been high.

1.2.11 Benchmarking

Access to comparative charging information is often difficult to find as this information is viewed as commercially sensitive or indeed confidential. However when the Council has been able to access information it shows that Lewisham service charges are either in line with industry norms or more often very competitively priced.

Section 2: Current Charging Policies

2.1 Introduction

The second objective of the stage 1 of the Traded Service Review is to identify current charging policies in use across the Council's services.

As outlined at 1.2.4 above, almost all Council services provided to schools on a charged for basis are understood to be delivered at '**Full Cost Recovery**'. Full Cost Recovery means the recovery of **all** direct costs associated with the delivery of the service (staff time, equipment and recourses etc) **and** the associated overheads.

The mapping exercise has identified a small number of non statutory or discretionary services that are provided to schools for free or on a **subsidised** basis. An example of this is the provision of free Moderation and Assessment support to primary schools. The rationale provided is that this is to incentivise schools to attend courses that will help ensure they meet new statutory obligations. Failure by schools to meet these new duties would potentially make the authority's school improvement services vulnerable to reputational damage and inspection risk.

Music services charges are subsidised by grant funding from the Arts Council England.

There is a need to do some more detailed investigation to identify where the Council may be subsidising charges in other areas and to identify the rationale for such an approach.

2.2 Charging Rates

Analysis of service level information has shown that there is a range of charging rates in use including:

- Annual charge
- Time based (e.g. daily rate, per 15 mins, per half day etc)
- Per delegate (especially for training)
- Per employee (transactional services)
- % of project cost (capital projects)
- Output based (per module, per report, per case review, per pack)
- Flat rate (administration charge for a transactional service)

2.3 Incentives

A small number of services offer incentive discounts related to multi-buy arrangements or benefit packages to schools that buy into an annual service agreement. Examples of these include:

- Educational Psychology Team offer 10% discount for more than 2 visits per term plus £100 early bird discount
- Early Years Improvement Team offer discounts on additional pay as you go services if Schools buy into the Early Years SLA bundle.
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2.4 Costing Methodology

A costing model was developed in 2009/10 to guide services managers through the process of costing services and setting an appropriate price to ensure full cost recovery. The model captures costs associated with staff costs, other direct costs and a contribution to Council overheads.

2.4.1 Council Overheads

It is expected that all traded services recover a contribution to Council overheads set at a rate of 15% of direct costs.

2.4.2 Direct Costs

Staff time is often the major cost of a service and Lewisham's costing model calculates a daily rate based on annual salary plus on costs (NI and pension) divided by an average of 192 productive days plus an additional charge, expressed as a % of staff cost, for department costs such as transport, resources, equipment, furniture, phones etc. This together gives a base daily charge out rate.

Examples of other direct costs that are used in service charge calculations include cost of licensing, room hire, equipment, mileage.

2.4.3 Margin (Profit)

Although budget information would suggest that some services do make a 'profit' on services provided there is no evidence that services activity factor in a 'margin' when costing services. Any currently surpluses likely arise as a result of efficiencies, greater levels of sales that anticipated etc.

2.5 Application of Costing Methodology

Analysis of service data shows a variance in charges for similar services. An example of this is daily rates charged for consultancy, advice and training services in 2015/16 which ranging from £200 per day to £600 per day. Examples can be found below:

Service	Daily Rate
Individual School Fraud Awareness Training	350
Attendance Welfare Officer Traded Service	288
Health and Safety	420
Specialist Asbestos Advice	600
Tailored Audit support	420
Music CPD and Training and Teaching Observations	200

Following review of services the range of daily charge out rates cannot always be accounted for by variance in the direct costs associated with the service delivery or by stated discount policies and therefore it must be assumed that some services managers are using individual service costing methodologies. This is particularly true of services that are not promoted through the Service Level Agreement booklet.

Further work is required with Service Managers to understand their individual costing methodologies and charging policies and if appropriate look to develop a more consistent approach.

Similarly charging for CPD delegate rates is variable from between £40 per delegate to £120 per delegate. Some of this variance can be accounted for by length of session however in some cases the level of detail available in course information does not allow for details analysis of costing methodology.

The review to date therefore suggests that there is currently no consistent charging methodology in use.

2.6 Differential Charging

There are a small number of services that charged an enhanced rate for services delivered to non maintained schools. Examples of these services include:

Service	Charge to Community and VA	Charge to Academies/Non Maintained
NQT Approved Body	£200 per annum	£230 per annum
Music Tuition (Individuals, Groups)	£40 per hour	£36 per hour

Further investigation of differential charging policies is required as part of Stage 2 to better understand the rationale for such an approach and potential for its wider application.