

**Manchester City Council
Report for Resolution**

Report To: Children and Young People Overview and Scrutiny Committee –
24 May 2011
Executive – 1 June 2011

Subject: Education Traded Services Business Case

Report of: Director of Children's Services

Summary

This report provides Members with information and sets out the business case, on a proposal to establish an arms-length wholly-owned Council trading company (referred to as Newco) with effect from 1 September 2011 that will deliver Education Traded Services.

Members are asked to:

1. Approve the business case for the establishment of a wholly owned Council trading company to deliver specified education services.
2. Delegate authority to the City Solicitor, the City Treasurer and the Director of Children's Services, in consultation with the Executive Member for Children's Services, to approve the detailed arrangements for implementation.
3. Authorise the City Solicitor to complete the legal process and formal documentation to establish the company.

Wards Affected:

All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	New opportunities will be created through changes in provision described in this report.
Reaching full potential in education and employment	Improving outcomes for children, young people and families will remain the focus of the Children's Directorate.
Individual and collective self esteem – mutual respect	Emotional health and well being is a key theme within Children's Services strategic plan.
Neighbourhoods of Choice	We will focus our work at a local and neighbourhood level.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy – the impact will be considered in accordance with requirements and an equality impact assessment completed
 - Risk Management - a risk management approach will be taken for all the proposals outlined in this report.
 - Legal Considerations - these are reflected in the report.
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Financial Consequences – Revenue

The establishment of Education Traded Services as a legal entity enables the service to continue to provide effective and efficient education services and deliver Manchester City Council priorities and strategic objectives to Manchester schools.

From a financial perspective, the proposal seeks to avoid potential future liabilities through ensuring there continues to be a market for Education Traded Services which may not otherwise be the case if it remains wholly internal to the Council.

If the entity were to fail, Manchester City Council would potentially meet some of the costs (for example pension liabilities, redundancy costs) but the proposal provides the best opportunity of avoiding such costs in developing a sustainable business model.

Initial set-up costs associated with the proposal are estimated at £0.1m - £0.2m. It is intended these are funded from profits generated in the period April 2011 – August 2011 (ie pre-set up period)

Historically Education Traded Services trading surplus is credited to Children's Services budget at year end and in 2009/10 and 2010/11 offset budget pressures elsewhere in the Directorate. Assuming the proposal is taken forward, such pressures would need to be met from elsewhere within the Children's Services Directorate for 2011/12 onwards since profits would likely be retained within the business.

In the longer term trading with schools in other Local Authorities may also bring greater trading surpluses that can be reinvested locally.

Financial Consequences – Capital

None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Report to Children and Young People Overview and Scrutiny Committee, 14
December 2010 - Traded Services
Report to Executive 16 February 2011 - Budget Proposals for Children's Service

1.0 CHANGES IN NATIONAL CONTEXT

- 1.1 National policy relating to education and the role of local authorities is rapidly changing. The recent Academy Act, the School's White paper and the Education Bill (January 2011) are evidence of this and the changing relationship between schools and local authorities. In addition the Government's aim is that within the lifetime of the current Parliament every school will become an Academy. As a main provider of universal services schools are responsible for their own continuous improvement and have increasing autonomy and control of budgets, resources and partnership arrangements. Schools will commission their own services and there is a national policy expectation that schools will be able to exercise choice from a wide range of providers.
- 1.2 The Local Authority role is moving rapidly from a position of 'service provider' to one that focuses on strategy, quality assurance and commissioning. The Local Authority retains a clear strategic role as champion of parents and children and for ensuring continuous improvement in outcomes for all children particularly those who are most vulnerable. In discharging this duty the Local Authority is responsible for ensuring that there are sufficient school places. Responsibility for ensuring fair access to school for every child, standing up for the interests of parents and children, supporting vulnerable children including those with special educational needs (SEN), children in care and those outside mainstream provision is also retained. In addition the Local Authority will be responsible for commissioning support for schools falling below the new 'floor standards' enabling them to improve quickly or convert to academy status with a strong sponsor. The Local Authority will also retain the power to withdraw the delegated budget from a maintained school in certain specified circumstances
- 1.3 The Government has recently launched a consultation on the future of schools funding through the Dedicated Schools Grant (DSG) with changes taking effect from April 2012. A national funding formula is being proposed which would remove decision making from Local Authorities about the distribution of the DSG to individual schools. It is anticipated that, once a national funding formula is introduced, the overall quantum of funding for Manchester schools will reduce as the Government seeks to address current differences in funding levels between local authorities

2.0 DEVELOPMENTS IN MANCHESTER

- 2.1 Developments over the last three years have ensured that Manchester City Council and Manchester schools are prepared for the new relationship between the local authority and schools that is being defined by national policy.
- 2.2 In 2008 Manchester City Council established Education Traded Services (ETS) to enable schools to commission a wide range of school improvement services based on the needs and requirements of individual schools. The focus of the Service has been in enabling schools access to the improvement

services they need and Education Traded Services have made a significant contribution to outcomes in the Community Strategy related to increasing educational attainment and improving attendance. In 2008 a total of 37 schools were a 'cause for concern' to the Local Authority; this position has reduced significantly and at 1 May has reduced to 8 schools. Results at both Key Stages 1 and Key Stages 2 continue to increase against a decline nationally. Manchester secondary schools have made a 14% improvement in the results for 5 GCSEs A*-C with English and mathematics from 32% in 2007 to 46% in 2010 are projected to go over 50% in 2011.

- 2.3 Education Traded Services works or has worked in nearly all Manchester schools and provides services and support in a wide range of areas including: Behaviour and Learning Needs, Attendance, Specific Learning Difficulties, Ethnic Minority Achievement, Support for Governors, Reading Recovery (Every Child a Reader), Education Psychologists, Language Support Assistants, Management Support to Schools, Outdoor Education, Information Systems and Music Tuition.
- 2.4 Education Traded Services has operated on clearly defined business principles including on a 'full cost recovery' basis with a focus on schools and academies as the customers. Feedback has been overwhelmingly positive. The success of the Education Traded Services operation has in large part been due to the skills of the workforce and the positive relationships staff have built with schools.
- 2.5 Over that same period, Children's Services has also commissioned some services directly from Traded Services. This has enabled Children's Services to effectively use a commissioning budget to commission services against strategic priorities outlined in the Children's Services Business Plan and in order to fulfil statutory responsibilities. Again feedback has been overwhelmingly positive. Confidence in Traded Services is high and evidence of impact is clear.
- 2.6 Through the Education Transformation Programme schools have been encouraged to come together and form partnerships that have a local focus and are accountable to local communities. Strong partnerships reduce isolation and provide opportunities for school to school support and joint commissioning of services between schools at neighbourhood and locality level. Fifteen school partnerships have now been established across the City. Each partnership has signed a 'Memorandum of Understanding' which specifies areas of collaboration, commitment and engagement between each school in the partnership and the Local Authority.

3.0 THE COUNCIL'S STRATEGIC DIRECTION

- 3.1 The long term priorities for the city are described in the spines of the Community Strategy as summarised below:
 - Performance of the economy of the region and sub region
 - Reaching full potential in education and employment

- Individual and collective self esteem – mutual respect
 - Neighbourhoods of choice
- 3.2 Specifically relevant for the future of Children's Services is the focus on making Manchester a place where families choose to live and work. In order to benefit from the opportunities the City offers it is important that children and young people are successful at school, leaving with the skills and qualifications that will enable them to secure employment, continue with their education or access appropriate training courses.
- 3.3 The Council set out its strategic direction in the report to Executive on 16th February 2011 - Local Government Settlement 2011-13; Implications and Strategic Response. The proposals detailed in this report for the future of Education Traded Services have been specifically guided by the principles detailed within this report:
- Leadership for Reform
 - Budget decisions should be taken from the perspective of our responsibility for the long term strategic leadership of the City and for leading the reform of public services
 - Our principal focus must be to create the conditions for economic growth – promoting private sector investment, creating jobs, reducing worklessness and dependency
 - When we are forced to move away from direct universal provision we must prioritise supporting external leaders of universal services to raise standards for all, enabling all residents to reach their potential to access jobs and wealth.
 - Universal Services
 - Our role in relation to Universal services will include some direct provision, but increasingly should relate to strategic commissioning, planning provision to meet need, and ensuring the delivery of the highest standards of services
 - Our responsibilities must also be to ensure that Universal services play their full part in reducing dependency and promoting growth.
 - Targeted services
 - We need to provide sufficient resources to provide for effective safeguarding and to protect the most vulnerable residents
 - We should pioneer a radical new approach to integrated targeted and specialist services to reduce dependency with families with the most complex needs with a single pot of funding which can include funding contributions from partners
 - The role of Regeneration must be developed as the key to integrated commissioning to tackle worklessness at neighbourhood level and to coordinate investment priorities based on place.
 - Neighbourhoods
 - Budgets should be neighbourhood focussed, wherever possible with integrated delivery teams providing all residents better services at less cost

- A new Community Strategy focus should be developed involving culture, Libraries, Leisure and Youth which should also be subject to integrated commissioning.
- Core
 - Additional Centres of Excellence should be developed to drive the public sector reform agenda on Investment models and strategic development
 - The protection of frontline services will drive reduction in the back office staff
 - The Council's leadership role in relationship to AGMA and, from 1 April 2011, the Combined Authority, should remain focussed on supporting growth and job creation, with a more sharply focussed strategic planning, housing and regeneration capacity.

4.0 CHILDREN'S SERVICES DIRECTORATE PRIORTIES

- 4.1 Children's Services (Education) has moved rapidly from a position of 'service provider' to one that is focussing on strategy, quality assurance and commissioning as outlined in the Council's Strategic Direction. In anticipation of the outcomes of the Education White Paper (2010), there has been a steady delegation of resources to schools on the basis that those closest to children, families and localities are best placed to determine the most efficient and effective use of resources to improve outcomes for children. This process will be further continued with the anticipated move to a national funding formula for schools (April 2012) and the introduction of pupil premium (April 2011) for vulnerable children.
- 4.2 In response to national policy and in the context of the Comprehensive Spending Review settlement, the proposals in the Executive Report to Personnel Committee (March 2011) set out the future of the Children's Services Directorate and establishes a small strategy and quality assurance team (12 FTE) which will focus on commissioning services against the Children's Services Business Plan.
- 4.3 While there has been a significant improvement in the performance of Manchester's schools over the last three years, more still needs to be achieved to enable all Manchester children to reach their potential and to be in a position, when they leave school, to benefit from the economic and employment opportunities in the City or beyond. All children, on leaving school need to be able to access further or higher education, undertake training or apprenticeship opportunities or secure employment. In addition young people need to have the resilience, aspiration and emotional skills to be good citizens. To retain a focus on improving outcomes for children arrangements for Children's Services, as set out in the report to Executive on 16th February 2011 – Budget Proposals for Children's Services Directorate can be summarised as follows:
- There has been a shift in focus to one of strategic influencer, commissioner and champion of children as opposed to a direct provider of

services, including school improvement services, early years, SureStart, Youth, 14 -19 and play;

- Through a strategic commissioning role Children's Services will influence others to provide universal services;
- Through developing further the existing and successful Education Traded Services, Children's Services will ensure that schools have access to and can commission services, using delegated school budgets, to support continuous school improvement.

4.4 To further develop the Education Traded Services model, budget proposals for the Children's Services Directorate submitted to the Executive on the 16 February 2011 outlined proposals to develop a new enterprise. The proposal was based on the existing efficient model as an option to respond positively to the changing relationship with schools and the needs of the Directorate.

5.0 THE CASE FOR CHANGE

5.1 The Council and Children's Services Directorate are committed to ensuring that outcomes for all Manchester children continue to improve. Recognising that legislative changes are likely to result in less direct control over certain support services, the Council is determined to ensure the continued delivery of effective school improvement services that align to the City's strategic priorities. Education Traded Services currently provides a proven skill base that can support children and young people in Manchester. To ensure continued access to this acknowledged Centre of Excellence the current delivery model needs to change.

5.2 The Council's role in securing improved outcomes for all children and maintaining political accountability for outcomes will increasingly be as a commissioner able to deliver services through a strong contracting capability.

5.3 Schools have increasing freedoms to commission services from an expanding list of suppliers. The market for school improvement is becoming increasingly competitive with national and multi-national organisations competing for business in line with national policy to increase choice. Education Traded Services may lose business in this increasingly competitive market without the ability to be more flexible in extending the customer base. Any reduction in business from schools would affect the viability of the current Traded Services model. A previous track record of success may not guarantee viability without the ability to compete, going forward, with new competitors as they emerge. Given the competitive nature of the market Education Traded Services needs the flexibility to forge new partnerships, both within Manchester and beyond.

5.4 Schools' control over resources will significantly increase with the anticipated introduction of a national funding formula (2012). In this context it is vitally important that high quality services are available within the City that schools can commission. Ensuring access to high quality education services by schools will enable the Directorate and Council to ensure outcomes for children continue to improve.

- 5.5 In order for the Council and the Children's Services Directorate to discharge their statutory functions in an increasingly diverse and complex landscape, and to enable the Council and Children's Services Directorate to ensure outcomes for all children continue to improve, a business partner is required in whom the Council and schools have confidence. Education Traded Services is already a reliable partner who has added value to Manchester through supporting schools to improve outcomes for children as previously evidenced. Traded Services carries the confidence of schools and the Directorate.
- 5.6 In making this case for change risks have been evaluated. Failing to act will carry significant risks as the market is already changing in anticipation of national policy development. Of particular importance is the need to be able to extend the type and reach of service quickly in response to need. Timing is critical to success and there is a limited window of opportunity
- 5.7 In order to address the above, a proposal has been developed to establish a separate limited company, Newco, to undertake the activities currently carried out by Education Traded Services. The Council has the power to establish such a company under Section 95 of the Local Government Act 2003. This limited Company would operate as a centre of excellence to provide services dedicated to improving outcomes for children and young people with the flexibilities that can be achieved by establishing a company including: organisational capability to expand the commercial base, extend services beyond Manchester to drive productivity and develop collaborative arrangements with other public sector providers where appropriate.
- 5.8 The proposed new company (Newco) would continue to have a strong relationship with the Council through a Strategic Business Partner client relationship. In this way, the Council can be reassured that Children's Services is working with a partner who shares the Council's values and who has a workforce with the skills and experience to work successfully with schools and will continue to focus on improving outcomes . The partnership will protect the existing skills base and enable the Council's priorities to continue to be delivered in a way that is both viable and sustainable by building upon the existing and successful relationship between Traded Services and schools.
- 5.9 Establishing Newco and commissioning activities from the Children's Services Business Plan with Newco would provide continuity to securing essential support school improvement and learning transformation.
- 5.10 The benefits of this proposal for the Council are that Manchester schools would continue to be able to access support from an organization that demonstrates Manchester values and has a track record of raising educational standards in the City. In addition this approach would retain skills within Manchester and build on local entrepreneurship and Traded Services is ready and able to make this transition. ETS is currently the provider of choice in Manchester and has built strong customer/supplier relationships and high credibility. The capacity of the service to respond to future national changes in policy will be strengthened. A trading capacity will be developed which if

necessary, and considered appropriate by the Council, can support the participation of other partners over time.

- 5.11 It is proposed that this limited company will continue to be Manchester based and Manchester focused driving school improvement enabling Manchester children to achieve their potential and contribute to the economic regeneration and success of the City.

6.0 IDENTIFICATION AND ANALYSIS OF THE OPTIONS

- 6.1 In response to the market conditions and the risks these placed on the current model three main options were considered. The benefits, merits, risks and issues for the Council of the different approaches are summarised below.

Option 1: No change - maintain the current internal trading model for Education Traded Services

- 6.2.1 Whilst the current internal trading model for Education Traded Services has proven to be successful over the last three years, this option was discounted due to the changing market and reasons set out in section 5.
- 6.2.2 Therefore if the current model was retained it would be likely to reduce in size and scope due to its limited ability to compete in the changing market. This would reduce the ability of the service to positively influence educational outcomes in the City.

Option 2: Privatisation – outsourcing the service

- 6.3.1 This would involve the Council undertaking a competitive procurement exercise and entering into a service delivery contract with a third-party provider. The Council currently only commissions approximately 25% of the business of Education Traded Services (with the remaining 75% being commissioned by schools). As schools take over more responsibility for direct provision of services from the local authority and have greater control over delegated budgets, the level of services commissioned directly by the Council could reduce. It was therefore not considered economically viable to undertake a procurement exercise without a level of certainty in respect of the services to be contracted.
- 6.3.2 Consideration was also given to the benefits of entering into a joint venture with the private sector. This would involve the Council undertaking a competitive procurement exercise to appoint a private sector partner with whom to establish a joint venture for delivery of services back to the Council, schools and potentially to other third parties. Whilst the Council may be able to exert a greater level of control and influence through this approach the absence of separate commercial trading history and no capital base for Education Traded Services would make this option difficult in the context of the current market.

Option 3: Establish a wholly-owned Council trading company to deliver

the services currently provided by Education Traded Services (the recommended option)

- 6.4.1 Education Traded Services would set up as an arms-length wholly-owned Council trading company. The company would be incorporated as a private company limited by shares, as this is the most appropriate corporate model for it to be a trading (and profit-making) enterprise.
- 6.4.2 Establishing this model would require a period of several months to launch reflecting the time required to put in place the necessary arrangements to incorporate the company as a separate legal entity, satisfy stakeholders that there is a viable business plan and to deal with staffing, pensions and contractual matters. It is proposed the new entity will start trading from September 2011.
- 6.4.3 Consideration was also given to the extent to which the new company could be owned by its employees with staff having the ability to purchase shares. While there are significant merits in embedding employee commitment into future success this approach was is not achievable in the timescale available and the need to respond quickly to the market conditions. In addition while future options are still to be determined longer term developments could be complicated by a more dispersed ownership model.

The recommended option

- 6.5 In order to ensure that schools can continue to benefit from the success of the Education Traded Services model it was important that an option was developed that was able to sustain, maintain and enhance the quality of service provision that schools and pupils value so highly. Crucially the chosen option needed to provide service continuity.
- 6.5.1 It is therefore proposed that Education Traded Services is set up as an arms-length wholly-owned Council trading company (**Option 3**). The new company would be incorporated as a private company limited by shares, as this is the most appropriate corporate model for a trading (and profit making) enterprise.
- 6.5.2 This option ensures council control over the future policy is retained and keeps open the possibility for further changes which may be contemplated in the light of future policy changes and trading performance. It is the option that best optimises the balance between preserving a key Centre of Excellence (Education Traded Services) for the Council, which is essential to the delivery of the Council priorities for young people and families, with the need for flexibility going forward.
- 6.5.3 This model best meets the Directorate priorities at this time in a way that is viable and sustainable including establishing the role of the new company as a Strategic Business Partner building on the existing strong relationship between Education Traded Services and Children's Services. This relationship will support and enable the Children's Services Directorate to ensure that outcomes for all children in Manchester continue to improve.

- 6.5.4 Establishing this model would require a period of several months to launch reflecting the time required to put in place the necessary arrangements to incorporate the company as a separate legal entity, satisfy stakeholders that there is a viable business plan and to deal with staffing, pensions and contractual matters. It is proposed the new entity will start trading from September 2011
- 6.5.5 Given this recommended model it is proposed that staff currently working within Education Traded Services would transfer to the employment of the new company under TUPE. This is considered to be the option which will best enable the Council to secure a strategic education improvement partner which will contribute to the delivery of the Council's priorities for Manchester residents. Secondments were also considered although they are normally used where the expectation is that arrangements will be time-limited. Schools, competitors and the workforce need to see the establishment of the organisation as an enduring organisation. Seconding staff to the new organisation could be open to perceptions that the Council is merely testing this out and is not fully committed to or convinced by a separate trading model. This could leave the new organisation vulnerable. A full transfer (TUPE) to the new organisation would give staff a stake in making it successful. The transfer would be an opportunity to formally mark a new identity, a new employer and a new start.
- 6.5.6 Full consultation of the proposal to TUPE staff would be undertaken with the staff and Trade Union representatives with the final decisions delegated to the relevant Executive Member and the Director of Children's Services.
- 6.5.7 The new organisation needs to establish a strong and lasting identity, which is distinct from, and separate to, the City Council. There is a balance to be achieved between the confidence that will be instilled by the City Council being the main shareholder in the organisation, and the establishment of a distinct identity which gives credibility as to the flexibility and responsiveness of the new organisation.
- 6.5.8 As the new company would be a separate legal entity, the Council would not be able to directly award contracts for services to it. Instead the company would have to compete in a competitive procurement exercise in accordance with the Council's contract procedure rules and/or Public Procurement Regulations.
- 6.5.9 However, work currently undertaken by Education Traded Services for the Council that is still required would continue to be provided by the new company as an interim arrangement in order to maintain service continuity, whilst the competitive procurement process was conducted. Ongoing service level agreements between the Council (Children's Services) and Education Traded Services would pass to the new company (**Appendix 1**).
- 6.5.10 A number of services will be retained within the Council (**Appendix 2**) including those services that enable the Council to deliver statutory

responsibilities in relation to special educational need and children in care and locally determined responsibilities in relation to children and young people newly arrived in the City from abroad. These services will be managed within the Children's Services Directorate.

7.0 IMPLEMENTATION ARRANGEMENTS

7.1 Governance

7.1.1 It is proposed that the new organisation (Newco) will be an arms length trading company established by the Council using its powers under Section 95 of the Local Government Act 2003 and that it will be wholly-owned by Manchester City Council. As the only shareholder, MCC will have oversight and control of the operation of the company. However, day-to-day management and operation of the business of Newco will be undertaken by a Board of Directors. The Council will be represented on the Board and will be involved in and able to influence executive decision making in relation to strategy and policy development at Board level. This will ensure strong governance of the proposed company as it becomes a separate Trading entity through fully transparent reporting and auditing arrangements.

7.1.2 In order for the Board to be efficient it is suggested that there are no more than six Directors. In the first instance it is proposed that the Board includes: two representatives from Manchester City Council (the Executive Member for Children's Services and the Chief Executive of the Council or his nominee), two Executive Directors from Newco, an independent non-executive chair and a staff representative. The composition of the Board could be reviewed annually. This model provides an opportunity to strengthen and sharpen governance through recruiting a non-executive director to chair the Board who is independent of the Council and who can provide added value. Also embedded in this model is the employee representation on the board which harnesses the ideas and energy of the workforce to the shared objectives of the Company. Securing employee representation on the Board is critical as there will future opportunities to identify increased staff participation in the business model.

7.1.3 The company would for the first year of operation continue to commission certain services from the Council including finance, human resources, legal etc. In order to ensure transparency and not breach rules in relation to State Aid, the company must not be subsidised by the Council. This means that the Council must recover the costs of any accommodation, goods, services or any other support it supplies to the company. It will be necessary to set up suitable contractual arrangements and systems/financial controls to ensure this is the case and to demonstrate the independence of the company from the Council.

7.2 Commissioning

7.2.1 The Council proposes to commission the service areas set out in **Appendix 1** from Newco. In order to be clear about what is being commissioned and to provide a quality assurance framework, all activities being commissioned will

be subject to a contract which clearly specifies from the client side the areas of activity, outputs and outcomes.

7.2.2 Regular reports, the format and regularity of which will be included within the contract specification will be provided by Newco to Children's Services Senior Management Team (CSSMT) against a set of agreed indicators and timescales. On behalf of the Director, the Deputy Director Children's Services will retain oversight of all commissioned work and will evaluate the effectiveness of the services commissioned against the agreed outputs and outcomes. This will be done through meetings between the Executive Directors and Local Authority Commissioners on a planned and regular basis.

7.2.3 The Council proposes to retain the service areas set out in **Appendix 2**.

7.3 Implications for Staff

7.3.1 It is recognised that the changes being proposed are radical and significant. The service has a good record of staff engagement and will build on this to ensure staff are engaged, supported, communicated with and involved in the development of the new model of delivery. To date, feedback from staff has been overwhelmingly positive and engagement with Trade Union representatives is ongoing.

7.3.2 It is proposed that the consultation with staff and Trade Unions regarding transfer to the new organisation would be on the basis of transfer on their existing terms and conditions. The workforce already demonstrates the values of the City Council and the promotion of these values would continue through the new organisation including an ongoing commitment to the continued professional development staff. The experience of working in a different organisation operating in a commercial environment will provide the opportunity for staff to develop new skills.

7.3.3 In order to respond to the demands of the market place the workforce would need to operate flexibly. Existing staff (ie. those in scope for transfer) will be retained as the core workforce and will be supplemented with a flexible workforce of associates. This will provide opportunities for flexible working, for example, opportunities for flexible, part time working for staff with caring responsibilities. There may be times when it suits both staff and the organisation for individuals from the core workforce to become part of the flexible workforce and vice-versa.

7.3.4 Arrangements will be put in place to ensure the workforce is engaged and has opportunities to contribute ideas. There will be a staff seat on the Board enabling staff buy in and a key influencing role from the beginning of the new company's life.

7.3.5 Full consultation on the proposed transfer will be undertaken with staff and Trade Unions.

7.3.6 It is proposed that transferring employees will remain part of the local

government pension scheme and that Manchester City Council will act as a guarantor for the pensions of affected staff.

7.3.7 The City Treasurer and Assistant Chief Executive (People) will work with the new organisation and the pension's administrators for the Local Government Pension Scheme to seek "admitted body" status for 'Newco'. Further, the City Treasurer and Assistant Chief Executive (People) will seek approval from the Secretary of State for Education, via Teachers' Pensions, who administer the Teachers Pension Scheme on behalf of the Department for Education, for 'Newco' to be recognised as an 'authorised body'. This will allow transferring employees to remain members of their respective pension schemes.

7.3.8 Any new employees of Newco will be subject to Newco's own pension arrangements.

7.4 Finance – revenue implications for Manchester City Council

7.4.1 The trading position for Education Traded Services over the last three years is set out in the table below.

	2008-09	2009-10	2010-11
	£000	£000	£000
Turnover	6,549	7,855	9,719
Net Profit	633	722	985

NOTE: The table above includes information relating only to those service areas that will transfer to Newco.

7.4.2 Turnover historically has risen from £6.5 m in 2008/09 to £9.7m in 2010/11 driven by a number of factors. The increase is underpinned primarily by additional services that have moved into Education Traded Services, (for example, the Management Support Service became part of Education Traded Services in 2010/11 and contributed £1.3m of sales and the Governors Support Service which moved at the same time has contributed £300k). There has also been an increase in sales of existing products to new customers and new products to existing customers.

7.4.3 From a financial perspective, the proposal seeks to avoid potential future liabilities through ensuring there continues to be a market for Education Traded Services which may not otherwise be the case if it remains wholly internal to the Council.

7.4.4 If the entity were to fail, Manchester City Council would potentially meet some of the costs (for example, pension liabilities, redundancy costs) but the proposal provides the best opportunity of avoiding such costs in developing a sustainable business model.

7.4.5 Initial set-up costs associated with the proposal are estimated at between £0.1m - £0.2m. It is intended these are funded from profits generated in the period April 2011 – August 2011 (ie pre-set up period). In the longer term trading with schools in other Local Authorities may also bring greater trading surpluses that can be reinvested locally.

- 7.4.6 The current trading surplus for Education Traded Services (ETS) demonstrates that the business covers costs and makes a financial contribution towards the Council, which has increased over the three year period. The immediate financial risk for the Council is the £7m relating predominately to annual staffing costs, as well as other fixed costs, for example premises and IT. These costs would be unsustainable if ETS do not have the flexibility to respond to the changing requirements of schools and growing competitive market.
- 7.4.7 Within the Council's Medium Term Financial plan is a savings target of £2m to be achieved through creating efficiencies in the centrally retained Dedicated Schools Grant (DSG). This saving is now at risk of not being achieved as significant changes are likely to be made to the quantum and distribution of DSG through the introduction of a national funding formula (April 2012). The mitigation against this risk has been to make savings from Children's Services budget by closer integration between the Council's strategic and statutory functions and services purchased by schools to enable efficiencies in Council budgets. This will not be possible if schools are purchasing services from different private sector providers and the impact will be to further reduce Children's Services budgets for support to schools.

Costs of implementation

- 7.4.9 The cost implications for the implementation of Newco have been estimated at £0.1 – 0.2m. It is proposed that this is funded from profits generated by ETS between April and August 2011. The expected areas of cost are set out below and are in addition to time spent by MCC staff:
- creation of the company – including the HR, legal, financial, ICT and other professional services;
 - governance arrangements – including establishing the board of directors;
 - start - up costs – including website development, stationery, marketing materials and software.

8.0 CONCLUSION

- 8.1 The external market is gearing itself up to exploit the new opportunities presented and will create increased risk to what has, for three years, been a successful example of high quality local authority service delivery. A previous track record of success in a very different market will not guarantee future viability without the ability to compete going forward, on equal terms with new competitors in what is now an emerging new market. For this reason timing is critical to success and there is a limited window of opportunity.
- 8.2 As the changing role of local authorities brings new opportunities for the private sector, many other local authorities are actively considering their provision. There is considerable interest in Manchester's model for education services from local authorities all over the country as they try to make sense of how to continue providing essential services to schools and meet their

statutory requirements with considerably smaller budgets. Manchester is clearly recognised as leading the way in a broad market with significant potential for expansion and sales growth.

- 8.3 Education Traded Services has an existing and established customer base that can provide enough scale for the infrastructure needed to succeed in the long-term. However, new market forces will be difficult to resist without the flexibilities needed to operate successfully in a competing market. Operating at arms length from Manchester City Council will enable ETS to grow its customer base beyond Manchester so that it can be a long-term viable proposition not only for its workforce but, more significantly, for the schools, young people and families in Manchester who ultimately benefit from the consistently high quality support it provides.
- 8.4 In summary the benefits to the Council of agreeing the recommended option are that it will:
- ensure continuity of high quality service provision to Manchester Schools;
 - reduce costs of services the authority commissions from Newco as changes in school budget allocation places more resources directly with schools;
 - create additional revenue income, thereby increasing profits for re-investment, development or customer dividend;
 - enable the service to respond quickly and flexibly to changes in demand and need, including the ability to take advantage of trading with schools in other local authorities;
 - provide an efficient way to establish a new organisation with clear accountability and governance.

Appendix 1 - Scope of services to be commissioned by the Council from Newco

Commissioned Area	Service Area	Service Overview
SEN	Educational Psychology	The Education Psychology Service (EPS) provides advice to the Local Authority and relevant stakeholders on the most appropriate provision and response for individual children based upon a psychological assessment and understanding of their needs.
Attendance	Attendance Team - Penalty Notices and Prosecutions	The validation and processing of the penalty notice process up to the point of issuing a penalty notice will be commissioned. The Local Authority will retain responsibility for authorizing the issuing of penalty notices in line with legislative requirements. The Local Authority has a legal responsibility to consider statutory actions for parents who fail to secure regular school attendance for children of compulsory school age. In order to ensure value for money from legal services. The prosecution processes required before MCC Legal Services issue proceedings will be commissioned.
Management Support	Management support	This service offers advice and practical assistance to schools, academies and other educational establishments on school management, governance and personnel related issues. The Service is largely traded with schools but some support is currently provided to the LA. This will continue to be commissioned in Year 1 but will be phased out and spot purchased in the future.
Music	Music Service	Standards Fund Grant ring-fenced to music development and tuition. Over £1m of the budget is devolved to schools. A small amount is retained to develop strategic improvement in standards and to ensure additional services can be offered above that of schools. A Cultural Advisory Board has been established and will be the commissioning arm for the retained resource (£350k). There will be spot purchases as commissioned by the Board.
Outdoor Education	Outdoor Education Ghyll Head Operational Management	A Partnership Board with schools and other partners has been established with responsibility commissioning activities to deliver the Outdoor Education Strategy and commissioning. The Ghyll Head Centre, managed by New Co, will operate commercially and recover all its cost through revenue.
EMA Services, Language Support and Community	Ethnic minority achievement	7% of the EMA Grant is retained by the Council and used to commission activity to support the EMA Strategy. The commission 2011/12 will include: bilingual staff to support induction to

Commissioned Area	Service Area	Service Overview
Cohesion		school of children newly arrived in the City, community cohesion and support to supplementary schools.
Governor Support	Governor Support	The Local Authority duty to provide strategic information and key messages using existing communication channels to Governors will be commissioned. Training as required to equip governors to support and challenge senior leaders in schools will also be commissioned.
Information Systems	Information Systems - One system	There are a number of activities which are undertaken by the Management Information Systems (MIS) team which are delivered on behalf of Children's Services, either because of legacy arrangements or due to Statutory requirements. Details of these arrangements are below. Due to a number of significant changes within Children's Services, it is expected that all existing activity undertaken by MIS will be required for the year 2011/12, with a review occurring part way through the year to determine whether or not these activities are required 2012/13.
MeCar	Manchester Every Child a Reader	Continued support to schools to deliver this evidenced basis intervention programme and supervision for teachers delivering the programme will be commissioned.
NEW Contracts		
Admissions & CME	Home Visiting Programme at key points during the school year	The Local Authority has a requirement to ensure children resident in Manchester attend school. This contract will provide support to the Admissions Team through 'home visiting' to follow up application status for targeted groups of children and families.
Back Office	Events Planning and Back office support	New service specification for Back Office Support around events planning for, for example, SENCO Networks, Designated Teacher Networks, Behaviour and Attendance Networks.
Strategic Support	Strategic Partnership support	Strategic and policy support and advice to Children's Services Senior Management Team, support to the further development of partnerships with schools as an element of the Learning Transformation Programme, Support for school clusters, quality assuring SEN processes, managing relations with the teacher professional associations. In partnership with Children's Services, quality assure performance of the education system.

Appendix 2 - Scope of services to be retained within MCC

Service Area	Service Overview
SEN Statutory assessment team	The SEN Statutory Assessment Team manages the process whereby children with high level or complex needs that cannot be met using resources already available in settings, schools and academies, access appropriate education or non-education provision.
School Travel for Pupils with SEN	The Service provides the operation of Manchester's SEN home to school transport policy and statutory responsibilities relating to transporting children with SEN to and from educational provision including assessing applications for transport and matching children to vehicles and routes. The transport contract includes a target to reduce over time total service cost.
International New Arrivals, Travellers and Supplementary Schools	This Service provides support to children of traveller families and those newly arrived into Manchester from abroad to access education provision with appropriate support. In addition the Services maintains contact and provides advice to the large number of supplementary schools providing out-of-hours cultural and educational activities for children and young people.
LAC Education	This Team monitors the attainment and attendance of children in care. They also monitor educational progress and attendance of children placed outside Manchester.
Case work	The Service ensures that vulnerable children and young people including those missing from education (CME), newly arrived in the City or excluded from school, have access to suitable education.