

Cabinet

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LEADER

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CABINET MEMBER FOR CHILDREN'S SERVICES

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CONTRIBUTORS

DChS
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PILOT SCHEME FOR NEW WAYS OF WORKING

**Wards:
All**

The purpose of this report is to set out the proposal for the pilot scheme as part of the 1st Wave Mutual Pathfinders scheme. The proposal is to create an employee led mutual, with 'social enterprise status' to deliver existing education support services to schools and some services back to the Local Authority.

Recommendations:

1. **To note the work undertaken to date to the Outline Business Case for an Education Support Services employee led mutual.**
2. **That the further development of a full business case be approved.**
3. **To approve the commencement of a wider consultation on the proposal to set up an Education Support Services employee led mutual**
4. **To note the procurement timetable to identify a potential private sector partner to assist in the establishment of the employee led mutual and instruct officers to commence the procurement process for a partner for LBHF, RBKC and Westminster's School Support Services**
5. **To delegate to the Cabinet Member for Children's Services authority to approve the scope of the proposed contract and the Contract Notice to be published in the Official Journal of the European Union (OJEU).**

HAS A EIA BEEN COMPLETED?
YES

HAS THE REPORT CONTENT BEEN RISK ASSESSED?
YES

- 6. To delegate the decision on the final partner to the Leader of the Council in consultation with the Cabinet Member for Children's Services and the Director of Finance and Corporate Services**
- 7. To approve the proposal to commission the Support Services from the mutual for a four year period.**

1. PILOT SCHEME – A MUTUAL TO DELIVER EDUCATION SUPPORT SERVICES TO SCHOOLS

- 1.1. The Council has been selected as a 1st Wave Mutual Pathfinder by the Cabinet Office to explore new models of delivering public services. As such the Council has taken part in national Pathfinder meetings and has been allocated a mentor to take forward the delivery of services through the set up of a mutual with social enterprise status.
- 1.2. The mentor for Hammersmith and Fulham is Hilary Thompson of OPM, who through the pathfinder scheme has offered support, challenge and strategic advice on the proposed pilot scheme of services to schools and the Council. The mentor has also led wider staff workshops to provide information about setting up a mutual. The meetings have offered significant advice and support to enable the Council to develop a robust business plan, reflecting research and knowledge and lessons learnt from other schemes.
- 1.3. This report proposes a pilot scheme to set up an employee led mutual to deliver services to schools and the Council (with the Council commissioning some services from the mutual for a four year period), these services are currently delivered by schools resources division within the Children's Services Department. This pilot proposal follows the Council's five stages of transition for staff wishing to develop "New Ways of Working," (see Background Document), which include:
 - Stage 1: Expression of Interest
 - Stage 2: Option Appraisal
 - Stage 3: Business Case – including negotiating the terms and planning the transition
 - Stage 4: Transition
 - Stage 5: Post transition (Business to undertake its internal development and reviews and the Council to evaluate delivery)
- 1.4. This report will provide detail on stages one, two and significant parts of stage three of the process.
- 1.5. A draft version of the New Ways of Working paper is attached to this report, and is currently being further developed within the Transformation Board remit where it was initially discussed on the 18th May 2011. This will form the basis of a toolkit that will support other departments across the council to develop new service delivery models.
- 1.6. Lessons Learnt will also be captured from the project through the transformation programme, in order to inform other similar projects across the council.
- 1.7. The proposal to create an Education Support Services employee led mutual assumes that the Council is supportive of the approach of a "Pilot" approach where the Councils commissioned elements are set for a four year period, subject to the usual contractual relationships and outcomes being delivered.

2. EXPRESSION OF INTEREST

- 2.1. The Council has expressed its desire to drive a more “commercial” approach to service delivery whilst delivering efficiencies in line with the Medium Term Financial Strategy. It is proposed that the Schools Resources Division which currently offers support to the Council as well as trading directly with Schools, offers a unique opportunity to pilot these ‘new ways of working’ whilst further driving efficiencies in Children’s Services.
- 2.2. The cost of the Schools Resources Division (after applying income from Schools) to the Council for 2010/11 totalled £1.4m. The current MTFS savings for the Schools Resources Division are outlined below:

Description	2011/12 £'000's	2012/13 £'000's	2013/14 £'000's
Base Budget 2010/11	1,407	1,407	1,407
Savings from resources teams reductions (cumulative)	175	225	275
Traded Services target through expansion of opportunities (cumulative)	50	100	200
Budget for financial year	1, 182	1,082	932

- 2.3. In summary, the Schools Resources Division has been tasked to deliver annual reductions totalling £475k of savings over the next three years; a 34% reduction in its baseline spending. In this context, maintaining the confidence of schools through effective service delivery efficiencies requires creative solutions. This proposal provides an opportunity for piloting a “New way of Working,” whilst exceeding the proposed MTFS targets. It offers a broad package of services that by externally trading provide opportunities for expansion to deliver savings, whilst taking advantage of additional opportunities available through the tri-borough merger.
- 2.4. As part of the development of the business model, tri-borough partners in Westminster (WCC) and Kensington and Chelsea (RBKC) have identified opportunities to expand the scope of the mutual to provide IT services to schools in RBKC and WCC. Any tri-borough partnership will be subject to all the respective Cabinets’ approval, although the opportunity supports the joint strategy of progression for the three directly managed services.
- 2.5. The main services included in the scope are summarised as follows:
- Schools Direct - Finance Support Services (School Management Support SMS) – this includes monthly visits to assist with budget planning for schools, monthly financial monitoring and reports to Governors – the service is valued as it protects Headteachers and Governors and ensures that the systems in place are safe and accurate and support the schools with their business planning.
 - Schools Direct - Schools Hardware and Software support – (SMS and City Learning Centre) – this includes Hardware support for File Servers and PC’s but more support is around ensuring the systems are operating effectively and

the software that schools use is incredibly complicated given all the different functions it fulfils (Attendance, Finance, HR, Exams, Pupil Tracking, curriculum delivery to pupils) – this service provides helpdesk and on-site support to ensure these systems are operating

- Council - Buildings support – provision of feasibility and Educational Client role with Schools building projects (both Revenue and Capital funded) including options appraisals and capacity aspects, plus working with Free Schools and other providers.
- Council - Schools Funding – provision of advice and options for managing the Dedicated Schools Grant (DSG) and other DSG budgets in excess of £100m p.a. Including developing models of alternative approaches and working with Schools to ensure the changes required are implemented effectively

3. OPTION APPRAISAL/SCOPE OF SERVICES (CURRENT POSITION)

Background and context

- 3.1. At the option appraisal phase the scope of services has been developed with staff and stakeholders.
- 3.2. The guiding principles of the proposal are:

- Staff and financial risk are transferred out of LBHF
- The pilot will have the opportunity to develop its market share not only within the three boroughs, but much wider, such as with Independent Schools and Free Schools. This will enable a more robust delivery model and further financial benefits through economies of scale
- A form of Mutual (John Lewis Partnership) model of staff ownership encourages business focus. It is intended that all staff will become shareholders, with shares allocated proportionally to responsibility/commercial value
- More than just delivery of the Council's MTFS plans, but presenting opportunities for the Council to further benefit from the outset and again if the venture proves highly successful
- Part of the tri-borough merger and follows the principle of removing the direct delivery of discretionary services

- 3.3. The proposal has been developed with advice and input from OPM.

Vision and Organisational Form

- 3.4. The proposal is to transfer some services to schools that operate on a traded basis and some of the Council's management function for schools resources to the new organisation. This structure will give the organisation a strong infrastructure with sufficient depth and provide it with a solid foundation to develop and extend its offer to schools, broader offerings to other councils and other public/private sector organisations, whilst taking advantage of the expertise already available in the respective Councils.
- 3.5. The vision is to deliver services to schools directly and to the Council and other potential clients that address the following areas:

- Buildings
 - Money
 - Schools Management Information Systems
- 3.6. There is a significant opportunity for expansion across these core areas which a staff mutual model for service delivery can take advantage of. The market and these opportunities are expected to increase as existing providers (mainly local authorities) look to decrease the scope and size of their operations.
- 3.7. Other Public/Private Sector focused Services
- 3.8. The vision includes delivering services to Councils and schools (local authority and others) in the following areas:
- Planning for school organisation
 - Prioritisation and effective use of resources (particular emphasis money and buildings)
 - Advice on large scale projects (e.g. transferring to Academy status)
 - Development of funding models for schools
 - Translating educational vision into building projects
 - Procurement (lead or advise)
 - Interim support options for Council's looking to address short term lack of capacity
- 3.9. This service will be focused on LBHF initially (although timings may facilitate RBKC and Westminster being involved at the outset). Their inclusion will be subject to their respective decision-making process. It is expected that the expansion of services into other Councils and organisations will mitigate reductions in the LBHF Council contract through a flexible offer by the business.

Schools Focused Services

- 3.10. Children's Services currently provide high quality traded services to schools and it is believed that schools resources services are ideal to transfer to a mutual. The staff have developed the proposals led by the Assistant Director Schools Resources, these include:
- IT hardware and software support (this includes training to and support to other Local Authorities). 50 out of LBHF 53 schools buy back some or all of these services. Additionally 40 schools in Ealing buy these services from the Council and some other boroughs commission these services from the Council to support their own in-house provision. The contract between schools and the Local Authority are currently well developed and have been operational for many years.
 - Schools Financial Management Support. This is not available via RBKC currently and is an immediate opportunity through the Tri-Borough proposals
- 3.11. The mutual will continue to offer all the above services to schools through the buy back service (either annual or ad hoc). The mutual also sees the potential for growing a wider range of services and extend the provision of these to other boroughs and the new free schools and academies.

LBHF Focused Council Services (Pilot phase)

- 3.12. The second aspect of the proposal includes some services to the Local Authority. The mutual will offer support and strategic advice to the Local Authority in relation to schools resources. The targets for the mutual are still being developed as are the contracts relating to these but they will include:
- Provision of Education Client role for the current Capital Programme Schemes (Holy Cross/Queensmill/Cambridge) [Note: The procurement of all capital projects is the responsibility of the Council]
 - Development and management of the Revenue Maintenance Programme as currently undertaken
 - Option appraisals and stakeholder / statutory consultations
 - Development of design briefs for projects to enable BPM to procure
 - Response to Sebastian James Review and strategic advice to Council for the development of the Capital Programme
 - Development of schools funding models, including advice to Schools Forum in respect of national consultations
 - Advice in regard to the centrally held elements of the Dedicated Schools Grant and recommendations for allocations against these
 - Analysis of schools finances and advice where schools are developing financial concerns
 - Provision of indicative budgets
 - Provision of final School Budgets
 - Oversight of both the Capital / Revenue budgets for schools (£125m plus)
 - Schools Place planning advice
 - If required by the Council additional input into Procurement Area's including negotiation with contractors.
 - The pass through of certain core costs such as the Schools Management info systems licence where economies of scale are achieved by a single processing approach (DSG Funded £80k)

Staffing/Tri-Borough

- 3.13. The Mutual will be comprised of 21 LBHF staff from the onset, with the additional inclusion of 12 ICT staff from Kensington and Chelsea (subject to RBKC Cabinet), and a further 7.8 ICT staff from Westminster (subject to Westminster Cabinet and further due diligence). Both Councils are expected to join the proposal between January 2012 and April 2012, depending upon the most appropriate timings for their respective Councils.
- 3.14. RBKC officers have expressed a positive interest in being part of the proposal and have actively engaged with officers from LBHF to develop:
- 3.15. A shared training offer to schools for ICT Systems (e.g. Attendance, Administration, Exams) for both boroughs from the summer term
- 3.16. LBHF have offered their finance services to RBKC Schools for 2011/12 (noting that currently if there were significant interest extra staffing would be required)

- 3.17. Both Councils are working on a partnership approach to technical systems support for schools including shared training and development for staff and Professional Development, and also exploring how we can best use resources across the two boroughs to deliver to schools.
- 3.18. Westminster are supportive of the proposal, which would fit with their strategic aims. Positive meetings have been taking place between the Westminster Lead and LBHF, and the Mutual is part of the Tri-Borough programme.
- 3.19. As the business develops it will explore possibilities for partnerships and diversification of its offer as market opportunities become available. The key thrust of the business in the initial stage is the development of the services to schools, although the opportunities for singular large scale projects will not be foregone e.g. project management lead on new academies/free schools for government and proposers.

Organisational Form

- 3.20. To enable the Pilot to develop and to encourage staff and schools “buy in” to the proposals (as well as enabling the pilot company to effectively compete in the private sector) it is proposed that the Pilot becomes a mutual operating under the organisational form of a Limited Company. The options for organisational form identified in the New Ways of Working paper have been considered and the table below summaries the issues. All staff members will hold shares proportionate to their role in the company. Further work is required around Share Ownership / Balance of Incentives etc, and we are seeking support from the Treasury to develop this work.
- 3.21. The options for organisational form identified in the New Ways of Working paper have been considered and the table below summaries the issues.

Organisational Form Option	Review comments
“Teckal” company (Local Authority Trading Company)	Restricts the future business opportunities and the schools services element further confuses the legal position.
Trusts	This is an option that was genuinely considered, however the challenging financial targets and the need to develop the schools business aggressively within the four year pilot period make the chosen option more preferable.
Joint Venture (between the Council/Partner)	This was discounted because of the conflict of interest that could potentially arise as the business develops and increases its scope of operations.
Community Interest Company (CIC) - Social Enterprises	To meet the Council’s commercialisation aspect and incentivise the business, many aspects of this are attractive, however the chosen option is more preferable.
Mutuals (Employee Led)	This is the chosen option to enable incentivisation business development and a structural form that is easily understandable. By creating an external company any potential conflict of interest for future development is mitigated. It is proposed that the mutual adopts some of the characteristics of a social enterprise i.e. where 50% of

	its net profits are provided back to the commissioning authorities for them to enhance their social objectives.
Charities	It was felt that the framework for charities (charities commission) would prohibit flexibility for the business.

- 3.22. The anticipated launch date of the Mutual is 9 January 2012. This date is realistic and enables a reasonable period to undertake the necessary consultations. Our partner Councils are confident around an April 2012 start although further work is being undertaken to establish if this timescale can be accelerated (Value £650k p.a. each). The launch date is dependent upon the completion of the procurement process (see below).
- 3.23. The inclusion of the other two boroughs will significantly develop the schools market and provide the business with a larger base to manage its operations from. With the Council contract and the schools contracts this will be a novel way of combining services and is different to any of the existing pathfinders which are predominantly a single contract approach without the diversification opportunities.
- 3.24. It is envisaged that all staff will transfer from the Council(s) to the new company under The Transfer of Undertakings (Protection of Employment) Regulations (TUPE), with the possible indemnity for the first twelve months redundancy in line with other outsourced contracts (see further comments in 3.28). This process follows the Bridge Partnership model. This protection would also apply if there are delays to the re-organisation given the volume of re-organisations / staffing reductions taking place in Children’s Services over the next few months
- 3.25. In relation to pensions, to ensure that the mutual is able to attract and retain the best staff, it is proposed that the company would have Admitted Body Status and pension levels are set at the calculated transfer level. The fund would be an “Open” fund, but new employee’s would be expected to take an alternative pension and only be allowed access to the Admitted Body fund (given cost differentials) if the business were convinced there were strong reasons to do so.
- 3.26. It is anticipated that the current services to the schools under contract to the Local Authority will be novated to the mutual.
- 3.27. The Mutual will reinvest a percentage of its net profit, back to the local authorities (where the business is receiving income) for the enhancement of learning for young people, as identified by the Councils. This will be enshrined within the contractual relationship between LBHF (and other Councils) and the mutual for the four years of the pilot phase where the Council(s) is also commissioning services.
- 3.28. For the first four years of the mutual the other 50% net profit will be retained by the business to provide a profit for any partners and develop a growth fund and develop the business on a secure footing. Given the national circumstances it is envisaged that there is unlikely to be any pay awards or dividends to the mutual staff in the first few years of the business, although this will be determined by the business and its partner in line with the business progress.
- 3.29. At the end of the four year period the Council will be tendering the strategic contract and the mutual would be able to compete with other providers and may or may not win the contract. By allowing the mutual four years it can effectively build its client base and develop its offer to schools, such that it should have

sufficient capacity to re-direct resources should it be unsuccessful in the LBHF contract.

- 3.30. The voting rights of the company will be invested in the workforce, but the decisions would be limited to the appointed Board of Directors for effective decision making.
- 3.31. The demand and sources of income have been identified to come from two main client groups, the Council and the school community (both from LBHF and other local authorities).
- 3.32. Transferring staff out of local authority control into a commercial organisation has been discussed within government circles and has been implemented in some Local Authorities with various success rates.
- 3.33. Establishing a commercial company, which is no longer under the direct control of the Council, and provides services back to the Council or other publically funded bodies would be unlawful under the Public Contracts Regulations unless some form of procurement exercise has been undertaken. Recognising this potential conflict of interest, OPM have recommended the development of a mutual to deliver the current services to both the schools and the council, whilst being able to absorb work in other local authorities. The procurement section of the report identifies a strategy to achieve this.
- 3.34. The mutual will be a company limited by shares, but with a social aim of providing 50% of its net profit back to the client councils to fund social projects. This reflects the council contract value being a significant part of the business income in its pilot phase.

Market and Market Research

- 3.35. Support from the school community has been well received, both in informal discussions with Head teachers and following consultation with all schools on the future of traded services in November 2010.
- 3.36. The results of the question asked to schools on the future buy back for the in scope services can be found in the table below:

RESOURCES AND SUPPORT SERVICES	If competitively priced would you buy back from a borough traded service? Yes %
ICT Technical Support to Schools	88%
Finance	83%
Legal	88%
Payroll	83%
HR	88%
Contract Advice/Procurement	55%
Asset management	55%
Health and Safety	83%

- 3.37. The services are currently provided to schools on an annual and ad hoc basis via the council. The Mutual will consist of the same key staff delivering these services in the future, so the continuity and knowledge and support will remain the same.
- 3.38. The Council will continue to directly provide the HR and Payroll Services to schools as these are involved in their own Tri-Borough development
- 3.39. The Council via BTS and EC Harris will continue to provide on an SLA the technical side in respect of Health and Safety, inspections of equipment etc for LBHF schools and decision regarding future building projects..
- 3.40. The Council also provides an option of last resort in respect of legal advice that is rarely used directly by schools, but is a safety valve to ensure they have an assured contractor to procure this advice from. The main legal integration on schools is via HR and Legal advising on staffing issues and this is encapsulated in the HR SLA.
- 3.41. The school community will be actively engaged in the consultation process to enable the potential Mutual to deliver all services at the same level and in some cases (with the reduction of overheads) at a lower rate, thus providing value for money for all schools, but with no decline in service or and limited changes to personnel.
- 3.42. The Council as the other main client will be procured under a four year Service Level Agreement (SLA) with the Mutual. The intention is that the four year contract will reduce year on year to provide the Council with savings over the life of the contract.

Expenditure and Rationale

- 3.43. The strategic rationale for the Mutual is:
- Confidence of the services that they could deliver more effectively as a private company
 - Commitment at a political level to explore new ways of working
 - As an alternative approach to deliver the challenging financial targets required and maintain/ further commercialise existing services
- 3.44. The Council will not simply be outsourcing the services currently delivered, but will be piloting an innovative way of the future delivery of in scope services, at a cost reduction (and possible profit making) to the Council in headcount and overheads. The delivery of these services via the pilot scheme will have no negative impact on the service as they will continue to be undertaken by the existing staff who have extensive knowledge and expertise in these areas. All clients will benefit from a reduced cost of service, whilst maintaining continuity of staff and services.
- 3.45. The ambitious savings targets are accepted by the management team who will be undertaking the mutual and will deliver significant benefit to the Council in the immediate short term..
- 3.46. To enable the transition to the new business, some of the existing services encapsulated within the resources area would need to form part of the "Offer". These services are planned for a four year "exclusivity period" and then to be subject to competitive tendering, enabling the business to focus on expansion of

its schools related services and ensure it is in a reasonable position to “compete” for future contracts and become more “market ready”.

- 3.47. It is proposed that the pilot scheme will be on a four year contract with the Council to provide strategic advice and services. The four year proposal will offer an effective development and consolidation period and the intention is that for 2014/15 the Council would tender the services it requires on the open market.

Step 1 – The Budget for 2011/12 is set out below:

Total Value being explored for Mutual functions is:	Budgets 2011/12 NB these reflect the MTFs savings for 2011/12)	Traded Services to Schools	Capital/Revenue Maintenance Programmes including delivery of Projects	Place Planning /Access to Education/ Regeneration Input	Dedicated Schools Grant and Finance Management Schools (statutory side)	Schools Resources Generally	Council Wider Management Input
Salary Budgets 2011/12	1,303,803	669,099	280,605	37,138	246,713	22,732	50,400
Headcount Equivalent	24	14.8	4.5	0.4	3.55	0.3	0.5
SIMS Pass though License	80,300				80,300		
Other Budgets	225,300	19,400	132,618	7,625	50,651	4,667	10,339
Schools Income	(706,700)	(706,700)					
Corporate Recharges	279,492	119,352	71,640	7,760	65,469	4,750	10,522
Gross Levels for Council to consider Commissioning:	1,182,195	101,152	484,904	52,522	443,132	32,149	71,221
DSG Income	(439,000)	0	(150,808)		(279,152)	(9,040)	
General Fund Position	(743,195)	(101,152)	(334,096)	(52,522)	(163,980)	(23,109)	(71,221)

- 3.48. To calculate the values and ensure transparency, the approach taken was:
- Establish the financial values for the service for the next three years in line with the MTFS targets
 - All staff involved in the mutual will TUPE across and maintain admitted body status
 - The client function is captured in the Tri-Borough plans.
 - The Council will continue to make all decisions in regard to procurement and committing of funds for areas (as is the current case) and the mutual will provide the financial, technical and operational management and advice that it does currently in respect to Children's Services.
 - Certain budgets for services that the mutual would wish to maintain from LBHF rather than re-commission elsewhere (examples HR and Payroll) are being retained by the Council
 - The Detailed breakdown of the corporate recharges assessment is shown in Appendix A
- 3.49. The table above shows the assessed position in respect to the costs to the Local Authority and where the Dedicated Schools Grant are applied to these areas. Note that DSG is "Pupil Related Spending" and as such many of the Councils management functions are not funded through this stream but are funded by the Revenue Support Grant.

STEP 2 – Analysing Overhead Costs (SLA's) and reflecting Tri-Borough client function

- 3.50. When looking to create a different way of working, we analysed the current overheads charged to the services. We approached it by the following themes:
- 3.51. Was this a charge that the Business Would receive via a third party? – it is proposed that only 80% of the amount is transferred to the business and the other 20% is taken as a further efficiency by the Council (except for Accommodation where the mutual is expected to take only 50% of the existing recharge). This generates further efficiencies for the Council of £60,892.
- 3.52. Was this a service that is best provided by the Council? e.g. payroll and Human Resources. If so these budgets will remain with the Council and the Council will continue to provide the service. The Mutual will continue to promote the Council's Payroll and HR services to schools
- 3.53. Was this a service that, irrespective of the mutual, the Council would still provide? e.g. Policy Unit – again this budget remains with the Council
- 3.54. The Council as part of its Tri-Borough proposals has the Client role subsumed within that structure and that will provide the challenge of the work of the mutual and provide a strategic presence within the Local Authority (in effect additional savings for the Council).

Table reflecting the 2011/12 budget with further savings above MTFS targets and Corporate recharges position applied:

	Budgets 2011/12	Proposed Mutual Contract	Proposed to remain with Council for Client Side and where Council providing Mutual with services	Proposed to remain with council for further efficiencies through new ways of working
Salary Budgets 2011/12	1,303,600	1,141,055		162,545
Other Running Costs including pass through SIMS license (80k)	305,600	296,432	9,168	
Schools Income	(706,700)	(706,700)		
Corporate Recharges/ Overheads	279,492	130,600	88,000	60,892
Gross Levels	1,181,992	861,387	97,168	223,437

- 3.55. The detailed SLA work is shown in Appendix A
- 3.56. The table has apportioned the 2011/12 budgets to split them between Contract/Client/Council services continuing to be provided to the mutual and efficiencies against SLA recharges
- 3.57. The table below sets out the financial position using 2010/11 as a baseline. It reveals the additional reductions to the contract between the mutual and LBHF

Financial Value s:	2011/12	2012/13	2013/14
Mutual Commissioned Sum	861,387	761,387	611,387
Info - Further savings required from Mutual/MTFS applied to the Contract sum above		(100,000)	(150,000)
Annual reduction		11.6%	19.7%
Cumulative reduction			29.0%
Plus Council retained budgets for services provided	97,168	97,168	97,168
Total Costs for the Council following Mutual Creation	958,555	858,555	708,555

Baseline 2010/11	1,406,992	1,406,992	1,406,992
Saving against 2010/11 Baseline	(448,437)	(548,437)	(698,437)
Percentage reductions against 2010/11 baseline	31.9%	39.0%	49.6%

3.58. The financial incentivisation is three fold:

- Firstly the contract sum being proposed for the mutual with regards to the “Council services” identified above, will be reduced annually as set out in the table
- There are a further £223k of efficiencies identified above the baseline by implementing the strategy
- Thirdly, operating under social enterprise status the mutual will further deliver 50% of its net profits back each year to the Council(s). The Council will have further resources if the business is successful to utilise to provide further social benefits regarding young peoples learning.

3.59. The impact on the general fund for the three years and notional allocations of spending areas where reductions are expected are set out below:

Table to allocate Costs over Services

	Budgets i.e. Contract sum and Client sums	Traded Services to Schools	Asset Mgmt - Feasibility, consultations, investigation works, option appraisals.	Place Planning / Access to Education / Regeneration Input	Dedicated Schools Grant and Finance Management Schools (statutory side)	Schools Resources Generally	Council Wider Management Input
Initial Costs to the Council before transition to Mutual	1,182,195	101,152	484,904	52,522	443,132	32,149	71,221
Adjustments SLA/Corporate Recharges and further staffing reductions	(223,437)	(5,197)	(146,366)	(11,025)	(33,177)	(9,978)	(17,692)
Adjusted Costs to the Council following creation of Mutual (Year 1 Values)	958,555	95,954	338,537	41,496	409,955	22,170	53,529
Further Savings targets allocated to the Mutual							
Year Two Further Savings	(100,000)	(47,977)	(17,559)		(12,425)	(6,565)	(15,474)
Year Two Costs to the Council	858,555	47,977	320,978	41,496	397,530	15,605	38,055
Year Three Further Savings	(150,000)	(47,977)	(50,096)	(17,500)	(12,425)	(6,565)	(15,437)
Year Three Costs to the Council	708,555	0	270,882	23,996	385,105	9,040	22,618
Note the DSG Income associated with the costs of these services is	(439,000)	0	(150,808)	0	(279,152)	(9,040)	0
Therefore the Net cost to the General Fund becomes	269,555	0	120,074	23,996	105,953	0	22,618

- 3.60. The net cost to the General Fund through the development of a mutual will be a decrease from £743k in 2011/12 to £270k in 2013/14 a reduction of 64% from the 2011/12 position. If this is compared to the 2010/11 position the reduction to the general fund is 72.1% for the first 3 years.

Assumptions on the Business Model

- 3.61. School business will grow slowly and the additional schools projected will not require automatic growth in costs as performance efficiencies will be driven through the merging of the Tri-borough teams and the benefits that will bring in production efficiencies into the proposal
- 3.62. Contingency is held pending the business developing, therefore if the business is plateau'd in its first year reductions can be made to costs to ensure the company meets break even without significant staffing upheaval to enable the market to gain confidence in the business ability to deliver

Table to show the financial structure proposed for the mutual

			Assumes Business has slow growth of 20% schools each year, for year 2 and 3	
	Amount yr 1	Comments	Yr 2	Year 3
Posts as per staffing Structure	1,168,700	See Staffing Structure	1,188,210	1,210,947
Uncommitted Staffing/Other Budgets at this stage pending business development (transition review period)	75,000	To be held at this stage to either commit if business is developing or hold to avoid significant changes to staffing for 2012/13 if business is plateau'd	100,000	100,000
Staff Development	12,800	Training and PD.	12,800	12,800
Mobile Phones	3,500	Current Costs	3,500	3,500

			Assumes Business has slow growth of 20% schools each year, for year 2 and 3	
	Amount yr 1	Comments	Yr 2	Year 3
External Advice in respect of Option Appraisals etc	75,000	Supplemental support to reflect the Mutual providing the previously envisaged LEP type role of strategic oversight and delivery of the named schemes as a way of piloting new ways of working	75,000	75,000
Schools SIMS License (Pass through)	80,000	Pass through Costs as DSG funded	80,000	80,000
Running Costs general	30,000		30,000	30,000
Accommodation including cleaning / Security (plus developmental work)	40,000	Year 1 reflects additional set up costs, annual costs are lower	25,000	25,000
Development of Finance Systems	5,000	Initial costs reflect set up (although most work would be done by in-house people, future years reflect annual license fees)	1,000	1,000
Insurance	15,000	Likely to be significantly lower	18,000	21,600
External Audit	5,500		6,000	6,500
ICT Eqpt including network	30,000	Reflects creation of network and assumes existing eqpt transferred	20,000	22,000
Marketing	20,000	required to effectively build the service	15,000	15,000
Total Costs built into the baseline	1,560,500		1,574,510	1,603,347
Income from Schools	(706,700)	Assumes 20% increase in volume in year 2 and year 3	(848,000)	(1,017,600)

			Assumes Business has slow growth of 20% schools each year, for year 2 and 3	
	Amount yr 1	Comments	Yr 2	Year 3
Income from LBHF	(861,387)	Reflects the decreasing payments	(761,387)	(611,387)
Total Income	(1,568,087)		(1,609,387)	(1,628,987)
(Profit)/Loss projected	(7,587)		(34,877)	(25,640)
NB Contingency budget levels	4.6%		4.55%	4.5%

NB with the inclusion of Westminster and RBKC subject to further Due Diligence the income streams from schools will increase by circa £1.3m and income from Councils will increase by approximately £150k p.a. depending upon the finally agreed scope of their requirements.

- 3.63. The Company then has until the end of the third year to develop sufficient external business to replace any potential losses it would incur if LBHF awarded the contract elsewhere, although it is worth noting that RBKC bring additional schools income of £650k and Westminster is around £650k, significantly changing the balance of the companies income streams.
- 3.64. The model is deemed conservative given the experience of staff involved in the mutual. There is a strong expectation that the growth of the schools sector will significantly exceed the baselines set above.
- 3.65. The structure is set out in Appendix B
- 3.66. An alternative scope has been considered which reduces the area being covered by the mutual to purely Schools ICT and Schools Finance services. This would require additional costs for the business and the Council of £124k p.a. and would constrain some of the external opportunities available such as free schools project management, which could potentially put the broader savings opportunities at risk.

Finance Director for the Business	60,000
Additional Admin support for office cover etc as less permanent desk based staff	39,021
Input onto Schools Budget setting etc to support the Council side staff	25,000
	124,021

- 3.67. By reducing the scope of the contract to purely Schools Finance and Schools ICT it would decrease the contract sum being provided to the mutual by £270k (which incorporates the additional costs set out above) from a proposed £958k to £688k in the first year.
- 3.68. The Council would then need to increase its costs by £394k to deliver those services, effectively taking the majority of the additional savings being identified through this proposal. The net costs to the Council by the alternative option are £124k p.a. greater.

Informal Consultation (staff and stakeholders)

- 3.69. Informal consultation with staff has commenced for all of LBHF staff and with some potential staff within RBKC and senior management within Westminster. The response has been very positively received. The opportunity for questions and to help shape the vision of this proposal will be further developed through the formal consultation with staff, due to commence in July 2011.

Proposed Client Arrangements

- 3.70. It is envisaged that the Council will client the contract through the Tri-borough structure that has been developed to enable the additional financial benefits to be realised.

Delivery plan

3.71. There are many challenges to overcome for the final business case of this potential pilot scheme, namely:

- Finalisation of the scope
- Capacity issues of staff members in the transition
- TUPE issues
- Pension issues
- Independent Legal advice
- Independent Financial advice
- Procurement
- Legalities on novation of contracts and risk of OJEU
- Venue for the additional staff from RBKC and Westminster
- Corporate recharges
- Support, marketing, sales and communications

Legal position

3.72. The opportunity will require the Council to take a degree of risk. These risks are believed to be somewhat mitigated through the pilot status and through the time limited period for the Council's contract before open competition. See comments of the Assistant Director (Legal and Democratic Services).

4. BENEFITS TO THE COUNCIL

- A significant reduction in costs through the development and extension of the business
- Reduction in headcount for the Council
- Piloting a new unique approach on the delivery of existing council services
- Front Line services to schools being developed
- Staff commitment to the venture and commercialisation seen as an opportunity
- Seen by the school community as an opportunity, not a threat (as identified in the informal consultation).
- Demonstrates LBHF commitment to the schools
- 50% of net profits shared by the local authorities to allow more freedom to the Councils to target new priorities

5. GOVERNANCE/STAFF STRUCTURE

- 5.1. To ensure effective transition from the Council to an independent body, a Project Board will be set up to govern the process and ensure smooth implementation of the project plan. This will involve senior members from the Council as well as the founding business. This Board is in the process of being scoped in more detail.
- 5.2. The Company will also have its own Board that will include the management team, investors and key stakeholders,. This will take commercial and strategic decisions relating to the business on an ongoing basis. This is also in the process of being scoped in more detail.
- 5.3. The management team will take the decisions in terms of day to day operations of the business. The structure chart of the proposed mutual can be found at Appendix B.

6. LIABILITIES TO THE COUNCIL

- 6.1. This section will focus on the expectation that the proposals for alternative ways of working will have considered and reduced future exposure to liabilities for LBHF.
- 6.2. The key principles behind the approach to alternative ways of working are:
 - Commercialisation – The principle that opportunities will be more easily presented to the new venture
 - Development and delivery of high quality services within a reducing burden on the Council(s) finances
 - Both financial and non financial benefits back to the council
 - Transfer/reduction in longer term liabilities for LBHF

Reduction in demand for services (council/others as commissioner)

- 6.3. It is unlikely that any final proposal agreed for a new way of working would have a singular income stream. Any proposal must give thought to how it will diversify or source additional income from alternative commissioners to mitigate decreases in demand.
- 6.4. The Council will not act as guarantor and as such will have no contractual liability for the workings of any mutual.
- 6.5. The pilot proposal is to create a limited company and as such the shareholders (staff) and the private sector partner would have the liabilities moving forward [these liabilities are restricted by statute].
- 6.6. As per the Bridge Partnership arrangements, the same approach is being proposed around discussions with the Council and the mutual pilot around redundancy costs if they arise for staff that have had significant years of service with the Council. These costs would be too great to be borne by solely by the new company. However, if redundancies arise through the

poor performance of the business, these costs will more likely fall on the business.

Non awarding future of the Council contract (at the end of the pilot phase)

- 6.7. In line with TUPE the staff undertaking the majority of their time on the council commissioned contract would either:
- a – Transfer to the successful provider (TUPE)
 - b – Be aligned other responsibilities within the business (Mutual)
 - c – Require redundancy

Redundancy provisions for staff transferring to mutual

- 6.8. Currently all staff proposed to transfer, are the liability of LBHF if the service is no longer required. The extent of these liabilities particularly for long serving individuals in singular cases can be very large. The Bridge Partnership joint venture set out the following proposal for dealing with these issues and it is recommended that the significant issue around redundancies for the Mutual follow the same principle

7. TIMELINE

Event	Date
Development of the Business Case	Ongoing
Independent Legal and Financial Advice	Ongoing
Key Decision - Cabinet *	18 July 2011
Commence Procurement Place OJEU notice	25 July 2011
Commence Staff Consultation	25 July 2011
Closing Date Expressions of Interest	24 August 2011
Conclusion of Staff Consultation on Staff in Scope to Transfer to Mutual	September 2011
Invite 3 Companies for Dialogue	8 September 2011
Close Dialogue	6 October 2011
Tenders Received	27 October 2011
Evaluation period including TAP	27 Oct – 15 November 2011
Select Private Partner - delegated report to Leader	16 November 2011
Decision Call in expires - decision live	23 November 2011
Statutory cooling off period expires (previously Alcatel)	7 December 2011
Go Live	9 January 2012

* Delegated powers at Cabinet to Cabinet Member for Children's Services, in consultation with the Director of Children's Services and Director of Finance to approve business plan and award contract.

8. RISK MANAGEMENT

- 8.1. The approach to risk management for this strategy mirrors the corporate approach and as such, inherent risks are identified and given a rating based on the potential impact of that risk multiplied by the likelihood of it happening. All risks are quantified by using a standard 5 x 5 form of measurement, therefore if a risk has a very high likelihood and a very high impact it will have a combined rating of 25. As part of the ongoing risk management strategy, mitigation is identified in the risk register.
- 8.2. A risk register will be compiled by means of a risk workshop with input from key stakeholders. Ongoing risk management and monitoring of mitigation controls will be the responsibility of the Assistant Director in liaison with individual risk owners.

9. EQUALITY IMPLICATIONS

- 9.1. This proposal will recognise proper duties to ensure that when finally considered as an alternative way of working, it will fully take into account all relevant policy considerations, including the effect, if any, on disadvantaged groups.

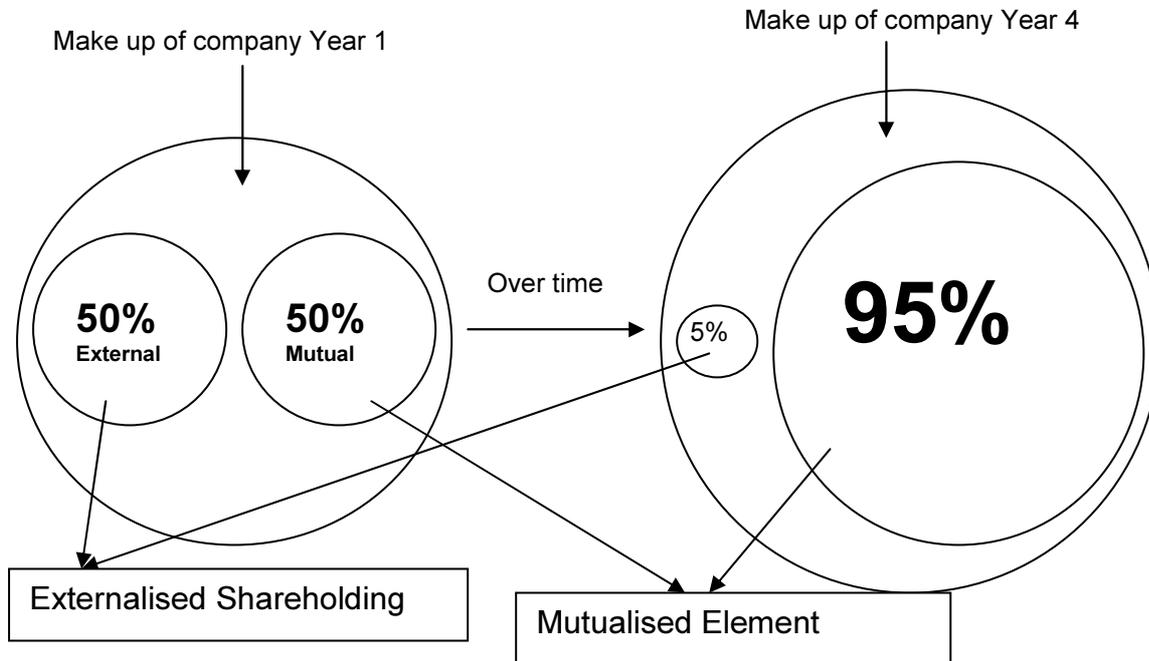
- 9.2. An Equalities Impact Assessment initial screening tool has been completed by officers
- 9.3. The proposal to create a Mutual does not hinder equality of opportunity and/or adversely impact Human Rights, therefore a full Equality Impact Assessment is not required in this case.
- 9.4. Consultation with staff and stakeholders will be undertaken and has been built into the project plan.

10. PROCUREMENT

- 10.1. It was initially envisaged that the Council would have the option of entering into a time limited relationship with the Mutual as part of the National Pathfinder. However, current Pilots have all been either NHS related (different legal framework) or where the services involved are classified under OJEU as “Part B” and as such the risks to the Council’s involved are minimal.
- 10.2. The proposal in this report contains some “Part A” services and as such a full OJEU procurement exercise is likely to be required by law.
- 10.3. In order to comply with the regulations and mitigate potential risks, it is proposed that the Council carries out an EU compliant procurement exercise to secure an external partnering organisation. Such an exercise should remove potential risks for future challenges based upon the relationship between the Council and the mutual.
- 10.4. The first stage would be to place a compliant OJEU Contract Notice seeking expressions of interest from the market to assist in the establishment of a mutualised company. The controlling shares in the company would be on a ratio to be determined as part of the tendering process.
- 10.5. Depending upon the nature of the mutualised company, the trading arrangement may not only be about service delivery, but consideration may be given to the supply of goods that would otherwise need to be procured in accordance with the Public Contracts Regulations. In this case the mutualised company becomes both a supplier and service provider.
- 10.6. The mutualised company over the period of 4 years would see a reduction in the private capital share holding. Below is set out an example of how this may develop (although the market will have its own views about the most effective way of undertaking this) Using the example given above (50:50 split) –
- Year 1: 50% private sector share – 50% mutualised part of the company,
 - Year 2: 30% private sector share – 70% mutualised part of the company,
 - Year 3: 15% private sector share – 85% mutualised part of the company,

- Year 4: 0-5% private sector share – 100-95% mutualised part of the company,

10.7. By Year 4 a minority shareholding may be worth retaining as the company seeks a greater share of market penetration, and the ability of the mutual to compete with larger market players develops.



10.8. Two different share options may need to be considered: A Shares (distribution of profits) and B Shares (controlling aspects of the company). In practise, if the John Lewis model of share holding is considered, shares in the company are held in trust behalf of the employees. The employees are not share holders but are partners who are given a share of the profits depending on their position within John Lewis. In this model all shares are retained within the organisation as a staff incentive and there are no external shareholders.

10.9. The approach set out in this section has been characterised through soft market testing. Three different types of potential partners have been identified:

- A Venture Capitalist Company
- An organisation that already works within the Schools sector but in a different service focused area
- An organisation that works predominantly within the Education Sector but without strong provision in the scope of the mutual

10.10. The informal soft market testing has identified possible partners. Further benefits for the Council and the mutual applying this approach have been identified:

- The mutual has a critical friend with liabilities and responsibilities to ensure the business is developing/operating as planned

- If an opportunity presents itself to the mutual that requires strong financial accounts and a track record the partner could support the bid – and discussions between the mutual and their partner would take place regarding stake and ownership etc.
- The opportunity for further business links such as existing client bases within schools and Local Authorities that could facilitate business introductions (and the reverse is true for the mutual relationships with schools)

10.11. Soft market testing has also indicated a need to further test out the potential providers approaches to other aspects such as:

- what is classed as the Capital of the business (beyond the intellectual capital of the transferring staff)
- What are the plans for employee shares going forward, are they in effect tied into a potential buy out clause for the employees at a defined date e.g. replaced with shares to a corresponding value in the partner company, and how does this valuation work.
- How employee stock ownership works
- How valuations are ascribed to the business is it a multiplier of net profit / linked to market share etc

10.12. All of the above make the procurement process key and the need to start this and ensure the best partner is selected to enable the venture to be highly successful is key.

10.13. To select the partner an OJEU process would be undertaken. The final model of ownership between the mutual and the partner will in all likelihood vary from the model set out in this report, as this will be dependent upon the different offers the respective bidders make and the values ascribed to these by the TAP (Tender Appraisal Panel).

10.14. Procurement timetable: The publication of a PIN is no longer a statutory requirement, The publication of the actual Contract Notice that seeks to obtain expressions of interest must run for a minimum of 30 days. The Competitive Dialogue procedure is being used and there is no defined time period for obtaining proposals and prices, although this procedure is often consider to take much longer than the restricted process, we feel it will allow better outcomes given the flexibility of offers we are likely to receive.

10.15. Given that there will be limited time for mobilisation of the proposed contract it is recommended that Cabinet delegate the decision to the Leader and Cabinet Member for Children's Services in consultation with the Director of Finance and Corporate Services. This is reflected in the timeline proposed.

10.16. External support will be utilised through the Cabinet Office mechanisms, to assist with the drafting of the specification, selection criteria for those to be invited to tender and the drafting of the contract notice. It will also be required during the tendering process to ensure that the complexities of these arrangements are understood and communicated effectively to all stakeholders.

11. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

- 11.1. The major recommendation of the report is to establish a Mutual, whose scope would be to provide a range of Traded Services directly to schools; and to offer support and strategic advice to the Local Authority in relation to schools resources, such as strategic financial advice and development of the capital programme to maintain the asset base and advise on Schools Place planning requirements.
- 11.2. The proposal is to establish the Mutual with a social enterprise emphasis that will see 50% of net profit to be passed back to local authority customers for investment in the enhancement of learning for young people, as identified by the Councils. It is not possible to quantify the financial impact of this potential windfall as it is predicated on the Mutual being able to expand its income profile and to maintain costs.
- 11.3. The current budget for services in scope is £1.182m (allowing for £275k of MTFS savings)
- 11.4. The total level of additional savings included in the MTFS over the next three years is fixed at £200k and this has been incorporated within the offer of the proposed Mutual, by guaranteeing the delivery of the savings through reducing the contract sum paid by the Council for the same level of service, thus transferring the delivery risk to the Mutual, away from the Council. In addition to this, a further £162, 545 of savings will be delivered by the deletion of two posts prior to the establishment of the mutual.
- 11.5. Included within the Transformation element of the MTFS is a further £175k saving over three years (£375k in total), representing an annual total increase of net income to the council of £125k p.a. This target was identified prior to the development of the detailed proposals relating to the mutual. Should it not prove possible to deliver this saving through these means, Children's Services will need to work through the transformation programme to deliver substitute savings.
- 11.6. The mixed nature of the scope of the proposed mutual needs to be considered within the context of a tri-borough service delivery model. Whilst the development of traded services with schools is entirely consistent with the establishment of a mutual where staff ownership encourages business focus, the supply of services to the local authority could also be re-configured within a tri-borough finance support mechanism for Children's Services. As such it is appropriate to consider an alternative service provision.
- 11.7. The proposed Mutual offers support and strategic advice to the Local Authority in relation to schools resources, such as strategic financial advice and development of the capital programme to maintain the asset base and advise on Schools Place planning requirements.
- 11.8. The acquired knowledge in the administration of the school estate suggests that it is best contained within its current configuration, albeit transferred to a third party. In relation to strategic funding advice, the alternative to the proposed model would see a sharing of resource across the three

boroughs. Currently there are 2 full-time posts, overseen by the Assistant Director involved in the management of school financing. In any tri-borough proposal it is likely that this might reduce to funding the equivalent of one post excluding the Assistant Director. The report concludes that to remove strategic school financing from the Mutual could compromise the viability of the proposal. Whilst an alternative structure could save the Council the equivalent of one post, approximately £60k p.a. it puts at jeopardy the delivery of savings of up to £375k p.a.

11.9. The Council acknowledges that the resourcing level of the mutual will need to allow it to procure certain services externally that are currently provided through Service Level agreements such as accommodation and IT. The total SLA charge apportioned to the services represented within the Mutual total £279,492. An initial assessment has been undertaken to classify all SLAs into three categories:

11.10. SLAs not accessed by the Mutual

11.11. SLAs that the Mutual would like to retain

11.12. SLAs that the Mutual would like to procure externally.

11.13. The detail of this analysis is set out in Appendix A and is summarised below:

SLA values for consideration	Mutual	Client	Council Saving	Total
Budgets to transfer to the mutual to reflect the fact it will incur real costs as a new venture to provide these services (80% of the sums)	130,600			130,600
Savings on these budgets transferring for the Council to utilise based on 20% efficiency model (50% on accommodation)			60,892	60,892
Services that the Mutual will continue to require from the Council in the short to Medium Term and as such transfer on "Buy Back Basis"	61,800			61,800
Services where the Mutual will continue to access and as such will move to the client side		17,700		17,700
Services where the Mutual has no bearing / will not be replicating the services and as such stays with the Council		8,500		8,500
	192,400	26,200	60,892	279,492

11.14. The total value of SLAs provided to services within scope of the mutual total £279,492. Including services to be bought back by the mutual, the total level of services to be retained equal £88,000. The balance of services that the mutual require the freedom to purchase elsewhere totals, £191,492, of

which the mutual is proposing that it only requires funding of £130,600 to purchase equivalent services.

- 11.15. In order to avoid growth, central services would need to save the equivalent sum of £130,600. However, if the services were able to generate savings equivalent to those discretionary elements provided to the mutual i.e. £191,492 it would generate a further GF saving of £60,892.
- 11.16. There are other services that Children's Services currently access through corporate arrangements such as Health and Safety for technical advice and adherence to safety regulations and Building Technical Services for procurement and the technical management of building projects.
- 11.17. The pilot will run for four years, at which point the Council will need to tender for the delivery of its services. At that time the council would be in a better position to consider whether it wanted to continue to procure strategic advice from a third party, or for this to be delivered within tri-borough working. Schools would be at liberty to make their own arrangements for the continuation of support services.
- 11.18. Whilst the intention is that the role of Strategic Schools Resourcing including finance and place planning is outsourced to the mutual, it is important to stress that all major decisions will be taken by the Council or Schools' forum. Ultimate responsibility for monitoring and service delivery will still sit with the Directors of Children's Services and Finance and they will need to develop such clienting processes as are deemed necessary.

12. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

- 12.1. The setting up of an external body and the outsourcing of services to it will raise a variety of legal issues in such fields as company, commercial, tax, employment, state aid, procurement and public law. Because this will vary from model to model and on a case by case basis legal advice will need to be obtained as part of developing each business case. Specialist advice will be procured as required through the LBLA Solicitors' Panel. Appropriate provision will need to be made for such advice.
- 12.2. At this stage a number of preliminary points should be noted. Firstly the Council's normal public law duties will apply in relation to any proposed new method of service delivery. In particular the Council must act rationally and for proper purposes and the public good. It will therefore be necessary for a sound business case to be produced in each case and for appropriate "client-contractor" splits to be in place in order to remove conflicts of interest.
- 12.3. The Council's powers to establish external entities are currently subject to a minor degree of doubt in that the current state of the law is that the well-being power conferred by s.2 of the Local Government Act 2000 cannot be relied upon simply to save money in the absence of any wider likely benefit to the economic, environmental or social well-being of the area. This doubt is expected to be removed with the enactment of clause 1 of the Localism Bill which will replace the well-being power with a general power of

competence. The doubt does not currently extend to projects with economic, environmental or social benefits that clearly extend beyond the benefit to the Council's budget nor to trading companies established under s.95 of the Local Government Act 2003.

- 12.4. Where a business case is established then the Council will need to make a number of trade-offs when deciding which of the broad models to adopt. This is likely to be particularly true in relation to procurement issues. Broadly speaking a Teckal company (see above) will be exempt from EU procurement requirements but will only be able to provide the bulk of its services to its controlling authorities whereas an entity which is free to trade with the public and private sector at large is likely to have to compete for Council services through an appropriate tendering exercise. These issues will need to be carefully considered with the benefit of appropriate advice as part of the development process. In this instance as the service involves significant "Part A" services it has been decided to select a partner to set up and participate in the new body. This should avoid any difficulties in relation to procurement law provided that a proper EU procurement exercise is carried out.

13. COMMENTS OF THE ASSISTANT DIRECTOR (PROCUREMENT AND I.T. SERVICES)

- 13.1. The AD has been involved in the production of this report and has written the section on procurement above. It should be noted that this is about the Council seeking a partner who will provide Schools services including an IT Support service, and perhaps supplies, to local schools. The successful tenderer will be responsible for establishing a company into which the staff identified in this report will be transferred in accordance with TUPE rules. At that point the shares in the company will be divided between the provider and the staff in proportion to the amount identified during the tendering process (the 50:50 figure referred to above was for illustration purposes only). Over a period of four years the ratio of shares between the two parties will change in favour of the mutualised element so that at the end of the period the external provider will either have a minimum holding (e.g. 5% or no holding at all). Although the report refers to a 4 year arrangement, it may be in the interest of the Council to award a contract that has the options for an extension. This is a unique project, which has Cabinet Office backing and if successful is likely to be used as a model by others. Therefore, it is not in the interests of the Council to establish a mutualised company that will not succeed.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department / Location
1.	Developing a Mutual for Local Authority Service Delivery, by TPP Law – November 2010	Sam Relf Ext: 3647	Children's Services
2.	How to become an employee owned mutual – An action checklist for the public sector, by OPM	Sam Relf Ext: 3647	Children's Services
3.	Shared Ownership in Practice, by OPM – December 2010	Sam Relf Ext: 3647	Children's Services
CONTACT OFFICER:		NAME: Andy Rennison EXT. 020 8753 3768	

Appendix A

Description	Corporate Human Resources	HR Organisational Development	Property Servs (Valuers)	Mail Services	IT Strat & Admin Recharge	Civic Accommodation	Civic Cleaning	Security	Corp Finance Payments	Corp Finance Fin Dev
SLA values for consideration	38,000	16,000	700	500	1,000	75,000	4,792	600	9,300	2,700
Budgets to transfer to the mutual to reflect the fact it will incur real costs as a new venture to provide these services (80% of the sums)		12,800				37,500	3,800	500	7,400	2,200
Savings on these budgets transferring for the Council to utilise based on 20% efficiency model (50% on accommodation)		3,200				37,500	992	100	1,900	500
Services that the Mutual will continue to require from the Council in the short to Medium Term and as such transfer on "Buy Back Basis"	38,000									
Services where the Mutual will continue to access and as such will move to the client side			700	500						
Services where the Mutual has no bearing / will not be replicating the services and as such stays with the Council					1,000					
	38,000	16,000	700	500	1,000	75,000	4,792	600	9,300	2,700

Description	Corporate Anti-Fraud Unit	Insurance Admin	Insurance Premium SLA	Internal Audit Admin	Payroll	Business Support	HFBP Core Charges	HFBP Application Charges	HFBP TCO Charges	HFBP CCN Charges	HFBP Strategic Program Charges	Performance & Procurement
SLA values for consideration	2,000	1,700	28,500	6,900	8,300	2,500	7,700	900	30,000	500	500	14,500
Budgets to transfer to the mutual to reflect the fact it will incur real costs as a new venture to provide these services (80% of the sums)		1,400	22,800	5,500		2,000			24,000			
Savings on these budgets transferring for the Council to utilise based on 20% efficiency model (50% on accommodation)		300	5,700	1,400		500			6,000			
Services that the Mutual will continue to require from the Council in the short to Medium Term and as such transfer on "Buy Back Basis"					8,300		7,700	900		500	500	
Services where the Mutual will continue to access and as such will move to the client side	2,000											14,500
Services where the Mutual has no bearing / will not be replicating the services and as such stays with the Council												
	2,000	1,700	28,500	6,900	8,300	2,500	7,700	900	30,000	500	500	14,500

Description	Contact Centre	Communications	Corporate Safety	HFBP IT Training	HFBP Mobile Phones	HFBP Remote Access	HFBP Filestore	HFBP Other	Policy Unit	Totals Corporate Recharges
SLA values for consideration	400	2,500	2,300	5,800	4,400	2,600	1,000	400	7,500	227,100
Budgets to transfer to the mutual to reflect the fact it will incur real costs as a new venture to provide these services (80% of the sums)	300	2,000		4,600	3,500			300		130,600
Savings on these budgets transferring for the Council to utilise based on 20% efficiency model (50% on accommodation)	100	500		1,200	900			100		60,892
Services that the Mutual will continue to require from the Council in the short to Medium Term and as such will remain with the Council			2,300			2,600	1,000			61,800
Services where the Mutual will continue to access and as such will move to the client side										17,700
Services where the Mutual has no bearing / will not be replicating the services and as such stays with the Council									7,500	8,500
	400	2,500	2,300	5,800	4,400	2,600	1,000	400	7,500	279,492

Mutual developing Structure Chart (High Level)

