
Traded Services

Committee considering report:	Overview and Scrutiny Management Commission
Date of Committee:	20 th April 2021
Portfolio Member:	Councillor Ross Mackinnon
Date Head of Service agreed report: <i>(for Corporate Board)</i>	N/A
Date Portfolio Member agreed report:	6 th April 2021
Report Author:	Donna Fox
Forward Plan Ref:	

1 Purpose of the Report

- 1.1 The purpose of this report is to provide OSMC with further information in respect of the schools traded services as requested following the update provided at the previous meeting in respect of the work of the Commercial Board. Specifically the report details information in respect of the following key areas;
- The scale of current traded operations
 - Possible future approaches to generating additional income
 - The balance of WBC vs. traded activity in the affected services
 - Levels of operating profit / surplus
 - Current and trend performance against income targets
 - Competitor / market analysis
 - Viability tipping points for traded services
 - SWOT analysis taking account of future changes in education

2 Recommendation(s)

- 2.1 That OSMC note and comment on the content of this report in respect of traded services.

Implications and Impact Assessment

Implication	Commentary			
Financial:	There are no direct financial implications as a result of this report as it reflects existing activity.			
Human Resource:	There are no direct HR implications as a result of this report as it reflects existing activity.			
Legal:	There are no direct financial implications as a result of this report as it reflects existing activity. It is however important to note that traded services operate within a legal framework which does impact upon models of delivery and activity.			
Risk Management:	There are no direct risk management implications as a result of this report as it reflects existing activity.			
Property:	There are no direct property implications as a result of this report as it reflects existing activity.			
Policy:	There are no direct policy implications as a result of this report as it reflects existing activity.			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		x		

B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		x		
Environmental Impact:		x		
Health Impact:		x		
ICT Impact:		x		
Digital Services Impact:		x		
Council Strategy Priorities:	X			The work of our traded services positively supports the Council Strategy priorities related to “Support everyone to reach their full potential” and “Ensure sustainable services through innovation & partnerships”.
Core Business:		x		
Data Impact:		x		There are no data impacts as a result of this report.
Consultation and Engagement:	<p>In producing this report the following Members, officers and groups have been consulted:</p> <p>Cllr Ross Mackinnon, Portfolio Holder, Andy Sharp, Chair of the Commercial Board and the Traded Services Sub Group of the Commercial Board.</p>			

3 Executive Summary

- 3.1 This paper seeks to answer questions about the operation of the council’s traded services. In answering these questions the report identifies the current position of traded services and future ambition. The Governance of traded services rests with the Commercialisation Board. The Board meets every month and the membership of this board is as follows;

Ross Mackinnon	Portfolio Holder, Finance & Economic Development
Dominic Boeck	Portfolio Holder, Children, Young People & Education
Andy Sharp	Executive Director, People
Sarah Clarke	Service Director, Strategy and Governance
Paul Anstey	Head of Public Protection and Culture
Joseph Holmes	Executive Director, Resources
June Graves	Head of Commissioning

Other attendees as project leads are John Carpenter (Sustainable Crematorium), Vicky Holland (Commercial Training) Donna Fox (Traded Services).

- 3.2 Traded services are not subsidised by the council. There are some services who receive income from the council as their service is also provided to the council. Examples of these services include Human Resources and Legal Services. The detail of the percentage of this income remains with individual services.

4 Supporting Information

Introduction

This report is intended to provide clarity around school traded services with specific reference to the issues highlighted at paragraph 1.1.

Background

- 4.1 The Council offers West Berkshire schools and academies the opportunity to buy a wide range of services. These are:

Tree Management

Educational Visits

Human Resources

Health & Safety

Schools Kitchen Help Desk

Insurance

Parental Leave Insurance (ended March 31st 2021)

Legal Services

Accountancy

Payroll

Buildings Maintenance (included in this report but no longer trading with schools)

ICT EMIS Support (Education Management Information Support)

ICT Technical Support

Educational Psychology

Emotional Health & Early Intervention

Educational Welfare

Free School Meals

Schools WAN (Wide area network)

School Improvement and Governor Services

Learning Support Team (Cognition and learning team known as CALT)

- 4.2 The Council has a great deal of experience and expertise in providing/selling support and services to schools through a well-established trading model, also known as 'buy back'. Schools recognise and value the quality of the services provided, however, over time the model and the trading environment has changed and is now challenged by the changing nature of funding into education and the need for schools to focus more on cost. The pandemic has had a negative impact on schools finances. As we enter the recovery stage it will be important to carefully assess this impact on traded services.
- 4.3 The conversion of schools to academies and the federation of maintained schools has been a key factor in changing the trading environment in recent years. This has created challenges for the Council in continuing to provide services and maintain income as the number of alternative providers in the external market has increased, often offering cheaper options.
- 4.4 Across the Council there are a range of trading services such as Finance, Legal and education support services such as School Improvement.
- 4.5 There is an element of interdependency between these services which can make a decision to withdraw a trading offer complex in terms of the 'knock on' effect on other trading areas.
- 4.6 **Current and trend performance against income targets and past /Levels of operating profit / surplus /, including the balance of WBC and traded activity.**

As a default, traded services should be aiming to generate income which is 10% higher than the direct costs of delivering the service. The additional income is a contribution to the overheads of the Council (i.e. support service recharges for building costs, central HR, accountancy, ICT etc). You can see from the tables at Fig. 1-3 whether different services are achieving this or not.

The operating models for traded services differ according to the service delivered. For example Schools accountancy are fully traded. This means that schools are charged a rate that reflects the buyback position relative to the number of staff required to deliver the service. Some services are part traded and part council funded. An example here is Human Resources who are funded by the council for corporate work and operate a traded service with schools. All details of the council expenditure for services is held centrally and not with the traded group.

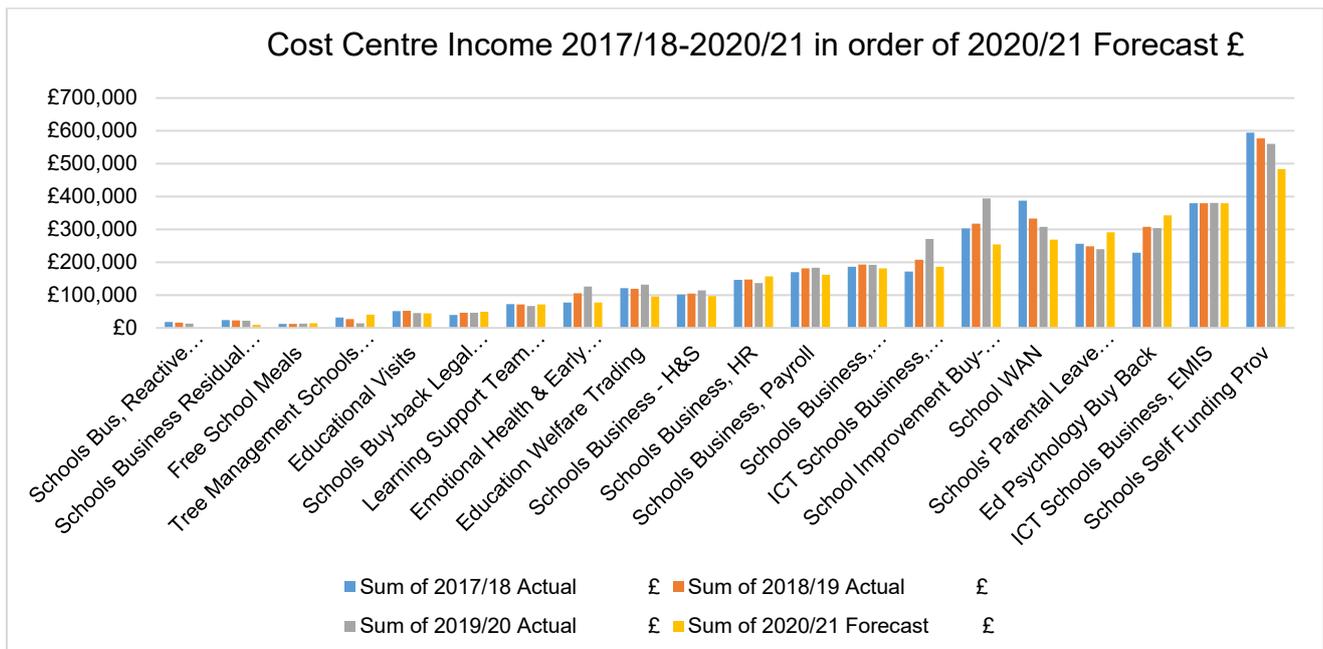
The graphs below show the data around income, surplus and deficits and forecasts for 2020/2021.

Please note: Schools self-funding provisions relate to insurance to schools. This area is not comparable in profit terms.

School Business reactive maintenance do not trade with schools.

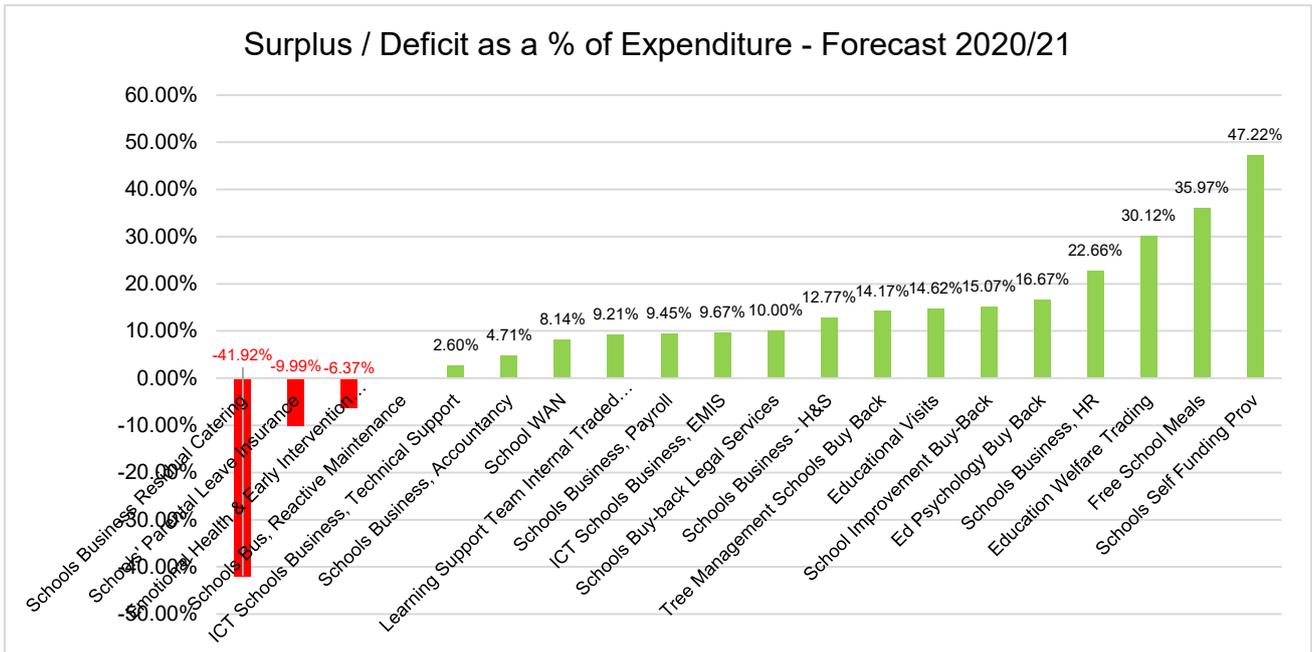
The data below relates to and is accurate as of February 2021.

Fig. 1



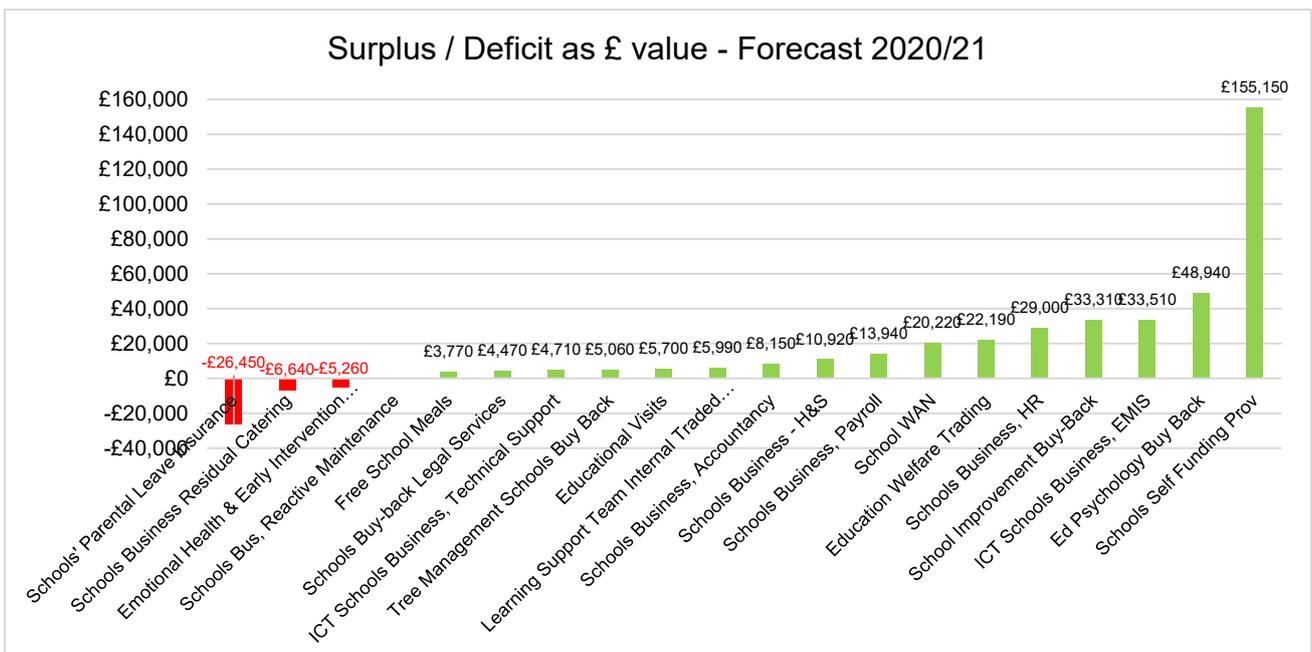
The amount of change in income is less variable, but is forecast to be reduced in most cases in 2020/21, with the notable exceptions of Schools' Parental Leave Insurance and Ed Psychology Buy Back. The cost centre with the largest value of income, Schools Self-Funding Provision (Insurances), has shown a reduction in income year on year. The reason for this is the reduction in the offer of insurance buy backs to schools. The income shown on this graphs includes grants from the Department for Education. Such grants are intended for specific purposes for example supporting schools who have an Ofsted rating of, 'requires improvement.'

Fig. 2



Only three cost centres are showing a deficit in terms of income as a percentage of expenditure. However, these are comparatively smaller in terms of £ value as the table below. Schools Business Residual Catering, in particular, is showing the largest deficit as a percentage (-41.92%), but this is comparatively small as a £ value. Catering buy backs have reduced considerably over the last 2 years due to schools seeking their own contracts.

Fig. 3



The three cost centres highlighted above as showing a deficit are comparatively small in terms of financial value. It is important to recognise that this is not the year end position. All

services operate a traded model around cost recovery. Therefore any surplus indicates costs are fully recovered for the service. Surplus balances are used to invest in the buyback provision or meet demanding targets associated with key performance indicators. An example of this is the investment the School Improvement service are making to address the attainment gap.

The projected income for 2020/2021 is £249,432.

4.7 Competitor / market analysis

All services recognise that they are not experts in market analysis. The commercial board have commissioned training support in this area to be provided for all service leads.

4.8 Expansion ambitions and Viability tipping points for traded services

Our ambition is to protect the council's reputation by providing high quality services. In doing so, careful risk analysis is necessary so that profit is not the single driver for activity. In order to achieve high quality outcomes some services offer free advice and support. An example of this is the 'Flying visit,' to schools who are due an Ofsted inspection. The purpose of this visit is to ensure preparedness and ultimately a positive outcome for the school.

In addition to this ambition is the reality that we need to protect and increase council finances through traded activity. With this in mind we aim to increase trading income by;

- a. Expanding the take up of existing products and services within the current market (market penetration)
- b. Taking existing products and services to new markets (market development)
- c. Developing new products and services for existing markets (product development)
- d. Developing new products and services for new markets (diversification)

There are a number of factors that help the traded services ambition but also some viability tipping points (barriers). These are outlined below.

Service	What Will help Expansion?	Viability tipping points
Human Resources	<p>Completion of the Learning Time project</p> <p>Maintaining staff levels in HR</p> <p>Testimonials from schools to explain value of joined up WBC trading between services</p>	<p>School budget restrictions</p> <p>IT support for projects</p> <p>Cost savings in services</p>
School Improvement and Governance	<p>Easily accessed funding to run projects in schools.</p> <p>Flexibility in trading account to save to invest in projects.</p>	<p>Funding pressures</p> <p>Any potential Service restructure - fewer people to do the work</p>

	Strengthening further the reputation for high quality service built upon ambition for pupils and young people in West Berkshire.	Any risk to reputation.
Legal	<p>More staff to undertake the work</p> <p>More help with marketing and selling services</p> <p>A more centralised approach on the part of WBC and dedicated liaison support with schools</p>	<p>Lack of capacity</p> <p>Competing demands from other services and clients (including maintained schools)</p> <p>Delay –We are at risk from private providers in this market if we do not act</p>
ICT	<p>Marketing expertise including a knowledge of schools business</p> <p>Time, additional resources and agility to develop new business</p> <p>Leeway to fail</p>	<p>Trying to achieve expansion as part of business as usual within West Berks. Market saturated and schools strapped for cash.</p> <p>Pressure to achieve savings and reduce expenditure</p> <p>Being uncompetitive</p>
Commissioning	Assistance with marketing.	Commissioning are currently carrying out a general procurement for schools cleaning and catering – need to wait for the outcome before we can move forward.
Payroll	Commercialisation Training	Current situation is a threat to expansion. High staff turnover (3/7) and working remotely.
Emotional Health Academy	<p>Marketing training</p> <p>Increased worker capacity</p> <p>Looking beyond West Berks and out of area schools for trading opportunities</p>	<p>Lack of capacity with workers and the Traded lead</p> <p>Other services offering similar support out of area</p>

While it is positive to see the ambition to expand, a sensible assessment needs to be made for each service around the potential for expansion. This expansion assessment needs to include the processes by which expansion can remain sustainable.

4.9 Current SWOT analysis taking account of future changes in education

STRENGTHS Adaptive Leadership in services Stable, knowledgeable staff Good reputation among schools	WEAKNESSES High staff turnover in some services Competition – school budget restrictions mean schools look for price not value
OPPORTUNITIES Independent sector Neighbouring boroughs and large academies Linking services where sensible to do so to offer a bundle package of services.	THREATS Loss of income Reputational Risk Emphasis on profit v's quality School Budget restrictions – Covid costs De-delegation changes – National Funding Formula Government grants clawback / removal

5 Other options considered

- 5.1 Over time consideration has been given to withdrawing from traded services within the education environment but this has been rejected on the basis that the current offer is valuable to schools and provides income to the Council that can be invested in enhanced delivery.

6 Conclusion

- 6.1 The traded services offer through education continues to provide good value for money to schools and operates in a model which provides a surplus for investment by the Council. It is recognised that the market for these traded services continues to become more challenging and for this reason a sub group of the Commercial Board is actively managing our position. On this basis it is recommended that OSMC note and comment of the content of this report.

7 Appendices

N/A

Corporate Board's recommendation

*(add text)

Background Papers:

*(add text)

Subject to Call-In:

Yes: No:

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only

Wards affected: *(add text)

The activity of the traded services covered within this report is cross District.

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Document Control

Document Ref:		Date Created:	
Version:		Date Modified:	
Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1			
2			