

ACHIEVING FOR CHILDREN JOINT COMMITTEE

DATE: 08 JUNE 2016

REPORT OF: LEAD COMMISSIONERS FOR CHILDRENS' SERVICES

SUBJECT: FUTURE GROWTH OF ACHIEVING FOR CHILDREN

1. INTRODUCTION

1.1 At the Joint Committee meeting on 14th March Members considered a report on the future growth of AfC. The committee agreed that work was to be undertaken to develop a framework that would enable the Councils to evaluate proposals for growth (the expansion test). The expansion test has been developed for consideration by the Joint Committee.

2. RECOMMENDATION

That the Joint Committee:

2.1 **Note the Councils' framework for evaluating proposals for growth.**

2.2 **Agree the delivery options for growth**

2.3 **Agree that work is undertaken to develop governance arrangements for preferred delivery options(s)**

3. DETAIL

3.1 Following the last Joint Committee meeting a task group was established by Commissioners and the AfC Deputy Chief Executive to develop a framework which sought to identify and appraise a range of options that would enable the company to grow and maximise its commercial success whilst minimising risks to the Councils, as founding owners of the company. The draft framework is attached as Appendix A.

3.2 The framework defines:

- the strategic principles for growth,
- the range of growth options,
- the process of testing expansion proposals, and
- a scoring matrix to evaluate individual proposals.

3.3 The strategic principles of the AfC expansion test are: providing value for money, increasing the resilience and quality of core services provided to the owning councils, and enhancing the reputation of AfC, Richmond and Kingston.

3.4 The expansion test highlights seven possible options to grow the business and/or expand the company:

1. No change (no further action)
2. Consultancy Services: AfC are commissioned to provide management support to address business systems failures or quality issues.
3. Commissioned Service Provider: AfC are commissioned to provide all or part of a Local Authorities Children's Services portfolio
4. Establish a subsidiary company. The founding company becomes the 'holding company' and the subsidiary is a separate company that has representation on the board from the founding members (or Holding company)
5. Establish a franchise: The founding Councils 'sell' the AfC model to another Local Authority. The Local Authority's Children's Services adopt the AfC branding and business and operating models overseen by the AfC Board/exec team
6. Admit a new member: The founding Councils admit another Local Authority as a member/owner of the company

The South London Legal Partnership (SLLP) on behalf of Kingston and Richmond have instructed Bevan Brittan to compile legal advice on proposed growth options. This paper will be considered separately. The expansion test has been updated to incorporate the legal advice.

- 3.5. The process of testing expansion proposals from other Councils involves 3 stages. Stage 1 and 2 considers a proposal against strategic business principles and that the growth is not to the detriment of the Councils. Stages 1 and 2 are assessed using a scoring matrix identified as an appendix to the report. The purpose of stage 3 is to outline the key areas that the Council's will expect AfC to undertake an in depth assessment of a proposal to assure the Councils that appropriate due diligence has been undertaken. Bevan Brittan have been instructed to advise on a due diligence methodology (tbc).
- 3.6 The scoring matrix will be undertaken by AfC in partnership with the Council's to initially assess or screen significant growth opportunities. The matrix uses scoring between 0 and 5. Where a proposal scores zero in any area the proposal will not be pursued further. In contrast, a score of 5 would indicate extensive opportunities and compatibility with the strategic principles of growth for AfC.
- 3.7 In view of the financial efficiencies required over the forthcoming years, three areas within the matrix have weighted scoring: the ability to stabilise high cost budgets, the ability to make savings through economies of scale and potential to share support services.
- 3.8 The total score is linked to the range of expansion options to be explored by AfC. This methodology assumes that the higher the score the greater number of growth options that could be considered. A low score would limit the growth options. For example if a proposal by another Local Authority scored full marks, AfC would be permitted to explore all options. Conversely, if a proposal scores 10, the growth options would be limited to offering a consultancy service or entering into a commissioning arrangement with the other Local Authority but not exploring other options such as entering the other Local Authority as a new member of the company.
- 3.7 The total score would also determine the need for AfC to enter into a due diligence exercise (Stage 3). On completion of a due diligence exercise the AfC Board would

then advise the Councils of its intentions or where appropriate seek the necessary permissions from the Council's if the Reserved Matter threshold is met by these intentions.

- 3.8 The benefits and risks of the expansion test have been considered by all parties. Risks to the success of expansion include a lack of consensus on objectives, lack of agreement between parties, that expansion does not provide financial benefit and that the methodology for assessing proposals is too restrictive and constrains innovation. Benefits of the expansion framework include ensuring that decision making is open, transparent and objective and that delivery options are legal and compliant with Teckal.

4 LEGAL COMMENTS

- 4.1 Bevan Brittan has advised on the growth options.

5 FINANCIAL COMMENTS

- 5.1 The total cost of the services commissioned from AfC is £48.8m Kingston and £52.8m Richmond. The Company currently carries a loss of £1.4m (excluding pension costs) which largely relate to the set up costs of the company and are expected to be "paid back" over time as the company expands its business.
- 5.2 The options to provide consultancy services and/or consultancy services do not incur any additional costs to the company.
- 5.3 Establishing a subsidiary company or developing a franchise model are likely to require some initial investment to ensure the AfC brand is trademarked and other associated legal costs.
- 5.4 Admission of a new member will incur significant financial costs to both the company and the Council's to revise the 'Articles of Association' and/or contractual arrangements between the parties.
- 5.5 Financial considerations to be taken into account when evaluating AfC's company growth proposals include:
- Financial risks for the Councils as owners of the Company, including the risk of specific business proposals and consideration of the financial standing of potential new partner organisations/potential owners/subsidiaries
 - Possible financial impact on the Councils' commissioned services from AfC including:
 - e.g. a reduced share of overhead and management costs allocated to Richmond's contract, as the company's overheads are spread further over a larger number of contracts/services
 - potential cross subsidy, requiring controls in place to ensure that Kingston or Richmond contract resources are not being deployed in other areas to the detriment of services in these boroughs.
- 5.6 In order to consider the potential costs and benefits of admitting a new Member to AfC, it will be necessary to reconsider and get expert advice on issues such as tax, ICT requirements and pensions.

6 PROCUREMENT

- 6.1 Where a commissioning and/or consultancy opportunity arises AfC may be required to enter into a procurement process.
- 6.2 Where a subsidiary company, franchise model or another local authority is admitted as a new member of AfC no procurement implications arise. A co-operation agreement pursuant to Regulation 12 (7) would also fall outside the scope of the procurement Regulations. The value of any such arrangement is highly likely to be a reserved matter for Kingston and Richmond to determine.

7 CONSULTATION

- 7.1 At the moment, no change affecting staff or service delivery is proposed, so there is no need for the Councils to consult. The need for consultation will, however, be fully considered as proposals for the potential growth of AfC and possible admission of a new member are developed. The method and timing of consultation will be dependent upon on the decisions required and the options to be implemented.

8 CONTACTS

Mandy Skinner, AD, Commissioning Corporate Policy & Strategy, LBRuT
Mandy.Skinner@richmond.gov.uk
020 8891 7929

Elizabeth Brandill Pepper, Lead Commissioner for Children's Services, RBK
elizabeth.brandill@rbk.kingston.gov.uk
020 8 547 5731

Ian Dodds, Deputy Chief Executive, Achieving for Children
ian.dodds@achievingforchildren.org.uk
020 8831 6116