
To: Governance and Audit Trading Activities Sub Group – 1st March 2013

Subject: EduKent Progress Report

Summary: To report on the development of EduKent during 2012, to present the EduKent Business Plan 2012/13 - 2014/15 and set out the direction of EduKent.

INTRODUCTION

1. This report updates Governance and Audit Trading Activities Sub Group on EduKent's current position, its achievements so far and the key issues for further development. In July 2012, the Governance & Audit Trading Activities Sub Group received a report on EduKent which made recommendations on how best to ensure it can be successful and sustainable. The Sub Group noted EduKent's progress with a provision that an update be submitted at the earliest opportunity, setting out the proposed Governance arrangements together with a Business Plan for the Sub Group's consideration. This update includes the Business Plan approved by the Corporate Board on 2nd February.
2. The report structure is as follows:
 - Background information on the schools/academies market
 - The Governance arrangements for EduKent
 - EduKent's Strategic Intent
 - Update on EduKent's progress during 2012
 - Summary of the Business Plan (with the full Business Plan attached at **Appendix 1**)

BACKGROUND / THE MARKET

3. The exact size of the market is not known but given KCC's expertise and the knowledge that schools, for the present, want to continue their existing beneficial relationships with KCC, we believe there is significant potential for the services EduKent provides. EduKent has contracts in place with educational establishments to the value of £22.5m for the Financial Year 2012-13. 86% of this is with Kent Maintained Schools, with the remaining 14% with Academies, Medway Schools, Independents and other Local Authorities (LAs).

It is important to note that schools have increasing freedoms to commission services from an expanding list of suppliers. The market for school improvement is becoming increasingly competitive with national and multi-national organisations competing with EduKent for business in line with national policy to increase choice.

EDUKENT GOVERNANCE

4. In addition to formal reporting to groups such as Corporate Board and the Governance & Audit Trading Activities Sub Group, Patrick Leeson, Corporate Director for Education, Learning and Skills has established the EduKent Board where he serves as Chair, with the following Officers as regular members:
 - Keith Abbott, Director of School Resources
 - Peter Bole, Director of ICT
 - Amanda Beer, Corporate Director of HR
 - Sue Rogers, Director of Education, Quality & Standards
 - Rebecca Spore, Director of Property and Infrastructure Support
 - Ian McPherson, Managing Director of Commercial Services
 - Kent Association of Head Teachers representatives
5. An immediate focus of the EduKent Board is to ensure the delivery of the Business Plan for 2013-14. It will also put in place a reporting framework where Heads of Service for all services that trade with schools are accountable to the Board as well as to their own Directorates.
6. Additionally, the EduKent Board, in liaison with the Corporate Director Finance and Procurement, will ensure that the appropriate accounting procedures and costing models are applied to all EduKent traded activities. The accounting procedures will result in full 6-month (as well as 12-month) financial reporting.

STRATEGIC INTENT

‘Bold Steps for Kent: KCC will shape its school support provision so that it is competitive and attractive’.

7. The Strategic Intent with respect to EduKent was set out in ‘Bold Steps for Education’ as part of the overall ‘Bold Steps for Kent’ strategy. EduKent is a customer-led unit to support schools and this was clearly spelt out in January 2011 at Head Teacher briefings. The aim is to ensure that EduKent can provide school support services, using our trading experience and expertise to offer a competitive package of services to educational settings in Kent and beyond at no cost to the taxpayer. Based on our projections, and allowing for start up costs, EduKent is expected to generate net profit of £205k in 2013-14 and £1m in 2014-15.
8. From the outset EduKent has been kept distinct from Commercial Services as the aims of the two organisations are different: Commercial Services has a clear focus on delivering profit to the County Council from sources beyond its borders, whilst EduKent is focused primarily on delivering sustainable services within Kent, to its schools and Academies. This ensures that KCC retains a strong, strategic relationship with the complete family of Kent educational settings, with any profits generated reinvested in improvements to services to schools.

9. EduKent does not provide services itself but acts as the sales and marketing function for KCC's schools services and provides their route to market. EduKent makes use of its position at the centre of KCC to add value to all its services by developing relationships with larger customers (for example, school consortia, Academies Trusts, other LAs and Dioceses) that many individual services have not been able to develop or serve on their own.
10. In addition, if Kent is to support school improvement then a key priority for EduKent is to develop its status as a broker of services for schools. Even with 33 service providers, EduKent is canvassing the views of its customers and is procuring new products to meet future needs.
11. As reflected in the EduKent Business Plan, by mid 2014/15, once EduKent is fully established with standardised systems and processes and an optimised pricing structure and service portfolio, the Board will also need to determine the future structure of EduKent through leading an options appraisal. Some work on possible future structures has been undertaken over the past two years and there are a number of potential routes, as summarised below:
 - Joint Venture with a private company (The Capita/Staffordshire model)
 - Outsourcing to a private company (The Capita/West Sussex model)
 - Forming an LA company (the Manchester model)
 - Establishing a Mutual (the Birmingham and Sandwell models)
 - Maintaining the status quo
12. The critical question, if we were to decide that the status quo is not an option, is which services would go into the new vehicle, given the fact that, following the KCC restructure in 2011 there are in reality no longer any 'schools only' trading units; all have been integrated into larger functions. Preliminary investigations into the new structures launched by other authorities have uncovered that:
 - The Staffordshire JV model is optimistic and has been made to work only by including a wide range of support functions, which are then sold back to the council; it's far more than a schools only operation
 - The Manchester, Birmingham and Sandwell routes saw only a small (5-10) range of services forming the new companies

TRADING REVIEWS

13. The first stage of looking in detail at future options is to carry out a series of Trading Reviews on existing services under the EduKent umbrella. Following the pilot Trading Review of the HR Business Centre (HRBC), which focused on the period 2012/13 to 2014/15, there is now an established approach for analysing service/product profitability that underpins our business planning methodology. As an example, the HRBC Trading Review supports plans to move Schools' Personnel Service from a position of delivering a profit after corporate overheads of £131k in 2012/13 to £341k in 2014/15.

14. It was agreed at CMT Directors meeting on 10th December 2012 that all services within EduKent should therefore be reviewed using the HRBC Trading Review methodology to establish their potential to trade on a profitable basis in the medium term, which in turn will establish their status within the EduKent fold. The first set of reviews has already started and will focus on those services where a profit is already being made or is judged possible. After completion and assessment in April/May, a second tier of reviews will begin with the remaining providers.

The EduKent team of Nick Jordan and Paul McSweeney, together with Guy Record from Finance, have started to work with the first phase of providers attached at **Appendix 2** and will follow the timetable shown. They will:

- Agree scope and objectives of the review.
 - Establish the full cost and therefore profit generated by each service
 - Review end-to-end service delivery processes
 - Produce their forecast out turns for the financial years 2013-14, 2014-15 and 2015-16
 - Produce a series of recommendations and next steps to maximise sustainable growth to deliver upon EduKent's Business Plan target of £1m profit in 2014-15
15. The next stage is to carry out an impact assessment (financial, structural and managerial) of each of the options identified in 11, to understand how KCC would be affected if a number of services were moved outside of the existing structure and accounting framework. Please see the EduKent Map in **Appendix 3** to understand the location of services within the current KCC structure.

If the option was chosen to 'spin out' EduKent then a prescribed sequence of events would follow, split broadly into business case, decision and implementation phases. Please see **Appendix 4**, which was developed with the Policy and Strategic Relationships Team and provides a guide with timescales.

EDUKENT DEVELOPMENT DURING 2011 AND 2012

16. To raise the general profile, improve accessibility and increase sales, an overhaul of the EduKent brand and visual identity was required. Following a tendering process, a creative agency was appointed, with the remit to design an updated website and brochure.
17. The launch of the new website and brochure was at the EduKent EXPO and Conference on 27th September 2012 at Detling Showground. This had been run for the last three years as the Schools' Finance Conference & Trade Fair. The event in 2012 covered a much broader school support services theme, incorporating issues other than Finance.

18. EduKent has attended the Academies Show at Olympia and had more than 100 leads from interested Schools and Academies from Sussex to the Midlands. EduKent will be in attendance at the same show in April 2013 and other events throughout the year.
19. EduKent is working jointly with Commercial Services to develop business beyond Kent. Initial pilot services have been launched with Kent Teach and Horton Kirby Environmental Education Centre.
20. EduKent will seek to develop strategies to enable access to a single process or measure for Quality Assurance (QA). One benefit of this QA approach will be its contribution towards Customer Service Excellence (CSE) accreditation, which will add value to the business for individual Service Providers and customers alike.
21. EduKent has produced at **Appendix 5** a snapshot of where each service provider currently is in respect of trading along with planned actions, any risk of external competitors and potential to expand.

EDUKENT BUSINESS PLAN 2013 - 2015

22. The Governance and Audit Trading Activities Sub Group is requested to consider the Business Plan, attached at **Appendix 1**. The main aspects to note are as follows:
 - Turnover for all services was £21.0m in the 2011-12 Financial Year. This is forecast to grow to in excess of £22.5m for 2012-13 as services increase their business with schools and academies and newly delegated services begin to trade.
 - **It should be noted that profit figures presented in the Business Plan are already underpinning Directorate budgets and do not represent any additional funding.**
 - The actions given in the Business Plan to maximise profit and streamline Marketing expenditure will deliver, by the end of financial year 2014-15, an operating profit or income of £1m after accounting for all the overheads, including the EduKent team.
 - There has been significant analysis undertaken on all Service Provider income, expenditure and corporate overheads to present an accurate picture of the full cost of trading **for the 2011/12 Financial Year**, with forecasts to 2014/2015. Due to differential overhead rates across directorates/functions, to aid like-for-like comparisons, Finance has determined that a single overall average figure of £9,906 per full-time equivalent (fte) be applied in each case for all staff in the EduKent services (see **Appendix 6** for more detail).
 - Therefore, although we have established a net surplus of £2.174m for 2011/12 financial year, once the appropriate Corporate Overhead of £2.404m is applied, the services make a consolidated loss of £230k.

Recognising that EduKent services cannot continue to operate at a cost to the taxpayer and to Directorate budgets, the actions in the EduKent Business Plan support the transformation of this loss into an operating profit of £1m for the 2014/15 financial year, as the following extract from the Business Plan below illustrates:

	Expenditure	Income	Net Surplus (+)/Loss (-)	Corporate Overheads	Profit (-) / Loss (-) after Corporate Overheads
	£m	£m	£m	£m	£m
2011/12 a	18.8	21	+2.2	-2.4	-0.2
2012/13 e	20.8	22.5	+1.7	-2.4	-0.7
2013/14 e	20.8	23.4	+2.6	-2.4	+0.2
2014/15 e	20.8	24.2	+3.4	-2.4	+1.0

RECOMMENDATIONS

23. Governance and Audit Trading Sub Group are asked to note:

- The development of EduKent during 2012
- The EduKent Governance arrangements
- The 2012/13 – 2014/15 EduKent Business Plan attached at Appendix 1
- The plans to assess alternative options for the future structure of EduKent

Patrick Leeson, Corporate Director

Keith Abbott, Director

February 2013