



Leicester  
City Council

**WARDS AFFECTED**  
All Wards

**FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**  
OSMB  
CABINET

**14 February 2008**  
**18 February 2008**

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**LEICESTER SHIRE CONNEXIONS  
GOVERNANCE AND FUNDING ARRANGEMENTS**

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**Report of the Corporate Director of Children and Young People's Services**

**1. Purpose of Report**

- 1.1 The purpose of this report is to update DMT, the Cabinet Lead and Cabinet on the governance and funding arrangements for the provision of information, advice and guidance for young people aged 13-19 in Leicester and Leicestershire (the "Connexions Service") from April 2008.

**2. Summary**

- 2.1 On 23 July 2007 Cabinet received a Report outlining proposed changes to the Connexions Service and anticipating a further report detailing the proposed way forward. This Report sets out those proposals and seeks Cabinet authority to take steps necessary to ensure the continuity of the Connexions Service.

**3. Recommendations**

- 3.1 Overview and Scrutiny Management Board is requested to note the report and make any recommendations it sees fit
- 3.2 Cabinet is requested to resolve:
- i. that the Council, in agreement with Leicestershire County Council and the present Board of Connexions Service Limited, takes reasonable steps to ensure that Connexions Service Limited becomes an in-house company wholly owned and controlled by the Council and Leicestershire County Council to meet the requirements of the "*Teckal* exemption;"
  - ii. that the Council, in agreement with Leicestershire County Council and the present Board of Connexions Service Limited, takes reasonable steps to ensure that Connexions Trading Limited becomes a company wholly owned and controlled by the Council and Leicestershire County Council;

- iii. that as part of the reorganisation of Connexions Service Limited and Connexions Trading Limited the Council together with Leicestershire County Council each become a member of each of these companies; and
- iv. to grant to the Corporate Director of Children and Young People's Services, in consultation with the Service Director Legal Services, authority to agree a new memorandum and articles of association for each of Connexions Service Limited and Connexions Trading Limited and enter into appropriate members' agreements concerning both companies as necessary to meet the requirements of the *Teckal* exemption and take such other steps as are envisaged in this Report and necessary to ensure the continuity of the Connexions Service from April 2008.

#### **4. Report**

- 4.1 Connexions companies offer advice on education, careers, housing, money, health and relationships for 13-19 year olds in the UK. From April 2008 accountability for delivering these services transfers to each Local Authority ("L.A.") with responsibility for Children's Services. Since April 2007 funding has been paid to the City and County Councils within their respective Local Area Agreements and has been passported in full through to the LeicesterShire Connexions Company. The DfES (now the Department of Children, Schools and Families – DCSF) made clear its expectations that Connexions partnerships and L.A.s should agree how the future service would be delivered in each area under children's trust arrangements.
- 4.2 At a local level there has been a strong collaborative partnership and commitment to delivering a coordinated approach to young people across the City and County, and it was agreed that this joint City/County approach would continue.
- 4.3 The DfES recognised that there may be additional costs associated with the transition and awarded £100,000 towards the costs of effecting the transition over 2007 – 2009. Prospective were therefore jointly commissioned by the City, County and Connexions to prepare a report outlining the company options available and to appraise the councils to form a view as to the preferred arrangements for implementation.
- 4.4 On 23 July 2007, Cabinet received a detailed report outlining the background to Connexions companies, the local arrangements, the new arrangements and future options, with the Prospective report attached. Cabinet agreed to support the principle of joint working with the County Council on the matter and support further exploration of the preferred model, i.e. a company limited by guarantee with the directors drawn from local authorities and other community interests, the local authority forming the majority. The benefits of this model allowing for:
  - a continuity of approach for young people;
  - continuity of service and focus of activity against agreed targets;
  - delivery of services which L.A.s can directly influence and ensure speed of response; and
  - a cost-effective approach
- 4.5 Since this date the City, County and Connexions have been working to conclude the procurement issues, staffing options, trading opportunities, grant and financial

arrangements. Following legal advice the two authorities have pursued the model above.

- 4.6 The alterations to be made to Connexions Service Limited's activities, constitution and management structures as part of this model will enable the Council to take advantage of the "*Teckal* exemption" because, for the purposes of the European procurement regime, it will be considered an in-house company, wholly owned and controlled by the Councils. Therefore, the Connexions Service can be provided by Connexions Service Limited without a full procurement exercise. This avoids a TUPE transfer of staff to the Councils or an alternative contractor (though the Councils will acquire employers' liabilities (similar to TUPE liabilities) by acquiring the company).
- 4.7 Connexions Service Limited owns a subsidiary company, Connexions Trading Limited, which provides additional services under contract for a number of agencies including adult career services for the Learning and Skills Council and NRF and SRB work for the City Council. This will be cut loose from Connexions Service Company, which will involve the TUPE transfer of approximately 36 staff from the Connexions Service Company to the Trading Company before their acquisition by the Councils. The Trading Company will seek to continue to obtain similar contracts, however usual procurement procedures would need to be followed by agencies with contracts for which it could bid.
- 4.8 Work is therefore now underway to establish both Connexions companies as companies wholly owned and controlled 50:50 by the County and City Councils and to agree a revised memorandum and articles of association for each company. Funding for Connexions Services will initially be provided by the two authorities in approximately equal shares, reflecting the funding to be received by each Council in their 2008/09 Area Based Grant. This may, however, change over time as a result of the funding received by the Councils and future decisions on the services to be procured from the Company. It is proposed that representation on the boards of the two companies is at Council officer rather than Council member level as the decisions, which the board will have to make, are likely to be operational rather than strategic. Two people need to be chosen to act as directors on each board on behalf of the Council, and will need to be briefed on their responsibilities as directors under the Companies Act. There will also be appropriate (non-voting, observer) representation from the community on the board of directors.
- 4.9 Given the services delivered by Connexions to young people aged 13 – 19 and the services delivered by the Leicester City Youth Service the following should be noted. In September 2007 a paper was received at DMT and OSMB, alongside reports from the Youth Service Task Group, setting out the current pattern of delivery and funding of Leicester City Council's Youth Work provision in Leicester, the government expectations of these services within the context of Every Child Matters and Youth Matter and the development of integrated youth support services, with recommendations for future work to develop the service appropriately.
- 4.10 The paper recommended that a further detailed piece of work be completed to define and cost a future Youth Service in line with the Youth Offer taking into account:
- Open Access provision across a range of settings;
  - Detached Youth Workers/mobile youth provision;

- targeted work; and
- Integrated Services, particularly with Connexions, but also to include other related services, and in line with the principles of co-location.

4.11 Two consultants have recently been contracted to work with the Department and our partners, stakeholders (including Connexions) and children and young people to help set the strategic direction and provide an outline action plan that will enable the Council to transform existing services for young people through a transition phase into an integrated youth support and development service. The initial report is expected by April 2008 with the expectation that during 2008 – 09 we will effect the necessary changes to structures, budgets and delivery.

## **5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

### **Financial Implications**

- 5.1 The acquisition of Connexions Services Ltd and Connexions Trading Ltd as companies wholly and jointly owned by the City and County Councils will result in the Councils acquiring liabilities for their employees. Whilst it would be intended that all employee related costs would be met by the Companies' income, the funding of any shortfall could ultimately fall upon the Councils. The companies do not have any material financial reserves that could be called upon.
- 5.2 The Connexions Companies will continue to be governed by private sector tax legislation. It is likely that the Companies will have a liability (all be it probably small) to corporation tax, they will continue to be separately VAT registered and they will have PAYE responsibilities for their staff.
- 5.3 The Connexions grant from the DSCF will be non-ringfenced and paid to the City and County Councils through the respective Area Based Grants. The level of provision nationally rises marginally by £2m in 2008/09 and then returns to the 2007/08 level for 2009/10 and 2010/11. This essentially means that nationally there is no provision for inflation for the next three years. In addition, the basis by which the DSCF allocates Connexions funding to each area will change from April 2008. It will be based on a new national formula based on the 13-19 population, educational attainment, NEET (not in employment, education or training) figures and deprivation indicators. The changes are to be phased in over three years.
- 5.4 In 2008/09, the grant will be similar to 2007/08. However, the City's allocation then falls from £4.36m in 2008/09 to £4.14m in 2009/10 and £3.72m in 2010/11, a total reduction of £637,600. This is cut of 14.6% in cash terms and in excess of 20% in real terms once inflation is taken into account. The County's grant increases from £4.23m to £4.47m, an increase of £240,000. Overall across the City and County the net loss will be £400,000 per year by 2010/11.
- 5.5 The implications of such a sizeable reduction could be significant and minimising the impact upon service delivery will be difficult. Whilst efficiencies will be sought in the design of the integrated youth support and development service, they are unlikely to

fully offset the reduced funding. This could pose a risk to the City Council in terms of reputational issues regarding service delivery and the potential for staffing implications that may arise into the future. The Corporate Director is making representations to the DCSF about the potential implications of the funding reductions in the City.

- 5.6 It should also be noted that the funding directed to the Connexions Service Company will change over time not only as a result of the national funding changes, but also in line with decisions about the services to be commissioned from the Area Based Grant and the introduction of an integrated youth support service. The balance between the City and County may well move away from broadly equal shares and the overall level of funding may require future changes to the Company's staffing and operations, the funding of which would need to be considered at the time.
- 5.7 The viability of the Connexions Trading Company will depend upon the securing of contracts from the LSC and other agencies. Should the company cease to be viable, there could be a cost implication for the Councils in respect of its staff.
- 5.8 The County council currently acts as the Guarantor for Connexions within the Local government Pension Scheme, under an Admission Agreement from 1991. This arrangement was not changed at Local government Re-organisation in 1997. It is now expected that the County Council will ask the City Council to act as a joint Guarantor under the new arrangements. It is also expected that the Trading Company will be asked to provide a Bond relating to its pensions liability, which will limit the Councils' exposure should the company run into difficulties.

Colin Sharpe, Head of Finance and Efficiency, CYPS, ext. 29 7750.

### Legal Implications

- 5.9 It is understood that DCSF will issue an Arrangement Letter under section 114 Learning and Skills Act 2000, in January/February 2008, directing the Council to provide the Connexions Service from 1 April 2008.
- 5.10 Proposed arrangements for the discharge of this statutory function involve the acquisition of a 50% share in Connexions Service Limited (the remaining 50% to be acquired by Leicestershire County Council), as an alternative to a costly and time consuming procurement of the Connexions Service. It is also proposed that the sole subsidiary of this company be acquired on similar terms. Together, these companies employ approximately 300 people and the Council will acquire liability for these employees as co-owner of these companies. Cabinet approval is requested for the acquisition of these two companies because this is considered to be a policy development of strategic significance.

Greg Surtees, Senior Solicitor, Commercial and General Team, Ext 29 6453

### 6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities		

Policy		
Sustainable and Environmental		
Crime and Disorder		
Human Rights Act		
Elderly/People on Low Income		

**7. Report Author**

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