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| **HIGH LIFE HIGHLAND**  **REPORT TO BOARD OF DIRECTORS**  **14 March 2023** | AGENDA ITEM 9  REPORT No HLH/ 3 /23 |

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| **SERVICE DELIVERY CONTRACT REVIEW – Report by Chief Executive** |

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| **Recommendation** The purpose of this report is to update Board Members on the Service Delivery Contract review This report sets out the current status in respect of a review of the Service Delivery Contract with the Highland Council and asks the Board to note:   1. the ongoing financial pressures facing the Charity; 2. the challenges presented by the current Service Delivery Contract; 3. the financial projection for FY 2023/24 and the pressing need for initiation of a contract review; and 4. the proposed scope and desired outcomes from the contract review;   The Board are asked to agree:   1. that the DRAFT letter at **Appendix A** is sent, formally reminding the Council that the contract review is overdue and of the pressing need to make progress. |

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| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcome from the High Life Highland (HLH) Business Plan:   1. Seek to continuously improve standards of health and safety. 2. Commit to the Scottish Government’s zero carbon targets and maintain the highest standards in environmental compliance. 3. Use research and market analysis to develop and improve services to meet customer needs. 4. Increase employee satisfaction, engagement and development to improve staff recruitment and retention. 5. **Improve the financial sustainability of the company**. 6. **Value and strengthen the relationship with THC.** 7. Develop and deliver the HLH Corporate Programme and seek to attract capital investment. 8. Use research and market analysis to develop and deliver proactive marketing and promotion of HLH and its services. 9. Initiate and implement an ICT digital transformation strategy across the charity. 10. Develop and strengthen relationships with customers, key stakeholders and partners. 11. Deliver targeted programmes which support and enhance the physical and mental health and wellbeing of the population, and which contribute to the prevention agenda. |

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| **2.** | **Background** |
| 2.1 | The COVID-19 pandemic and other external events have significantly impacted the environment in which High Life Highland (HLH or ‘the Charity’) operates. In mitigation, in addition to recovery of in excess of £7 million from the Coronavirus Job Retention scheme, the Charity Board has also have contributed reserves over the course of the past 2 years, matching the Council’s additional financial support. |
| 2.2 | Changes to the Service Delivery contract (SDC) made in 2017, where the Council stopped funding pay awards and the management fee was uplifted by the same percentage as the overall Council settlement, has meant that in addition to the challenges presented by the pandemic, the Charity has been required to absorb £5.8 million in pay award pressures during the period since implementation of the change. With staff accounting for 84% of costs, the current settlement disproportionately impacts HLH. |
| 2.3 | Despite income projected to return to pre-pandemic levels in FY 2023/24, underlying pressures mean that the Charity’s financial position is unsustainable without a comprehensive review of the current SDC. |
| 3. | **Situation** |
| 3.1 | Notwithstanding the balanced budget position achieved for FY 2023/24, the non-recurring nature of support from The Highland Council and continuing pressure from pay awards raises serious concerns in respect of financial sustainability. Current assumptions on pay pressures, inflation and use of reserves means that HLH faces a reasonable worst case budget deficit in FY 2024/25 of c. £4m (See Table 1). However, it is important to note that this is unmitigated and does not take account of efficiencies, reductions or additional income.  Table 1 – Budget Pressures FY 2024/25   |  |  |  | | --- | --- | --- | | **Draft Budget Pressure** | **24/25 (£m)** | | | Pay Award (3%?) | 0.86 | | | Loss of THC Reserves Funding | 2.4 | | | No Reserves to Balance Budget | 0.6 | | | Operating Costs Inflation (3%?) | 0.17 | | |  | |  |  | | **Total Pressure** | | **4.03** |  | |
| 3.2 | Concerns with the sustainability of the Charity under the terms of the current SDC have been raised with council officials and senior elected members on numerous occasions. Despite multiple re-assurances that a review is imminent, no progress has been made in terms of constructive engagement with the Council on the SDC review. |
| 3.3 | At its meeting on 22 October 2022, Council members approved a paper entitled: ‘*Financial Crisis – Valuing Partners Through Collective Budget Strategies, Redesign and Co-production*’. As part of the recommendations, the following was noted: ‘*the work to be taken forward in partnership with HLH in relation to redesign and contract review (this includes legal involvement)*’. |
| 3.3  3.3.1 | The body of the report included the following paragraph: ‘*Redesign and contract review is a key aspect of the current discussion between the two organisations. The financial crisis is such that there is a clear need to work together in partnership to deliver sustainable budgets and financial savings. There is a real opportunity to embrace a joint redesign review, and a contract review, as means by which both organisations can contribute to and develop recommendations to help address current and future financial challenges. There are already strong links with HLH in relation to Asset Management, and these can be strengthened further and, by working together, inject further pace into that activity. The other budget strategies adopted by the Council, including the capital plan and contract management, are other clear examples of relevance to the relationship with HLH. This activity will be taken forward, with reports back to Council, with the intent that budget recommendations can be considered by Council in its budget setting for 2023/24*’.  To date, in spite of HLH pressing at all levels, including requests in both recent letters from the HLH Chair for initiation of the contract review, this has not commenced. |
| 4. | **HLH Current Status** |
| 4.1 | In anticipation of the SDC review, HLH has set up a SDC Redesign team, consisting of Board members and senior officers. In approaching the review, the following scope and outcomes reflect the initial scope and desired outcomes from an HLH perspective. It is proposed that the following will form the approach to the Council in respect of the review: |
| 4.2 | **Scope and Outcomes**  **Scope**   * Overall arrangement and Legal Framework (overview/check that the arrangement is still valid/fit for purpose) * Resourcing both the review and delivery of any emergent change management programme * Funding formula – Unsustainable in present format, pressing need for review * Responsibility for costs - need to review to check that current arrangement is still the most cost effective for THC (property, service and utility costs) * PSOs - overall services, does the Council want HLH to deliver the same range/number of services * Service levels within PSOs (individual buildings and number of staff delivering services)   + Council decision making (what does it want to consult on)   + Equalities Impact Assessments   + Project management around service reductions |
| 4.3 | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  |   **Outcomes**   * HLH Sustainability - HLH needs financial sustainability and the ability to operate at arms-length to the Council (to protect charitable status) * THC Sustainability - THC needs to have a service level which is affordable and can change over time * THC and HLH together need to be able to develop services together - capital and service development to meet changing needs in communities. |
| **5.** | **Next Steps** |
| **5.1** | The senior management team will continue to press council officers of the need to review the SDC. However, although the need to make progress on the review was agreed at a joint meeting on 26 January and reinforced in the letter to the Council on 6 February, no progress has been made to date. The DRAFT letter at **Appendix A** from the HLH Chair to the Council Leader is intended to remind the Council of the need to initiate the process. Given the significant changes in senior management within the council, it is probable that the review has been superseded by other priorities, not least budget planning. It is hoped that a timely formal written request for a commitment to diarised engagement should trigger progress and allow for constructive collaboration early in the budget cycle. |

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| **6.** | **Implications** |
| 6.1 | Resource Implications – The SDC review could be resource intensive, although HLH has set up a small corporate team to engage on the matter, any change management programme could require significant resourcing. |
| 6.2 | Legal Implications – the SDC sits within a legal framework and any changes will require legal due diligence in order to protect both organisations. |
| 6.3 | Equality Implications – Any changes that reduce provision of services to communities will require the appropriate statutory consultation and equality impact assessments. |
| 6.4 | Risk Implications – The risks associated with this paper are included in the HLH Corporate Risk Register |
| **Recommendations** The purpose of this report is to update Board Members on the Service Delivery Contract review This report sets out the current status in respect of a review of the Service Delivery Contract with the Highland Council and asks the board to note:   1. The ongoing financial pressures facing the Charity; 2. The challenges presented by the current Service Delivery Contract; 3. The financial projection for FY 23/24 and the pressing need for initiation of a contract review; 4. The proposed scope and desired outcomes from the contract review;   The Board are asked to agree:   1. That the DRAFT letter at **Appendix A** is sent, formally reminding the Council that the contract review is overdue and the pressing need to make progress. | | |

Designation: Chief Executive

Date: 25 February 2023

Authors: Steve Walsh, Chief Executive

**Appendix A**



Mr Raymond Bremner Date: *14/03/2023*

Leader of The Highland Council (by e-mail)

Dear Raymond,

Grateful thanks to you, Councillor Lobban and council officers for the collaborative approach to addressing what, back in October, seemed to be an unbridgeable budget gap. I’m pleased to say that at our meeting on 14 March, the High Life Highland Board were able to agree a balanced budget for FY 23/24. The HLH Board members requested that I pass on their thanks for the continuing support from the Council as we jointly continue our recovery from the Pandemic and deal with the challenges brough on by inflation.

Inevitably, our focus now turns to the forthcoming going concern assessment from our external auditor and the ongoing financial challenges faced by the Charity. Notwithstanding the balanced budget position achieved for FY 23/24, the non-recurring nature of Council support and continuing pressure from pay awards raises serious concerns in respect of our financial sustainability. Early projections based on current assumptions with respect to pay pressures, inflation and use of reserves means that HLH faces a reasonable worst case budget deficit in FY 24/25 of c£4m. However, it is important to note that this is unmitigated and does not take account of efficiencies, reductions or additional income. A breakdown is detailed at the attached table.

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| **Draft Budget Pressure** | | | **24/25 (£m)** | |
| Pay Award (3%?) | | | 0.86 | |
| Loss of THC Reserves Funding | | | 2.4 | |
| No Reserves to Balance Budget | | | 0.6 | |
| Operating Costs Inflation (3%?) | | | 0.17 | |
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| **Total Pressure** | | **4.03** | |  |
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The HLH Board will continue to work with our senior team to find mitigating measures to address the gap, I hope that you agree that we have a strong track record of increasing income and delivering savings. Despite some income streams projected to return to pre-pandemic levels in FY 23/24, underlying pressures mean that the Charity’s financial position is unsustainable without a comprehensive review of the current Service Delivery Contract (SDC). Given the scale of the deficit, it is likely that the projected gap could require service reductions. In these circumstances, a joint review of the SDC will be required in order to reduce Public Service Obligations.

Given Councillor Lobban’s view at our meeting in January that work was overdue on a review of the contract between us, I am keen that the work commences as soon as possible. A comprehensive review of the SDC is key to the future sustainability of HLH. To reiterate, this review is particularly important if we are to try to avoid the situation where HLH needs a letter of comfort, which I know both parties would prefer to avoid.

Mark Tate, Chair, High Life Highland Registered office 12–13 Ardross Street, Inverness IV3 5NS Telephone 01349 781700 Email [info@highlifehighland.com](mailto:info@highlifehighland.com)

High Life Highland is a company limited by guarantee registered in Scotland No. SC407011 and is a registered Scottish charity No. SC042593.



As we discussed in January, in anticipation of the SDC review, HLH has set up a Redesign team, consisting of Board members and senior officers. In approaching the review, the following scope and outcomes reflect initial scope and desired outcomes from an HLH perspective. Whilst we appreciate that the Council will have a view in terms of the scope and outcomes, HLH is proposing the following as a baseline for our approach in respect of the review:

**Scope and Outcomes**

**Scope**

* Overall arrangement and Legal Framework (overview/check that the arrangement is still valid/fit for purpose)
* Resourcing both the review and delivery of any emergent change management programme
* Funding formula – Unsustainable in present format, pressing need for reveiw
* Responsibility for costs - need to review to check that current arrangement is still the most cost effective for THC (e.g. property, service and utility costs)
* PSOs - overall services, does the Council want HLH to deliver the same range/number of services
* Service levels within PSOs (individual buildings and number of staff delivering services)
  + Council decision making (what does it want to consult on)
  + Equalities Impact Assessments
  + Project management around service reductions

**Outcomes**

* HLH Sustainability - HLH needs ***financial sustainability*** and the ability to operate at arms length to the Council (to protect charitable status)
* THC Sustainability - THC needs to have a service level which is ***affordable*** and can change over time
* THC and HLH together need to be able to develop services together - capital and service development to meet changing needs in communities.

I am aware that given the challenges faced by the Council, it is probable that this review has quite understandably been superseded by other priorities, not least budget planning. However, I hope that this request for a commitment to early diarised engagement can trigger progress and allow for constructive collaboration early in the budget cycle. Thank you again for the positive approach to this years’ budget process and for your ongoing support to High Life Highland. Although we operate at arms length, I would like to finish with a recent quote from a senior council official ‘Highlife Highland is the Council and the Council is High Life Highland’, the HLH Board agree with this view and hope that the symbiotic nature of our relationship can be reflected in our collaborative approach to the review.

Yours sincerely



Mark Tate

Chair, High Life Highland

Copies (by e-mail) to:

Councillor Bill Lobban

Kate Lackie, THC Chief Executive

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