Agenda Item	9
Report No	HC/3/19

HIGHLAND COUNCIL

Date: 07.03.19

Report Title: **Redesign of Highland Council: up-date from the Board and outcomes from the Service Income Peer Review.**

Report By: The Chief Executive

1. Purpose/Executive Summary

1.1 This report provides Members with an up-date of the Board's activities since the Council meeting in December 2018. Since then the Board has had one meeting to approve the outcomes of the Service Income Review which is covered in this report. Members are asked to note progress on Council Redesign work and approve the recommendations of the Service Income Review.

2. Recommendations

2.1 Members are asked to:

i. Approve the Minutes of the Redesign Board;
ii. Note progress on Council Redesign work; and
iii. Approve the recommendations of the Service Income Review notably:.
   a) The de minimis for issuing an invoice is increased from £10 to £12.50
   b) Where alternative payment methods exist, an invoicing surcharge of £15.00 (including VAT) is implemented
   c) Statutory interest and late penalties are applied to overdue commercial accounts

3. Redesign Update

3.1 The Board has had one formal Board Meeting since the last Council meeting which considered the outcomes of the Service Income Review, as well as progress reports on the Council's Change Programme proposals and the implementation of the recommendations from the Trade Services review. The Minutes are attached as Appendix 1. This was followed by a workshop which considered the emerging outcomes from the peer review into Agency/Temporary Workers.

4. Service Income Review

4.1 The Redesign Board considered the final report on the Review of Service Income on 19 February 2019. The report was informed by the work undertaken Deloitte (on a pro bono basis) working jointly with The Highland Council. .

4.2 The scope of review was to identify areas to improve income efficiency – whether by generating additional income or reducing the costs associated with income generation. The review has been informed by analysing key Council documents and through discussions with staff at management and operational level across the Council.

4.3 In essence, the review covered credit, collection, processing, and budgeting and monitoring across Council Services. The final report is attached as Appendix 2.

4.4 The review has found that there is scope for the Council to 'be more commercial' in its approach to **credit**. This will require updating Council policies and improving the enforcement of them across the whole organisation. Reducing credit has three cost benefits for the Council: reducing the cost of collecting debt; the collection of previously uncollected income; reduced opportunity costs. The Council needs to move away from the presumption that all customers will be given credit, to credit only being given to customers where the evidence suggests it is likely to be recovered.

4.5 In addition to up-front payment, the Council should introduce a charge for the costs associated with invoice administration compared to payment up front / Direct Debit. The additional cost the Council incurs per invoice (excluding Direct Debit invoices) is £12.50.

4.6 The Council is also entitled to claim statutory interest – set at 8% per annum above the Bank of England rate (which currently sits at 0.75%) – for late payment on commercial transactions. In addition, the Council is entitled to charge a fixed fee for each invoice which is paid late. The amount which can be charged is: up to £40 for amounts under £1,000; up to £70 for amounts under £10,000; and up to £100 for amounts of £10,000 and above.

4.7 In terms of **collection**, as reported quarterly to Corporate Resources Committee, the Council's performance in paying its creditors is very positive. For example, 94.0% were paid within 30 days in 16/17, 95.3% in 17/18 and 96.3% for the period April 18 to December 2018. The Council receives payment on time for 53% of the invoices it issues.

4.8 The review did find that the Sundry Debt team in Revenues & Customer Services has substantially increased collection rates in recent years despite the amount of credit being provided. Increasing the responsibility for collecting income from the sundry debt team to Services should free up some time for the former to help continue the positive improvements. Sundry Debt staff could, for example, train Services on income collection processes and how to monitor outstanding amounts on a continuous, live basis. Budget holders already receive monthly reports on outstanding debt but further improvements are required on debt management. In other words, service income collection is not just about debt *collection*; it is about debt *management*

4.9 In terms of **processing**, the review identified many processes where Services are demonstrating best practice and the scope for improvement of these processes and the level of savings which can be achieved from their redesign are materially limited by the lack of linked-up systems and outdated and inappropriate ICT infrastructure.

4.10 However, the review also found that there are some Council systems still reliant on manual inputs both within service-specific systems and transposing these to the Council's corporate system (*Integra*) for financial reporting purposes, resulting in duplicated work and associated inefficiencies.

4.11 Interfaces from existing systems to the Integra would remove such duplication. This could potentially require one-off investment in the region of £0.5m to £0.75m but would deliver annual recurring savings of £0.175m. Officers are considering all other options to determine if the amount of one-off investment suggested could be lower to deliver the ICT interfaces necessary to deliver the full level of savings reported.

4.12 In terms of **budgeting and monitoring**, the Council's external auditors have confirmed that the Council has robust governance arrangements in place. However, the review considered that there could be additional detail in reports on financial performance to include some more metrics (such as collection where Members already receive such Council Tax and Non Domestic Rates information)

4.13 The review found that the setup of the budget does not always incentivise Services to comply with the Financial Regulations with regards to income collection. The current process results in the Service budgets being automatically credited with income when the invoice is raised, whether it is collected or not. Whilst this supports financial reporting purposes, improvements could be delivered in management reporting to be more effective at engaging services in debt management activities. This should include bad debt provision (BDP) to support budget holders better understanding BDP at a section/team level as well as Service.

5. Potential Savings

5.1 The report has identified significant savings opportunities as set out in appendix 2: Members will note that implementing invoice surcharging and statutory interest & penalties on late payment accounts for 72% of the potential savings. No material one-off investment is required for these savings to be delivered either. However, the savings from the implementation of an invoicing surcharge can be the most challenging to predict. Understandably it depends on the extent of the change in customers' future payment behaviours. For example, if the majority change to paying "up front" or by Direct Debit. The other key saving – from implementing statutory interest and penalties on late payment – is easier. A positive change in behaviour would lead to an increase income to the Council and therefore a lower BDP so the confidence level in the savings is that much higher however it is actually delivered.

5.2 The next highest saving possible is the removal of duplicated effort by interfaces. In-house ICT resource across the Council combined with working with the ICT supplier of Integra, "Capita", project team members and Service officers as appropriate will be necessary.

5.3 An equality impact assessment (EQIA) has been undertaken and concluded that an increase to the de minimis threshold to £100 per the Deloitte's review has potential equality impacts. The other five savings opportunities detailed above are not considered to have equality impacts. The EQIA was undertaken by the Council's Principal Policy Officer, Revenues Manager and Benefits & Welfare Manager.

5.4 By increasing the de minimis threshold to as high as £100, the Council would in effect be stock piling the amounts due by individual businesses, organisations and householders until such time that the total amount due had reached the agreed de minimis value.

5.5 While there are no identified equality impacts for businesses and organisations, there are potential equality impacts for individual householders who are making use of chargeable services provided by the Council. For example, there may be families who do not qualify for free school meals as their income is just above the qualifying threshold. Some of these families will be single-parent families who are more likely to be predominantly female. Lower income families may not be in a position to settle a larger bill for the accumulated amount of the de minimis threshold and as such increasing the de minimis threshold substantially may have a negative impact.

5.6 To mitigate the potential impacts identified by the EQIA, it is proposed to increase the de minimis level from the current threshold of £10 but only to to £12.50 to reflect the cost of administering such invoices. This also ensures that individuals are not adversely impacted whilst ensuring that the organisation is not issuing invoices for a value lower than what it actually costs to administer.

6. Action Plan

6.1 The Action Plan is reported on pages A38-A41 of the Appendix. The Redesign Board agreed these proposed actions at the Redesign Board meeting on 12 February 2019.

7. Implications

7.1 Resource – Resource implications are detailed within the report.

7.2 Legal: There are no new legal implications arising from this report.

7.3 Community (Equality, Poverty and Rural): There are no new community implications arising from this report.

7.4 Climate Change / Carbon Clever: A reduction in the number of invoices issued will reduce the volumes of paper required.
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7.5 Risk: •There is a risk that as part of the ICT development and testing, that we may encounter some ICT technical challenges. The potential savings can be very difficult to predict and whilst there is confidence in the savings opportunities in principle, it is much more challenging to predict likely savings levels

7.6 Gaelic: There are no Gaelic implications.

Author: Malcolm Macleod, Head of Planning & Environment (Council Redesign Lead)
Tel (01463) 702506 and Allan Gunn, Head of Revenues and Customer Services.

Date: 25.02.18

The Highland Council

Minutes of Meeting of the **Redesign Board of the Highland Council** held in Committee Room 1, Council Headquarters, Glenurquhart Road, Inverness on Tuesday, 12 February 2019 at 11.00 am.

Present:

Mr B Lobban (Chair)	Mr A Mackinnon
Mr G Adam	Mr A Sinclair
Mrs C Caddick	Mr C Smith
Mrs H Carmichael	Ms M Smith
Dr I Cockburn	Mr J Gibson
Mrs M Davidson	Mr P MacPherson
Mr G MacKenzie	

Also Present:
Ms L Munro
Mr P Saggers

Officials in attendance:
Mrs D Manson, Chief Executive
Mr D Yule, Depute Chief Executive/ Director of Corporate Service
Mr M MacLeod, Head of Planning and Environment/Council Redesign Lead
Mr A Gunn, Head of Revenues and Customer Services
Mr S Walsh, Head of People and ICT
Ms E Johnston, Corporate Audit & Performance Manager
Mr D Mackenzie , Trading Standards Manager
Mr B Murison, Revenues Manager
Mr D Scott, ICT Strategy and Engagement Manager
Miss J Maclennan, Principal Administrator

Business

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr R Bremner, Mr A Christie, , Mr A Jarvie and Mrs C Wilson.

2. Declarations of Interest

There were no declarations of interest at the meeting.

3. Redesign Update Report

There had been circulated Report No. RDB/1/19 dated 4 February 2019 by the Head of Planning and Environment/Council Redesign Lead which provided an overview on progress on the Council redesign and identified the key redesign projects commencing in the early part of 2019. In addition, Members were advised of the details of how it was proposed to manage this change.

Following a summary of the report, and during discussion, Members raised the following issues:-

- the monthly monitoring of Project Boards by Members was welcomed;

- the Trade Services review had been completed and would now be implemented;
- Engineering Services, covering both civil and structural engineering, accounted for a significant proportion of the Council's expenditure and a review was therefore essential;
- each project would follow the same management/monitoring process so progress could be reported across comprehensively and so that all linkages that existed were taken forward. Although it had been suggested that there were too many layers of decision making , it was recognised that this was an ambitious change programme, involving at least 15 separate projects and these all needed appropriate programme and project governance, whilst being taken forward at pace;
- it was important good ideas were not lost and it was believed this proposed process would avoid that;
- self-evaluation and assessment of performance as a Council was important and national and international best practise in terms of quality frameworks would be looked at. It was important that exercise sat long side this Programme; and
- the use of external experts within reviews was welcomed.

Thereafter, the Board:-

i. **NOTED** progress on ensuring the effective delivery of completed and future Redesign reviews; and
ii. **AGREED** the terms of reference of a new Peer Redesign Review on Engineering Services.

4. Review of Service Income

There had been circulated Report No RDB/2/19 dated 5 February 2019 by the Head of Revenues & Customer Services setting out the review of Service Income undertaken by Deloitte and the Highland Council. The review had identified opportunities to deliver savings by implementing invoice surcharges, implementing statutory interest and penalties on late payment, by increasing collection levels and by delivering process efficiencies enabled by ICT.

Following a summary of the report, and during discussion, Members raised the following issues:-

- assurance was sought, and received, that this was included as part of the targeted budget savings for the current financial year and would roll forward into the next financial year;
- the cost to the Council associated with invoice administration was £12.50 and examples of when the Council would issue invoices for less were sought, and received;
- the Council asked its commercial waste customers annually if they wish to continue with the service with the necessary applications/information provided to businesses. The Direct Debit (DD) arrangement did carry over from prior year so DD renewal form was not required. It was suggested that the process should simply continue until there was a material change about the arrangements. Whilst the Council was required to notify customers 14 days in advance of a change in DD sum, the Council would

review its process to consider if any further efficiencies could be implemented;

- similarly, as a considerable amount of work was undertaken to process Blue Badge applications, it was suggested that the £20 charge sought be imposed regardless of whether or not a Blue Badge was granted;
- refresher training was needed for managers/budget holders to better analyse the outstanding debt information they were provided with;
- Services/budget holders might be encouraged to take greater ownership of outstanding invoices if they received the income when the payment was made, as opposed to when the invoice was generated at present.;
- there was duplicated effort required to key some data into some (ICT) systems. Interfaces from existing systems into the Council's financial systems would remove such duplication and free up staff time up for other debt management tasks;
- the statutory interest to be applied to late payments is 8% plus the Bank of England base rate; and
- the fixed fee charged for late payment of invoices to be applied was £40 for amounts under £1,000; £70 for amounts over £1,000 and under £10,000; and £100 for above £10,000. Although it was suggested that the charge for the lowest sum (£40) seemed disproportionately high, it was pointed out these related solely to commercial transactions and was considered consistent with the aim to encourage businesses to pay invoices in accordance with the terms and conditions.

The Board:-

i. **NOTED** the Review of Service Income report at Appendix 1 including the Action Plan on pages *A38-A41*; and
ii. **AGREED TO RECOMMEND** that The Highland Council take all necessary steps to deliver the savings as shown at 8.1 of the Redesign Board report, with the exception of increasing the de minimis threshold to £100; and instead to only increase from £10(current) to £12.50(proposed) to reflect actual cost of administering invoices.

5. Redesign Review of Trade Services: Progress on Implementation

There had been circulated Report No RDB/3/19 dated 4 February 2019 by the Head of Planning and Environment/Council Redesign Lead (Review Team Leader).

In recognising the complexities involved with procurement of a new Framework for Trade Services, the Board **NOTED** progress with the implementation of the priority recommendations as set out in the Trade Services final report.

The meeting ended at 12 noon.

APPENDIX 2

Highland Council

Report to the Redesign Board on the review of service income

Contents

Introduction
Scope of the review

Quality is our number one priority. We plan our work to focus on quality and have set the following quality objectives for this review:

- A robust challenge of the key policies in place.
- A strong understanding of your business.
- A well planned and delivered review that raises findings early with management and those charged with governance.

We have pleasure in presenting our report to the Redesign Board on the review of service income, prepared jointly by Deloitte and the Highland Council.

The scope of our review was to identify areas to improve income efficiency – whether by generating additional income or reducing the costs associated with income generation. This review has been informed by analysing key Council documents and through discussions with staff at management and operational level across the Council. These staff – acknowledged on page 46 – were pivotal in delivering this report and will be integral to delivering the improvements identified in the action plan on pages 38 – 41.

This report summarises our findings and conclusions in relation to:

- The review of the **service income processes (page 26)**; and
- Consideration of the **policies in place on credit (page 7), collection (page 21), and budgeting and monitoring (page 31)** that feed into the overall service income earned by the Council.

The service income review covered processes within Harbours; School Lets; Waste & Recycling; Catering, and Marriage & Partnership Fees. Wraparound Care was identified as an area to review but was excluded as it is already subject to an ongoing internal audit, initiated by the Care & Learning Service. Including these service incomes in the review scope ensures coverage across all Council services.

Our findings are collated into an action plan (pages 38 - 41) which includes key recommendations arising from our review, designated officers to implement these changes and timelines for implementation. This action plan has been agreed with management at the Council.

We have also included examples of 'best practice' (pages 42 – 44) from experience gained working with other local authorities on their transformation programmes have been included to identify areas where the Council can embed best practice in its own programme. This looks at the wider transformation programme in the Council, rather than being income-specific.

Introduction (continued)

The key messages in this report

The following two pages set out the key messages of this report in relation to the four specific areas covered in the review.

Credit

There is substantial scope for the Council to 'be more commercial' in its approach to credit. This will involve work to amend Council policies and improve enforcement of them once approved. The Council provides credit too easily and the approach adopted by services is inconsistent and ad-hoc, with significant divergence from the Financial Regulations and associated guidance notes.

Reducing credit has three cost implications for the Council: reducing the cost of collecting debt; the collection of previously uncollected income; reduced opportunity costs. The Council needs to move away from the presumption that all customers will be given credit, to credit only being given to customers where the evidence suggests it is likely to be recovered. It is interesting to note that restoring the rate of provision to 2015/16 levels would save the Council **£0.349m**.

For every 1% of customers which switch from credit to up-front payment, the Council nets additional income of **£0.034m - £0.121m**.	The Council can save **£0.012m** by increasing the 'de minimis' threshold for invoicing from £10 to £100.	The introduction of a 'preferred payment method' surcharge of 0.5% - 2% on invoicing will generate between **£0.226m - £0.906m**.	The Council can generate additional income of **£0.427m - £0.53m** by charging interest and penalties for late payment of invoices. This will be offset to some degree by **costs of implementation**.	In excess of **£30.15m** of credit was given to customers (primarily businesses) who had a history of late or non payment in 2017/18.

Collection

The Highland Council pays 94% of the invoices it receives on time, but receives on-time payment for only 53% of invoices it issues. As at the 2017/18 year-end, 56% of outstanding amounts were outstanding for more than 90 days, a sharp increase on 2016/17 and significantly higher than the Scottish average and comparable councils. A tidy-up exercise has been carried out in September 2018 which has substantially reduced the amount of debtors outstanding for more than 90 days.

Despite recent improvements in collection rates, the Council's rates are still substantially below the 'top 5' in Scotland and lower than comparable councils. The cause of this is considered to be a failure to appropriately enforce Council policies with regards to income collection, allowing ad-hoc approaches to be developed within services, resulting in inefficiencies across the Council. This, combined with inefficient monitoring of income collection, has resulted in services focusing on income generate rather than income collection, with a failure to fully appreciate the connection between the two and the impact of collection on the general fund. Bridging the gap between the Highland Council and comparable councils or the 'top 5' has the potential to generate additional income of **£0.039m - £0.195m**.

Introduction (continued)

The key messages in this report (continued)

Processing

Council systems are still heavily reliant on manual inputs both within service-specific systems and transposing these to the Council's corporate system for financial reporting purposes, resulting in duplicated work and associated inefficiencies. This costs the Council at least **£0.175m** per annum, on a best-case scenario.

Although there have been a number of 'lean reviews' on income processes within services, the effectiveness of these (and other reviews) can be materially undermined by the omission of dedicated Digital Services staff at the appropriate stages of the review to help guide discussions on the availability of desired ICT solutions. ICT must not be a "driver" of these reviews as that is determined by the business need and the vision for the service. However, ICT is a key "enabler" in the successful delivery of the ICT-related recommendations from these reviews and can help manage expectations as to what is actually realistic, including affordability and what represents value for money. The omission of dedicated Digital Services at the key stages of the reviews can result in ICT-related recommendations from lean reviews being delayed – or more often than not, not being implemented – causing staff to become disenfranchised with the process and leading to a perception among services that ICT is a 'barrier' to improvement, rather than the enabler which it should be.

These issues are compounded by a resourcing and skills gap within the Council which undermines its ability to deliver the required digital transformation. Fundamentally, the Council should establish a centralised 'digital transformation' budget, separate to the individual service budget allocations, which will allow a unified vision, strategy and implementation plan to be developed and a dedicated team with the requisite skills to be put in place.

In order to determine the scope of ICT interfacing improvements required, the Council needs to engage a dedicated, independent business analyst for a time-limited period to identify required changes and develop the required business case for these changes, at an anticipated cost of **£0.02m - £0.03m**. This will enable the Council to progress to an invitation-to-tender to deliver an interfacing and integrating exercise, linking the various Council service-specific systems and the corporate system (Integra). This will require an up-front investment as the Council does not have – and cannot be expected to have – the relevant competencies within its workforce. This investment can be delivered through a separate digital transformation budget, anticipated to cost in the region of **£0.5m - £0.75m** (subject to the scoping exercise and a tendering process), representing a 3 to 4 year payback in a 'worst case' situation.

Introduction (continued)

The key messages in this report (continued)

Budgeting and monitoring

The Council's external auditors have confirmed that the Council has robust governance arrangements in place. However, there is a need to include additional detail in the reports presented to service committees and the full Council on financial performance – moving away from focusing so heavily on 'income' and 'expenditure' as at present towards looking at more meaningful metrics (such as collection). It is also important that the Council moves towards 'outcome-based' budgeting, rather than the current 'service impact' approach to making budgetary decisions.

Budgetary decisions need to make better use of the data available to the Council – looking at price elasticity, benchmarking and deeper engagement with services. In addition to this, there needs to be a change in approach within the Council to incentivise good budget management and implement changes where poor budget management is identified.

Finally, while appreciating the distinctness of services, it is important to have a single responsible officer for fees & charges to ensure that a consistent approach is adopted across the Council and to measure compliance with Council policies. We are aware this is not included in the revised Fees & Charges policy being reported to the Corporate Resources committee in November, which we recommend be reconsidered.

Summary of savings

This report identifies the following potential ***recurring*** savings:

1. £0.034m – £0.121m from incentivising up-front payment (this applies to *each 1%* change);
2. £0.012m from increasing the de minimis threshold;
3. £0.226m – £0.906m from implementing an invoicing surcharge;
4. £0.427m – £0.53m from implementing statutory interest and penalties on late payment;
5. £0.039m – £0.195m from improving collection rates;
6. £0.175m from reducing duplicated work due to a lack of interfaced systems.

The potential costs associated with these savings are ***non-recurring***:

1. Costs of implementation for the first 5 points above. These cannot be accurately quantified given the variables involved but are non-recurring and not considered material.
2. £0.02m – £0.03m to engage an independent business analyst to perform a preliminary scoping exercise to help in the development of a business case to consider investment in an interfacing and integration exercise. The final cost of this investment will be subject to the business case, a competitive tender and the options chosen, but considered to be a non-recurring cost in the region of £0.5m - £0.75m.

If fully implemented, the net savings in year one will therefore be in the region of £0 – £1.24m, with recurring savings thereafter of £0.913m - £1.93m.

Credit

Credit

Summary of work done

Background

As of 31 March 2018, the Council had £15.066m of outstanding debts from customers. This is net of £3.551m (19.1%) which was provided for, based on historical experience of non-payment. In 2017/18, the Council had an approximate 81.33% collection rate for sundry debtors, meaning that £12.218m of credit given in 2017/18 was not collected in the year. Given that the Council essentially loses a fifth of all credit provided, this report considers the appropriateness and sustainability of the current approach to credit.

Areas considered

- The appropriateness of the current approach to providing credit, in theory and in practice.
- Options available for improvement.
- The impact on service users, risks and benefits.

Response

We have reviewed current Council policies and discussed the approach to credit with a range of personnel in the Council, from operational staff to Heads of Service and Directors.

We have compared the current approach with best practice and other options available to the Council to identify areas for improvement and areas where the Council can "be more commercial". Where possible, we have quantified the impact of these changes on income generation at the Council.

Our view

The Council makes reference to credit in its Financial Regulations and associated guidance notes on the Issue of Debtor Accounts and Receipt of Income. However, there is no distinct policy for credit in place. Ultimately, this results in credit being given in an ad-hoc manner and the policies being inconsistently applied across the Council.

Reducing credit has three cost implications for the Council: reducing the cost of collecting debt; the collection of previously uncollected income; reduced opportunity costs. The cost of collecting sundry debt was £0.298m in 2017/18. For every 1% reduction in the level of credit provided, the Council would increase net income received by between £0.038m and £0.125m. In 2017/18, 56% of all invoices were paid late, with this resulting in an opportunity cost of £0.018m to the Council due to interest not earned.

The Council needs to move away from the presumption that all customers are given credit to it only being provided where the evidence shows that it will be paid. In 2017/18, £30.15m of credit was provided to 1,746 customers (primarily businesses) who had already paid late on more than two occasions in the year. Up-front payment should be required of individuals given that the Council has fewer recourse options on these transactions. For commercial transactions, the Council needs to incentivise up-front payment or cheaper alternatives to invoicing (e.g. direct debit) as well as on-time payment.

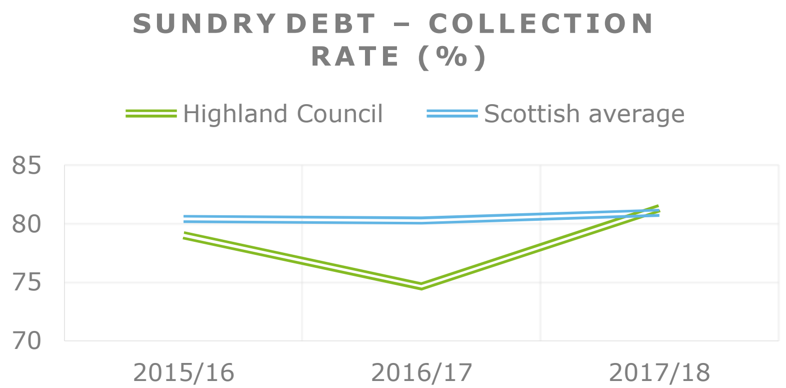
Charging a 0.5% surcharge for invoicing would yield the Council an additional £0.226m per annum. For every 1% of debtors this encouraged to move to direct debit or up-front payment, the Council would earn additional income of between £0.034m and £0.121m. A relatively minor impact of 10% would therefore have the result of increasing Council income by between £0.566m and £2.116m.

Charging interest to which the Council is statutorily entitled for late payment would yield additional income of £0.11m. Charging late payment fees would yield further income of £0.316m. The Council needs to carry out further work on this particular point to ensure that it appropriately considers the impact on users of services and develops an approach to charging for late payment that is in line with Council policies as well as being consistent, sustainable and incentivising on time payment.

Credit (continued)
Current process

Providing credit

For 2017/18, the Council supplied £71.583m of goods/services to customers (£59.3m excluding overpaid housing benefit, housing rents, etc.) Of this, 81.33% was collected in year, an improvement on the 74.65% collected in 2016/17 and 79.01% collected in 2015/16. It is important to note that the 2017/18 collection rates are marginally better than the Scottish average (80.95%) per CIPFA Performance Indicators, although it is not comparable in all instances.



However, this does still mean that £11.071 - £13.365m of credit provided in 2017/18 was not collected in the year (with the midpoint for calculations being £12.218m), with this feeding into the bad debt provision for customers (£3.551m).

This bad debt provision is an increase on £2.55m and £3.326m recorded in 2015/16 and 2016/17 respectively, with the rate of provision rising from 17.2% to 19% in the same period. The increase in this rate of provision has resulted in net income earned by the Council being £0.349m lower in 2017/18 than would have been the case if the rate of provision remained at 2015/16 levels.

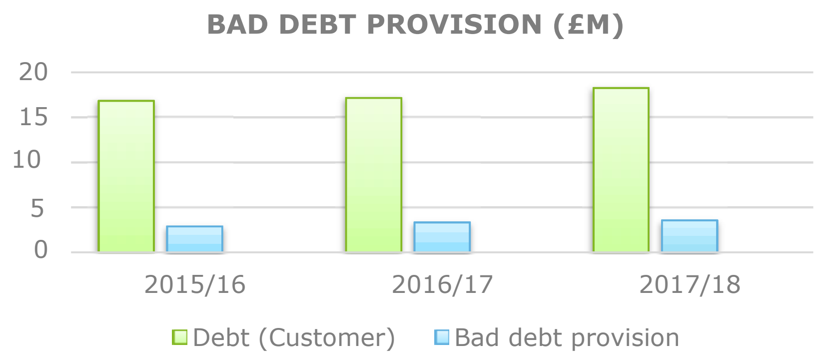
Therefore, although the amount of credit provided to customers by the Council increases every year, this does not result in comparably increased income for the Council.

The Council has **Financial Regulations** that require that the Council "be paid in advance or at the time of delivery", with credit only given where this is "not possible" (s14.3.1). However, these are not enforced and the approach adopted throughout the Council is that credit is provided where up-front payment is 'not convenient'.

The provision of goods/services on credit is fundamentally dependent on the judgement of the budget holder. This results in credit being provided inconsistently across the Council, with no clear, justifiable reason for this – the main driver appears to be historical differences which have not been rectified.

The same section of the Financial Regulations requires that "Service Directors must ensure that debtor accounts are rendered within 14 days from the due date". The level to which this is adhered varies across the Council as compliance with this requirement is not measured or reported to Committees or Council. The impact of this is discussed further on page 11.

Ultimately, the approach to credit at the Council is ad-hoc and inconsistently applied, with this driven by the lack of detail in the Financial Regulations and the lack of enforcement of what detail there is.

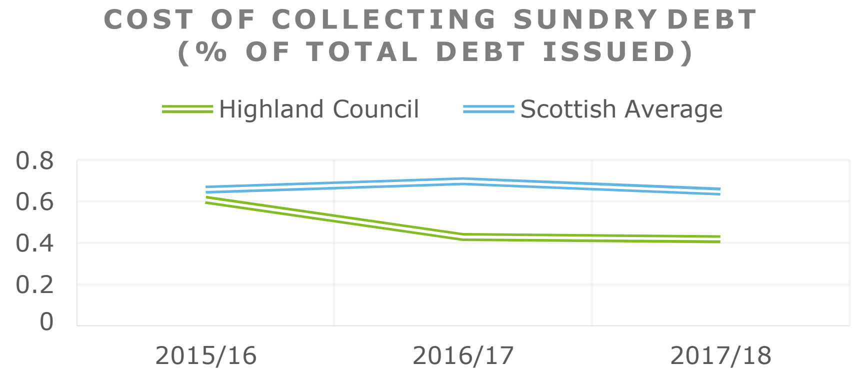


Credit (continued)
Current process (continued)

Cost of collecting credit

The Council has achieved significant savings over the last 3 years by reducing the cost of collecting sundry debt. In 2017/18, the cost of collecting sundry debt was 0.42% of all sundry debt issued in the year, down from 0.61% in 2015/16, representing an annual saving of £0.135m. It is important to note that this still equates to a cost of £2.40 per invoice issued. There are further initiatives underway which are anticipated to generate further savings, such as the e-mailing of invoices.

The Council now spends substantially less than the Scottish average on collecting sundry debt. Achieving these savings whilst increasing the collection rate from 79.01% (below the Scottish average) to 81.33% (above the Scottish average) in the same period is commendable.



Further efforts to reduce spend on debt collection need to be driven by changes in the level of debt outstanding, rather than relying on as yet unspecified improvements in the sundry debt collection process.

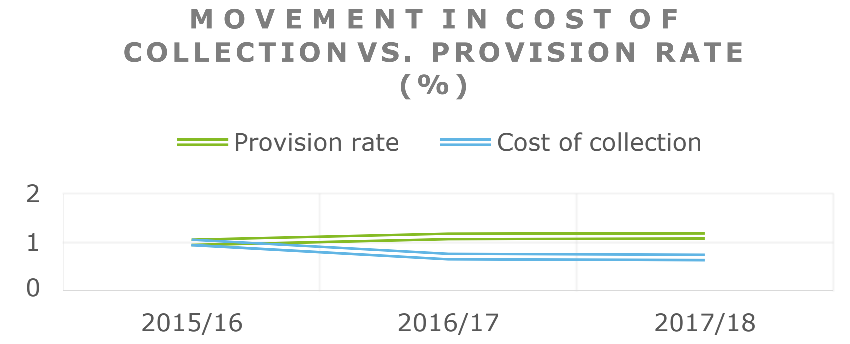
The Council needs to bear in mind that the cost of credit has three components:

1. The cost of collection (discussed above);

2. The cost of provisions (discussed on page 9); and

3. Opportunity cost of interest not earned (£0.018m in 2017/18).

The reduction in spend on collecting sundry debt needs to be viewed against the rise in the bad debt provision, discussed on page 9. The cost of collection has dropped by 31% since 2015/16, offset by an increase of 13% in the rate of provision over the same period. The Council needs to bear this relationship in mind and consider whether additional resourcing on the collection of debt is justifiable in terms of reducing the amount of income lost due to provisions.



The cost to the Council of £10 of credit in 2017/18 was £4.35, down from £5.21 in 2015/16. The Council needs to consider the appropriateness of having this level as the 'recommended minimum' in the guidance note on 'Issue of Debtor Accounts' given that of the invoiced amount, only 56.5% of the value is actually earned as 'net income'. This is discussed further on page 11.

Credit (continued)
Up-front payment

Guidance

The Institute of Chartered Accountants of Scotland recommends that bodies "convert customer receipts into useable, interest earning deposits at the earliest opportunity and at the lowest possible cost."

Audit Scotland recommends that "Councils should make sure that they consider the costs of collection, and also the risks and benefits of various options for collecting charges."

Earliest opportunity & lowest possible cost

In keeping with the guidance outlined above, the Council should insist on up-front payment *where possible*, rather than *where convenient*. The Council needs to ensure it has the infrastructure – including digital – in place to enable this. Although there are instances where this is in place (such as wraparound care accepting direct debit payment only or school lets requiring up front payment), it needs to be enforced across the Council.

The Council currently sets £10 as a 'recommended minimum', amounts below which should be paid up front. It is important to note that the Council loses 43.5% of £10 provided on credit – whereas it only loses 21.9% of £100 provided on credit (page 10). Given the cost in collecting such small amounts, the Council needs to perform a cost/benefit analysis of issuing invoices for such small amounts to ensure that the 'de minimis' threshold is economically viable, whilst also being cognisant of the impact on service users of any change in policy.

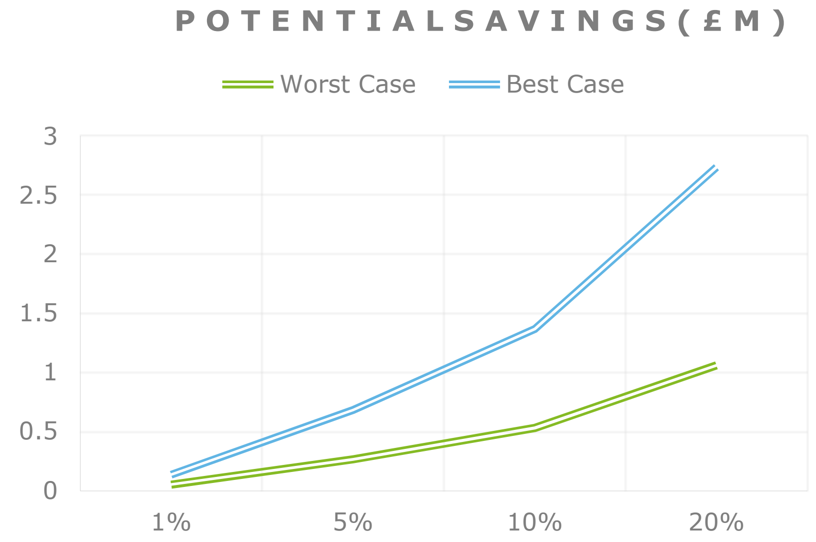
Once this economically viable level has been determined, the Council should *require* up-front payment for amounts below this level, rather than *recommend* it as at present.

In instances where up-front payment is not forthcoming, the service should not be provided as it is uneconomical to do so. However, where it is Council policy to continue to provide the service, the Council should accumulate these debts and issue them less frequently (in the case of frequent offenders) or consider writing off the debt as uneconomical to collect (in one-off incidences).

The financial impact

As outlined on page 10, there are three savings to be made from requiring up-front payments: reduced cost of collecting debt; the collection of previously uncollected income, and the interest earned from having cash earlier.

For every 1% of sundry debt that moves away from credit to up-front payment, these combined savings would yield between £0.038m and £0.125m for the Council.



It should also be noted here that moving away from a 'recommended' minimum of £10 to a 'required' minimum of £100 for invoicing (with the exception of school meals) would result in savings of £0.12m for the Council.

The need to focus on up-front payment from individuals is greater than from commercial organisations, as the Council has greater recourse options against the latter (page 15).

Credit (continued)

Up-front payment (continued)

Impact on service users

As with all aspects of its work, the Council needs to consider the impact of its decisions and citizens and service users.

To this end, it is important to note that credit is primarily provided to customers to aid with cash flow – it is questionable how much of an impact credit of £10 has in this instance. The impact of increasing the 'de minimis' level for invoicing would therefore be expected to be minimal for customers.

It is also worth noting that individuals do not generally have an expectation of receiving credit for goods/services purchased and as such, requiring up-front payment is unlikely to have a negative impact here.

Where there is an expectation of credit (i.e. with commercial organisations), the Council needs to consider the requirements of up-front payment in the context of each customer (e.g. where there are regular transactions of small amounts, it may be beneficial to instead establish a direct debit payment method), with the de minimis threshold and economic considerations driving this consideration.

Risks

- Customers who have an expectation of credit may attempt to source alternative suppliers if the option of credit is removed from them. The likelihood and impact of this for individuals is minimal (page 17), and this risk can be mitigated by moving affected customers on to direct debit.
- The Council needs to ensure it has the appropriate infrastructure in place to facilitate up-front payment (e.g. online options) Where this infrastructure is not in place, the Council is at risk of losing income by not enabling payment. This will be a one-off cost of installing this infrastructure.

Benefits

- Up-front payment is the only method to ensure that no income is lost on bad debt or opportunity costs.
- Cash flow at the Council is improved.
- There are comparably small administrative costs associated with up-front payment as opposed to payments on credit.

Credit (continued)
Credit lines

Current credit lines

The Council has a large customer base accessing credit. Due to the lack of detailed, specific guidance on who credit should and should not be provided to and no clear hierarchy of steps to be taken prior to providing credit to customers, there is a history of providing credit to customers who are frequent late or non payers.

In 2017/18, the Council had 19,946 invoices overdue more than 7 days, owing from 12,904 customers. Of this, just 3,014 customers accounted for 14,661 of these overdue invoices. Further, the Council had 12,576 invoices overdue more than 21 days, owing from 11,892 customers. Of this, 2,002 customers accounted for 8,705 of the invoices. In other words, between 16-23% of customers account for 69-74% of overdue invoices.

Applying this ratio to the amount spent on the collection of sundry debt (£0.298m per page 16), keeping the credit line open costs the Council between £0.206m - £0.221m in collection costs on customers with a known history of late or non payment. In these instances, it is imperative that the Council moves such customers to up-front payment, direct debit, or stops the service.

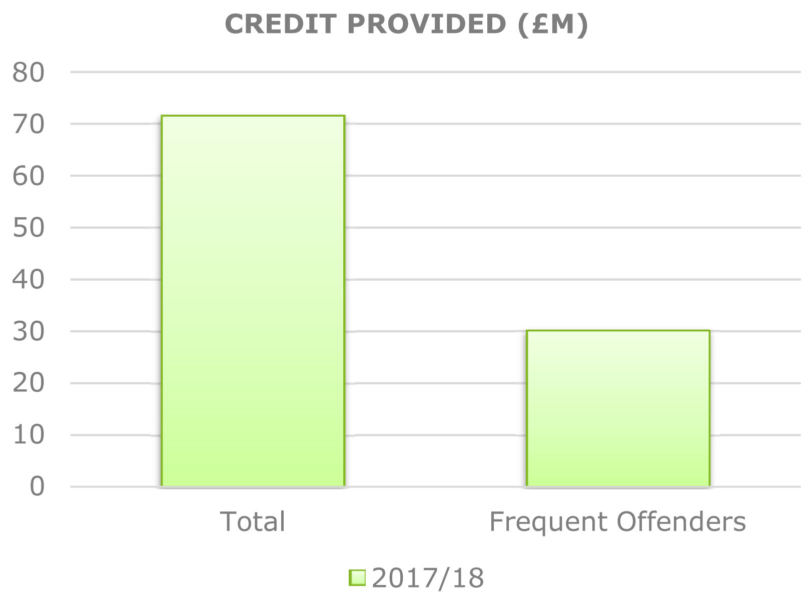
A consistent approach

At present, there is little evidence that the Council applies a consistent approach to providing credit to credit-worthy customers only, driven primarily by a lack of clarity in the Financial Regulations which means that ultimately, the decision to grant credit falls to individual judgement, rather than documented rationale (page 9).

Prior to providing goods on credit to customers, the Council needs to amend its procedures to *require* that the judgement to offer credit be documented through a check of the customer's payment history and outstanding debts on Integra or by carrying out an independent credit-check.

As a result of the inconsistency in approach and failure to properly consider the credit worthiness of customers, the Council provided in excess of £30.15m of credit to 1,746 customers who had already paid late on more than two occasions in the year.

The Council needs to move away from the current approach – being an assumption that the customer receives credit – to credit being earned. A similar approach is taken for amounts such as Council Tax: if payments are missed on a number of occasions, the customer is required to pay the amount in full. Citizens in this instance are not given endless reminders – it is unclear why the approach taken should be different for other services provided by the Council.



Credit (continued)

Credit lines (continued)

Impact on service users

There is no general obligation on the Council to offer credit service users. There is a clear justification for performing credit checks and analysing outstanding debt and payment history with the Council prior to approving credit, with credit only being provided when there is clear evidence that the customer is credit worthy.

There will undoubtedly be an impact on customers of cutting the credit line. However, this impact will fall solely on those who have a history or late or non payment, or with large outstanding balances. In these instances, the impact on service users is as a result of non compliance with commercial transaction norms and is justifiable.

Risks

- Customers with a history of late or non payment are likely to be affected by this move and it may result in reduced demand for Council goods/services.

Benefits

- Having a mechanism whereby there are consequences for late/non payment will incentivise on time payment from customers.
- Reducing the level of credit given to customers with poor credit worthiness will reduce the level of lost income due to non collection.
- By dealing with the problem up front, there will be a reduction in administrative costs due to less spend being on dealing with 'frequent offenders'.

Credit (continued)
Late payment

Current process

At present, the Council sends out first reminders to all customers with debts overdue by 7 days (this first reminder also acts as the final reminder). The effectiveness of the current approach is questionable: there were 19,946 of these reminders but this was not sufficient to instigate payment in 63% of cases. This clearly demonstrates that the Council needs to further incentivise payment.

The process after the first reminder for amounts which still remain unpaid differs depending on the situation, with some customers receiving second reminders, some debts being passed to the Sheriff Officer, and some debts being handled by the Council's internal Recovery Team.

Under the current contract, the Sheriff Officer retains 2.99% of all income collected (this is a notable improvement on the 5% charged on the previous contract). Regardless of the mechanism used, there is a cost to the Council of collecting debt in this way. At present, that cost is not recouped in any way and in essence this equates to lost income for the Council.

Where the Council is unable to incentivise payment, it needs to recoup the additional costs it incurs for chasing debts. The options to do this for transactions with individuals are limited (hence the recommendation that up-front payment is required in this instances, per page 11). However, for commercial transactions, the Council is statutorily entitled to claim interest and penalties on late payment.

Charging interest

The Council is entitled to claim statutory interest – set at 8% per annum above the Bank of England rate (which currently sits at 0.75%) – for late payment on commercial transactions, with this accruing from the due date of the invoice and not dependent on the Council issuing a reminder.

To minimise additional administrative costs in charging interest, it is recommended that the Council take a balanced approach whereby 7 days of interest is charged for the first reminder, and 21 days of interest is charged on the issue of a second reminder. For amounts which are passed to the Recovery Team or Sheriff Officer, interest should be charged to the date of receiving income.

In 2017/18, the Council had in excess of £16.3m of debt outstanding for at least 7 days (but less than 21 days) beyond the due date, and £21.7m outstanding in excess of 21 days. It should be noted here, though, that two thirds of this is paid before being 30 days overdue. Even allowing for a bad debt provision of 19.5%, charging interest would result in additional income of £0.11m.

Applying penalties

In addition to charging interest, the Council is entitled to charge a fixed fee for each invoice which is paid late. The amount which can be charged is *up to* £40 for amounts under £1,000; *up to* £70 for amounts under £10,000, and *up to* £100 for amounts in excess of £10,000.

Research carried out by Deloitte – in conjunction with the Reform think-tank and IPSOS-MORI – for the 'State of the State 2018/19' report has found that citizens find penalties acceptable for "wasting public sector time". The Council would therefore find itself aligned with, rather than opposed to, public opinion in applying these penalties.

Allowing for bad debt, if the Council decided to charge the maximum fixed fee on all amounts owing in excess of £100 where a second reminder has been issued, the Council would generate additional income of £0.316m.

Note that this assumes two key factors:

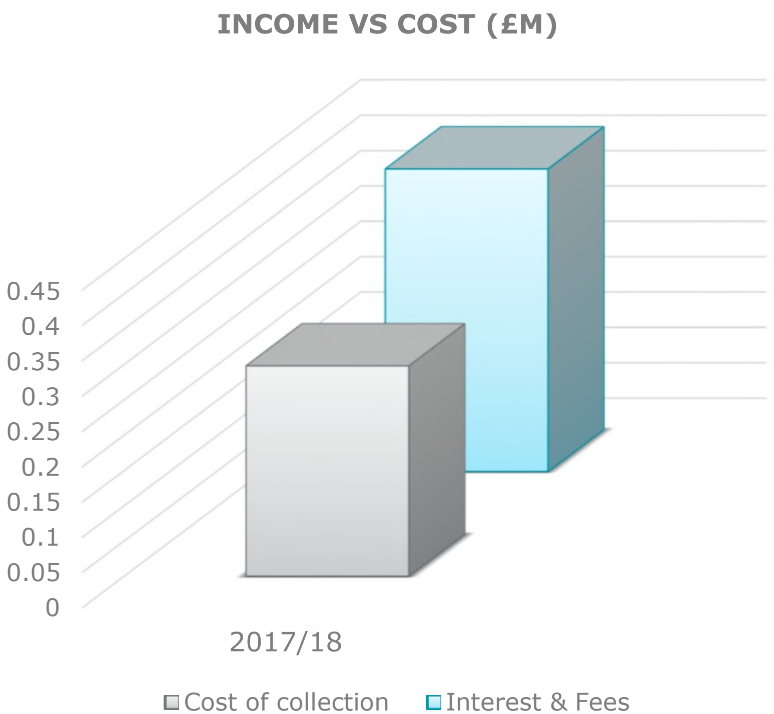
1. No fees are charged on amounts less than £100.
2. No fees are charged on the issue of a first reminder, with the reminder instead including a statement to the effect that a fee will be charged if payment is not received in the following two weeks.

Credit (continued)
Late payment (continued)

Offsetting the cost

If the Council charged interest and penalties to which it is statutorily entitled, it would generate combined income of £0.427m. The aim of the statute which enables these charges is to recoup the cost of late payment: given that the cost to the Council of collecting sundry debt is £0.298m, applying these charges would achieve that aim.

The Council should not treat this as recurring income. It is reasonable to assume that the level of late payments – and the level of income generated from interest and penalties – will decline as a consequence of imposing charges.



Impact on service users

There will be no impact on individuals as the Council is not entitled to apply interest or penalties on late payment for these transactions. This reinforces the need to require up-front payment in such transactions (page 11).

There will be an impact on commercial organisations that deal with the Council and which require the Council to chase them for payment. However, the amount charged is not unreasonably in excess of the cost of collection and the principle of charging penalties is supported by citizens (page 15).

For ease of administration, the Council should charge interest on all late payments. However, it may wish to use its discretion (within defined parameters) for charging penalty fees.

Risks

- Customer relationships may be damaged if the Council begins introducing charges. To mitigate this, the Council should flag any change in policy a number of months in advance to allow customers to amend behaviours in line with the new policy.
- There may be a reputational impact if the Council does not appropriately flag the change in policy and manage transition to it.

Benefits

- The Council will generate additional income to offset the cost of collecting sundry debt.
- Imposing financial consequences for late payment will incentivise payment and reduce the amount of overdue sundry debt.

Credit (continued)

Charging for credit

Background

The Council has expressed its desire to 'be more commercial' as part of its redesign programme. One of the fundamental differences between the Council and commercial organisations is that the Council does not incentivise payment (addressed in part on pages 13 – 16).

In everyday life, people expect to pay a premium for receiving better payment terms: for example, customers are incentivised to pay up front for insurance by charging a premium on spreading the payment over the year. Similarly, 'early payment discounts' are a common scheme offered in commercial transactions to incentivise early payment.

Two common schemes in practice – early payment discounts and factoring/forfeiting – are not considered further in this report as their cost and complexity combined with the variety of Council income streams and customers would render them uneconomical.

The Council has discretion to implement similar structures by charging for the issuing of goods/services on credit – known as a 'preferred payment discount'. In order to reduce the use of credit and the costs associated with it, the Council needs to 'be more commercial' and incentivise payment.

Invoices versus direct debits

It is important to distinguish between amounts which are charged by direct debit and amounts which are charged by invoice. Although both of these fall within the definition of 'credit', direct debit is a much more efficient method of collection for the Council than invoicing.

This is evidenced by the fact that of all invoices issued in 2017/18, 24.3% had queries attached to them (i.e. requiring some Council follow up), whereas of all direct debit payments claimed, only 0.0004% had queries against them. Direct debits are also beneficial in that the Council controls the payment amount and collection date.

Council examples

The Council has historically charged a 2% surcharge on payments made by credit card. This is the most common example of a 'preferred payment discount.' This practice has been stopped in light of Directive 2011/7/EU. No impact on demand for Council services was noted as a result of applying these charges (and demand hasn't increased due to the charges no longer being applied).

During our review, we identified that Community Services began charging a £30 flat fee for invoices issued to commercial waste operators, resulting in additional income of £0.013m in 2017/18. Despite a small number of customer complaints, no impact on demand was noted.

The impact on demand

Ultimately, applying a surcharge to invoiced amounts equates to a price increase. The law of price elasticity of demand (discussed further on page 35) states that this is likely to result in a drop in demand. However, it is important to bear in mind the experience from the Council's recent history of charging for certain payment methods, and the fact that early payment and preferred payment discounts are common in commercial transactions.

The impact of this surcharge on demand is mitigated by three factors:

1. There are limited alternatives in many instances to using the Council service (particularly in rural areas).
2. The prices increases apply to one method of payment only.
3. The increase as a proportion of total spend is small.

Based on these three factors, industry evidence and the Council's recent experience, the anticipated outcome of applying a surcharge for invoices would be a move away from that payment method, rather than a move away from the Council as a whole.

Credit (continued)

Charging for credit (continued)

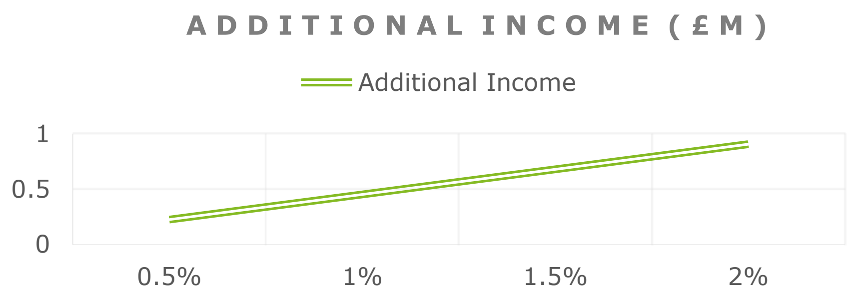
The charging framework

The cost of collecting sundry debt is 0.42% of credit issued. This excludes the costs associated with bad debt. National guidelines on applying charges recommend that they are both reasonable and (in certain circumstances) not exceeding the cost of providing the service.

In order to minimise administrative costs associated with applying surcharges, it is recommended that a standard charge is applied across all goods/services which are invoiced. In line with industry standard discounts, the Council should consider a surcharge in the region of 0.5% - 2%. It is unlikely that a charge of this size would fall of either of the national guidelines mentioned above.

While we are aware of the complexities with regards to VAT, the impact of these changes on the Council in this regard is considered to be immaterial given that the Council charges 'net' of VAT (and will continue to do so), with no impact from VAT on the additional income generated. The system used by the Council (the assigning of product codes to goods/services which determines their VAT status) is not impacted by the recommendations in this review.

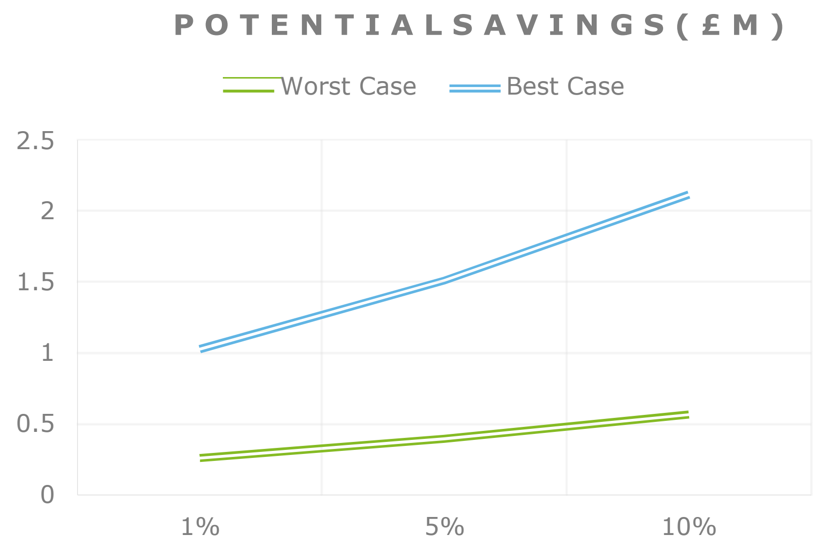
The financial impact



Assuming no impact on demand or on the payment method of choice, applying a surcharge would raise between £0.226m (0.5%) and £0.906m (2%). The Council should consider introducing the surcharge at a lower level and increasing it per annum (to the maximum 2%) to continually incentivise customers to move to cheaper payment methods.

As the stated aim of applying the surcharge is to move customers away from choosing invoicing as a payment method, the impact of this anticipated change in behaviour needs to be considered. The financial benefit to the Council of a 1% move away from invoicing (in terms of total value invoiced) is between £0.038m – £0.125m (page 11). The net benefit to the Council is between £0.034m - £0.121m due to a 1% reduction in the amount of surcharge income received.

The impact of charging this surcharge (shown in the graph on the opposite side of the page) with the savings from customers using cheaper forms of payment (page 11) is that the Council could generate additional net income of between £0.566m and £2.116m per annum by incentivising just 10% of customers to switch away from invoicing.



Credit (continued)

Charging for credit (continued)

Impact on service users

The only impact on service users is if they *choose* to pay by invoicing (the surcharge should not be levied where there is no possibility of up-front payment). The amount of the impact for those who choose not to change payment methods is minimal – between 0.5% - 2%. It is important to note that this impact will fall largely on commercial organisations rather than individuals.

For individuals, there is no general expectation of credit and where credit is accessed, there is a cost to this. For commercial organisations, although there is often an expectation of credit being extended, it is common in practice to have schemes which incentivise earlier payment or one method of payment over another.

Risks

- There is a slight increase in the complexity of the Council pricing structure, which will need to be communicated to and enforced by all relevant staff. This will have an administrative cost.
- There may be an impact on demand if the introduction of the surcharge is not communicated well, especially where there are alternatives to using the Council service. This can be mitigated by flagging the surcharge in advance and asking customers to switch to up-front payment/direct debits prior to its introduction.

Benefits

- The Council would have an additional source of income, with minimal anticipated impact on demand.
- Applying a surcharge – essentially a 'preferred payment method' discount for up-front payment/direct debits – incentivises up-front payment, reducing the total sundry debt balance outstanding, with a consequent decrease in the bad debt provision.
- By incentivising up-front payment, the Council will reduce the costs of collection and save on the cost of invoicing.

Credit (continued)
Summary of findings

Quantitative findings

1. Taking steps to incentivise the use of up-front payments/direct debits instead of invoicing nets an additional £0.038 - £0.125m for every 1% movement. The net amount generated (deducting the loss of surcharge income) is between £0.034m - £0.121m.

2. Increasing the 'de minimis' threshold for invoicing from £10 to £100 results in savings of £0.012m.

3. Implementing a 'preferred payment method' surcharge of 0.5% - 2% will generate between £0.226m - £0.906m of income.

4. Charging statutory interest on late payment earns the Council between £0.11m - £0.137m.

5. Imposing statutory late payment penalties on overdue invoiced amounts (assuming invoicing is stopped for amounts below £100) generates additional income of £0.316m - £0.393m.

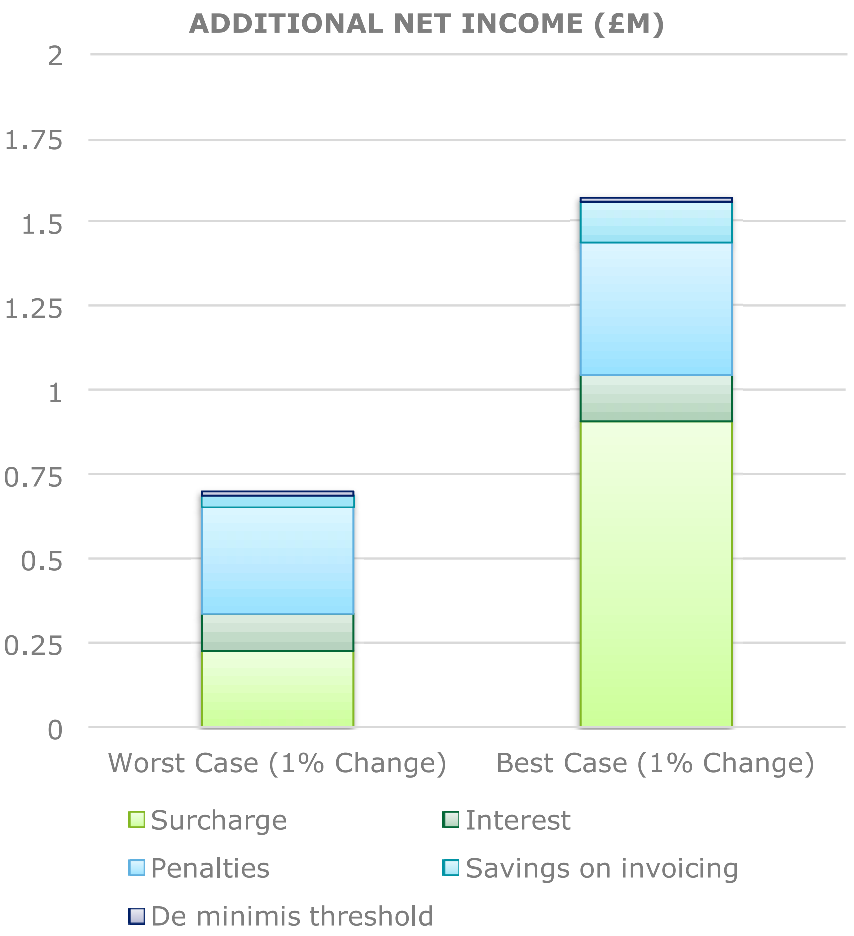
6. The total impact of the above findings – assuming a 1% move away from invoicing – is between £0.698m and £1.569m of additional recurring income for the Council.

Qualitative findings

1. The Council's Financial Regulations and associated guidance notes need to be reviewed and updated to include a 'Credit Policy' which is enforced across the Council, to ensure a consistent, unified approach to dealing with credit. This policy should include the quantitative changes outlined above.

2. The Council provides credit too readily, including to customers where there is insufficient evidence of credit worthiness and where there are limited recourse options available.

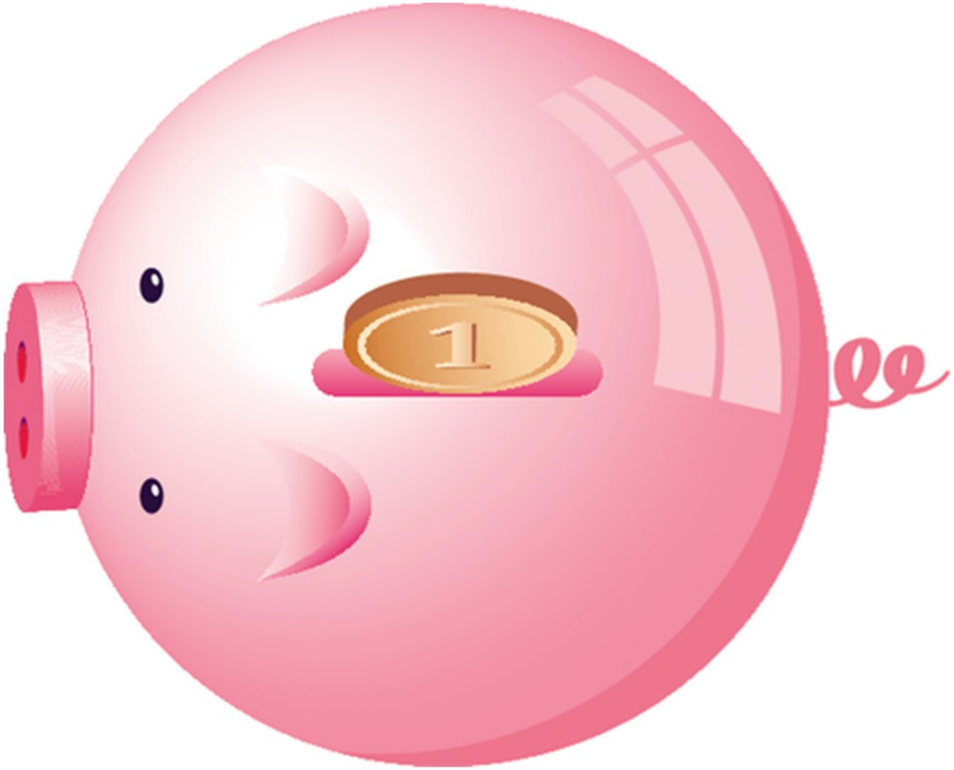
3. The Council needs to 'be more commercial' in its approach to dealing with customers, moving away from an expectation of credit to credit being earned, with consequences for not complying with the terms of the credit being imposed.



Worst Case: Every further 1% move generates income of £0.034m.

Best Case: Every further 1% move generates income of £0.121m.

Collection



Collection
Summary of work done

Background

As highlighted on page 8, the Council had significant outstanding balances owing from customers (£15.066m) at the most recent year end, with an in-year collection rate of 81.33%. Despite recent improvements to the collection rate and the Council now being marginally above the Scottish average, there remains room for improvement and this report consequently considers the debt collection process at Highland Council.

Areas considered

- The appropriateness of the current approach to income collection, in theory and in practice.
- Options available for improvement.

Response

We have reviewed current Council policies and actions against best practice. We have discussed the approaches taken by various services within the Council to identify areas of deviation from agreed Council policies and considered the impact of these deviations.

From our review, we have identified areas for improvement and where possible, quantified the impact of these changes.

Our view

As discussed on page 9, the Council's Financial Regulations and associated guidance notes lack sufficient detail and are inconsistently applied and enforced across services. The same issue has been identified with regards to collecting income. Ultimately, the policies and associated guidance notes are outdated and unenforced – they require an immediate review, with an annual 'sense check' thereafter combined with triennial 'full' reviews.

As a consequence of this issue, services have a series of 'unwritten' policies which they follow on an ad-hoc basis both within the service and across the Council, resulting in inconsistencies and inefficiencies permeating the income collection process.

Although the impact of the above is not currently quantifiable, the Council has a collection rate of 81.33% of sundry debt. Although this is marginally above the Scottish average and recent improvements should be recognised and commended, the Council's collection rate remains significantly below the 'top 5' and other comparable councils. Bridging the gap with the latter would increase collection by between £0.158m - £0.413m, and bridging the gap with the former would increase it by £0.339m - £0.798m. While this would reduce opportunity costs and improve Council cash flow, the main impact on net income generated would be between £0.039m - £0.195m, due to a reduction in the amount provided for.

At present, services rely on the sundry debt team to collect income. In general, services explained that until the 'second reminder' letter goes out (e.g., when the debt is already three weeks overdue), they are not aware of outstanding amounts. This is despite a process whereby all budget holders are provided with a monthly update of outstanding amounts, which should draw their attention to the issue. More credit is often given to the customer in the interim, compounding the problem. This reduces the likelihood of collection, while increasing the cost of collection and opportunity costs.

The Council needs to develop a clear process and hierarchy for the collection of income, which enforces the services' responsibility to collect income for the services they provide. This needs to be linked with effective budget monitoring (page 31) to incentivise higher collection at lower cost.

Collection (continued)
Current process

A reactionary approach

The Council's current approach to the collection of income is reactionary by design. The Council focuses on resolving 'problem' cases rather than preventing them, as highlighted through the provision of credit to known 'frequent offenders' (page 13).

The recommended changes through the development of a 'Credit Policy' (page 20) will impact on this approach, switching attention from dealing with 'problem' credit to that credit not being provided in the first instance, where those problems are known. The financial impact of these changes is substantial, as outlined on page 20.

Council policies

The Council currently focuses on income and expenditure for monitoring purposes (discussed further on page 33). Due to this, services are focused on generating income, rather than collecting it. Services have expressed the view that the "sundry debt team are the experts" and as such, there is a reliance by the services on the sundry debt team to collect income. This approach is at odds with the Council's own policies set out in the Financial Regulations.

The focus at present can be summarised as: the services focus on providing the service and generating income; the sundry debt team focuses on collecting income. The effectiveness of this is questionable based on the collection and provision rates.

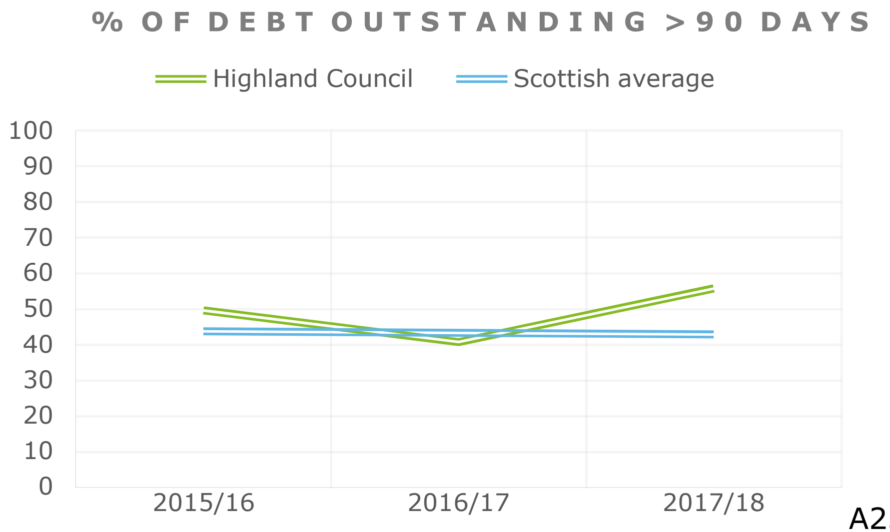
In line with the Financial Regulations, the focus needs to be realigned: the services should focus on providing the service and collecting income; the sundry debt team should focus on collecting debt. The services need to be responsible for preventing problem cases, the sundry debt team should only be involved when problem cases arise.

The current approach is unsustainable: as services are not focussed on collecting income and as the sundry debt team only gets involved when the debt is overdue, 53% of invoices are paid late and 56% of debt in 2017/18 was outstanding for more than 90 days – in the bottom quartile in Scotland and more than any comparable council.

The Council **Financial Regulations** require that the Service Directors "ensure that debtor accounts are rendered within 14 days from the due date" (s14.3.1). However, this is not enforced and the approach primarily adopted throughout the Council is that the sundry debt team is responsible for collection.

The reason for this is that services feel that the policies are not appropriate or that their adopted approach is better. Irrespective of the accuracy of this, the perception is damaging, leads to inconsistencies and highlights the need to have across the board management buy-in when developing policies, alongside an annual 'sense check' to ensure the policy is working as desired, with a full review of policies on a triennial basis.

Fundamentally, the Council needs to establish more rigorous enforcement of its policies. Services should be dealing with late payments *as soon as* they are overdue, or in some cases even pre-empting the problem where a customer has a history of late payment by sending out reminders or statements of account. To enable this, the Council needs to provide appropriate training and guidance so that it is simple for the service to carry out these tasks.



Collection (continued)
Service responsibility

Leveraging relationships

There is significant empirical evidence in the financial literature that the existence of business relationships increases the flow of credit to customers. This is in line with the understanding gained through review of the services approach to providing credit (pages 9 – 19). However, it is important to understand the primary reason that underpins this finding: the existence of business relationships also increases the likelihood of collection. The Council's Financial Regulations and associated guidance notes are designed in line with this.

The issue primarily arises as services have a series of 'unwritten' policies which they give precedence to over the Council approved policies. As the metrics which would measure compliance with Council policies are not recorded or reported to Members (page 33), there is no incentive for services to comply, nor are there any consequences for not doing so. Despite attempts by the sundry debt team to alter this through the issuing of monthly invoices to budget holders on outstanding debt, budget holders consider these to be of limited use and they are routinely ignored.

The existence of these unwritten policies and failure to engage with the reminders sent by the sundry debt team undermines the collection of income, deviates from best practice and results in inconsistencies and inefficiencies both within services and across the Council.

If services have the right to leverage business relationships to generate income, they must also have the responsibility to leverage those same relationships to collect that income. This change in approach does not require a change in the Council policies – it merely requires the policies currently in place to be enforced. Consequently, it is important that this is combined with the recommended changes in budgeting and monitoring (page 36).

Using experts

Despite issues with the amount of credit provided and the collection of income, it is important to note that the sundry debt team have substantially increased collection rates in recent years. The perception among services that this team are the 'experts' in collection is not unfounded and needs to be utilised to maximum effect (in certain services – e.g. Harbours – there is a debt management team which works closely with the sundry debt team.)

Moving the responsibility for collecting income from the sundry debt team to services will free up time for the former. From this, the role of the sundry debt team should be widened to train the services on income collection processes and how to monitor outstanding amounts on a continuous, live basis. The team should also act as a 'check' for compliance with the Council policies, occasionally visiting services to observe how the work is carried out and to identify areas for improvement.

Ultimately, the sundry debt team need to be viewed as a 'last resort' for collection, rather than the 'front line' as at present. As soon as debt reaches the sundry debt team, there are increased costs of collection and damage to customer relationships.

Documenting the process

Although Council policies do not need revision with regards to collection, the level of detail provided needs to be enhanced. There needs to be a clear hierarchy which identifies who within each service is responsible for income collection and how it is to be collected. In this hierarchy, the sundry debt team should be shown as the 'last resort'. The development of flow charts would be useful in this exercise.

It is important that these are provided to the sundry debt team so that when that team gets involved, they have a clear list of people to contact to resolve problem cases efficiently. Similarly, it would be beneficial for the sundry debt team to provide each service with contacts within their team as the 'go to' for advice and for providing training and checking compliance with policies.

Collection (continued)
Summary of findings

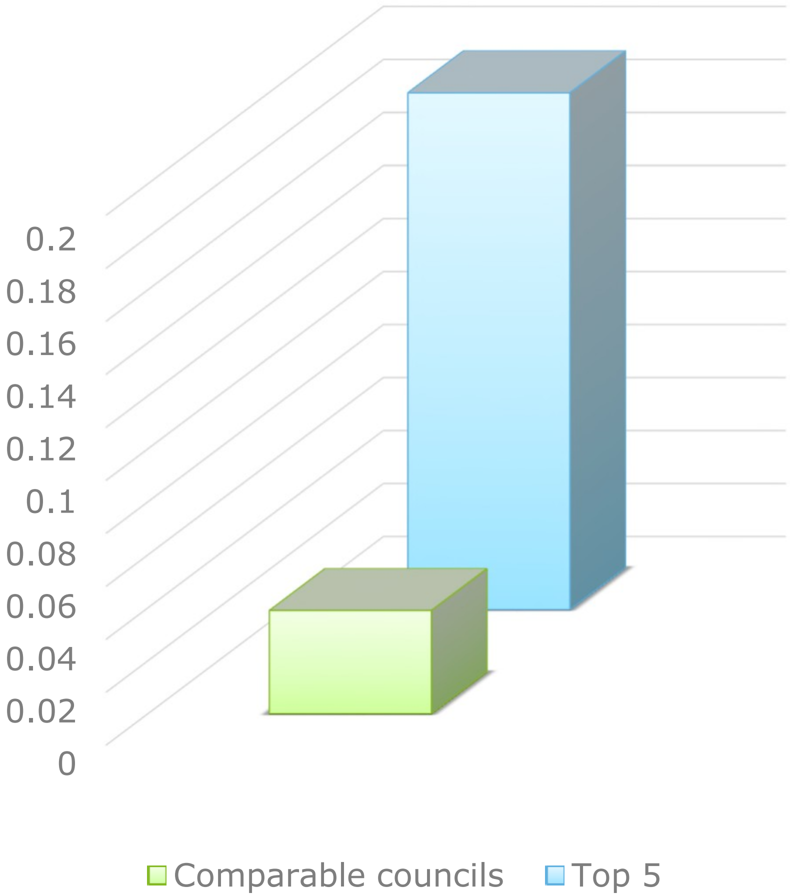
Quantitative findings

1. Over half (53%) of all Highland Council issued invoices are paid late (e.g. more than 14 days from the date of issue). This contrasts sharply with the Council paying 94% of invoices received on time.
2. The level of debt outstanding for more than 90 days has increased sharply from 40% to 56% in 2017/18, significantly above the Scottish average, in the bottom quartile of all councils and worse than comparable councils.
3. Despite recent improvements in collection rates, Highland Council collection rates are still significantly below the 'top 5' and lower than comparable councils. Bridging this gap should be of paramount importance: it has the potential to generate additional income of £0.039m - £0.195m.

Qualitative findings

1. The Council has failed to appropriately enforce its approved policies, allowing services to develop ad-hoc approaches that result in inconsistencies and inefficiencies across the Council.
2. Poor monitoring of income collection has resulted in services focusing on income generation rather than income collection, failing to properly appreciate the connection between the two and the importance of collection on the general fund.
3. The skills and expertise apparent in the sundry debt team are underused by the Council, as undue time is spent on collecting all income rather than focusing on 'added value' areas: improvement, training, and advice.
4. Services are not immediately clear on who to contact in the sundry debt team or what they should be contacted for. We do note, however, that this is a work in progress and the Sundry Debt team are compiling a 'contact register'.

IMPROVING COLLECTION RATES: ADDITIONAL INCOME (£M)



Processing

Processing
Summary of work done

Background

Services across the Council have individual processes for generating income – including price setting and other commercial decisions – and recording income. There is an acceptance that these processes can be improved, with these processes being the subject of several 'Lean Reviews'.

Areas considered

- The appropriateness of the current process for delivering improvements through 'lean reviews'.
- Digital transformation requirements.
- Areas for income process improvements.

Response

We have discussed the income processes with various services and analysed common barriers to improvement, working towards identifying solutions to these barriers.

We have identified the cost of inefficiencies within the current processes and considered the resourcing and skills available within the Council to deliver the required changes to address these inefficiencies.

Our view

Our review has identified many processes where services are demonstrating best practice and the scope for improvement of these processes and the level of savings which can be achieved from their redesign are materially limited by the lack of linked-up systems and outdated and inappropriate ICT infrastructure. Consequently, this report has focused on the ICT improvements required to services, as it is only once these improvements have been made can real change to processes be delivered and savings made from this change.

Council systems are still heavily reliant on manual inputs, resulting in duplicated work and inefficiencies both within services and across the Council. This costs the Council at least £0.175m per annum, on a best-case scenario.

There is a perception gap between services across the Council and the Digital Services team, resulting in required ICT and digital improvements not being acted upon. The effectiveness of the 'lean review' process is severely undermined by a failure to include a dedicated Digital Services team member on each review to guide discussions on the availability of desired ICT solutions.

There is a resourcing and skills gap within the Council which undermines its ability to deliver the required digital transformation to address the inefficiencies in processing. In order to address this, the Council needs to establish a centralised 'digital transformation' budget, separate to the individual service budget allocations, which will allow a unified vision, strategy and implementation plan to be developed.

In order to determine the scope of improvements required, the Council should consider engaging a dedicated, independent business analyst for a time-limited period to work with services and the Digital Services team to identify required changes and develop a business case for these, at an anticipated cost of £0.02m - £0.03m. This will enable the Council to progress to an invitation-to-tender to deliver an interfacing and integrating exercise, linking the various Council service-specific systems and the corporate system (Integra). This will require an up-front investment and can be delivered through a separate digital transformation budget, rather than expecting services to make individual decisions to spend on digital improvements. Fundamentally, service decisions are 'vertical' in nature, whereas digital transformation needs to be 'horizontal' across the Council.

Processing (continued)
Current process

Manual processes

From discussions with operational and management staff across services, a key theme arose: the processes remain largely manual, as has historically been the case. There is a lack of integration between the separate service systems and the main corporate system (Integra), which results in processes being duplicated for service requirements (e.g. ensuring the service is delivered to customers as expected) and Council requirements (e.g. accounting and legal reporting).

The existence of these manual processes and the failure to introduce appropriate integration and interfacing between systems costs the Council £0.175m - £0.190m per annum – with this being a best case scenario, assuming that the *only* inefficiency is the processing of invoices. It is not possible with the available data to quantify the worst case scenario.

It should be noted that other inefficiencies include, but are not limited to, areas such as delays between invoices being issued and being entered on the Integra system (which affects recovery of credit), greater errors (due to manual input), and duplicating customer changes across various service systems.

Commercially minded

This review has identified areas of good practice within the Council, demonstrating that services are being commercially minded. For example, Community Services charges for commercial waste collection (page 17). Harbours engage in practices involving withholding payment for goods until they're sold and requiring up-front payment for new customers. The Chief Registrar responsible for Marriage & Civil Partnership requires up-front booking fees and has identified areas of growth with a focus on marketing and attending wedding shows to educate the public on the availability of Council services for requests which are widely seen as being delivered only in humanist ceremonies. School lets has recently been transferred to the Development & Infrastructure Service, with a change to a central booking team to better record customers and bookings.

Each of these are examples of services taking it upon themselves to be more commercial, competitive and generate value for the Council. However, these changes all occur in a silo format – they affect that service only and other services are not aware of what is happening. This results in good practice being service-specific, rather than Council wide. In order to address this, the Council needs to identify a single responsible officer for service income (discussed further on page 35).

Political impact

Services have expressed frustration at their inability to be more commercial due to political decisions taken at Council level. For example, a decision was taken in 2009 to end 'free lets' on Council properties – this decision has not been implemented due to Member concerns. A decision was taken to not stop service delivery in certain instances, even where there is evidence of abuse and non payment. Examples such as this become widely known amongst service users due to the 'word of mouth' and social media effect and result in significant amounts of lost income to the Council (which by its nature is unquantifiable).

Further, the requirement to apply a standard uplift to service charges (discussed further on page 35) impacts heavily on services, as services feel insufficient weight is given to their concerns on the impact on demand, insufficient economic impact assessments are carried out and there is insufficient benchmarking. It should also be noted here that 'across the board' increases and cuts are seen as against best practice per Audit Scotland.

It is important that services engage with the Fees & Income work currently being undertaken (see page 35) and with Corporate Finance as part of the budget setting exercise so as to make appropriate use of available information to convince Members of their concerns or to assure themselves that their concerns can be addressed.

Processing (continued)
Digital focus

Lean reviews

The main mechanism for delivering changes within the Council at present is through the 'lean review' process. Pivotal to changes is ICT and digital improvements. Services are unanimous in their view that ICT and digital are barriers to improvement. The Digital Services team are of the view that lack of understanding of ICT within services is the barrier. Regardless of the accuracy of these perceptions, the contrasting beliefs need to be addressed in order to deliver improvements at the Council.

It is clear from reviewing 'lean reviews' that the Digital Services team are not an integral part of this work – by the very design of the lean review teams, they are excluded as the review is carried out primarily by operational staff from across services. From discussion with services, lean review teams and the Digital Services team, a common theme of Digital Services being approached at the end of a lean review was identified.

Given that ICT and digital improvements form some of the main recommendations which arise from lean reviews, it is necessary to have a member of the Digital Services team as a designated 'point of contact' for *all* lean reviews with ongoing communication (at appropriate stages of the review), to guide the review team on the feasibility of workstreams and the availability of desired ICT solutions. This will avoid lean reviews working on areas which are undeliverable with the Council's systems and then seeing the ICT as a 'barrier' after time has been wasted. Further, it will allow Digital Services to guide the lean review team on what is possible from an ICT point of view, with the lean review team then identifying the best way to use these possibilities within the service.

Identifying and addressing service needs

Services have expressed a need for improved digital solutions to drive changes and deliver savings and additional income. However, services are not always aware of what digital solutions are available within the current suite of Council systems, nor of what changes they actually need to deliver the improvements they envisage, or how the improvements identified at a service level may be applicable across the Council.

A process has recently been started to address this with workshops being held by the Digital Services team to identify common issues. However, there is a resourcing and skills gap which affects the delivery of this. This resourcing and skills gap ultimately results in recommendations from lean reviews and other identified areas for improvement not being acted upon for extended periods.

Fundamentally, the Council needs to engage independent, external advice to work with the Digital Services team and the various Council services to identify service needs and what can be delivered with the current Council systems and areas where the Council will need to implement changes. It is envisaged that this exercise will cost in the region of £0.02m – £0.03m. This 'scoping' exercise should result in an invitation to tender for delivering the identified improvements, with anticipated costs of approximately £0.5m - £0.75m to interface and integrate the existing Council systems. Digital Services have accepted that their skills are not aligned to these requirements and that there is insufficient resourcing to deliver the required changes.

A distinct budget

There is no separate, centralised budget for digital transformation within services. It is assumed that services will make monies available as required for digital transformation. As services are focussed on making immediate savings, it is understandable that they are unwilling to make the necessary budget available to deliver the required digital improvements. In order to address this, the Council need to remove this responsibility from services and establish a centralised digital transformation budget. This budget – and the amount taken from each of the service budgets – should be informed by consultation with the relevant services and Digital Services team to identify the amount of improvements necessary in that service and what is a sustainable amount to be taken from their budgets. This centralised budget should then be used to deliver a distinct Digital Services strategy, with a clear vision and implementation plan driving this.

Processing (continued)
Summary of findings

Quantitative findings

1. Manual processes cost the Council, on a best-case scenario, between £0.175m - £0.19m per annum.

2. A time-limited 'scoping' exercise carried out by an independent business analyst to identify service requirements for process improvements – bridging the gap between services and the Digital Services team – would be anticipated to cost in the region of £0.02m - £0.03m.

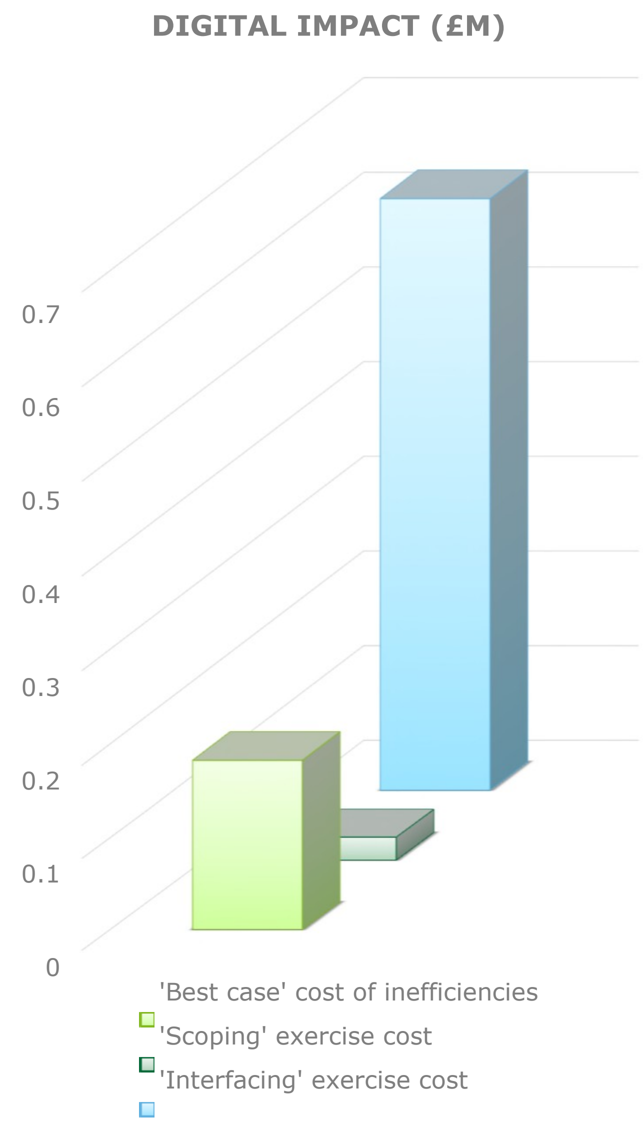
3. A year-long process to fully interface Council systems – eliminating the need for the costs identified in #1 above – would be anticipated to cost in the region of £0.5m - £0.75m, subject to an invitation to tender and competitive process.

Qualitative findings

1. Services have demonstrated their ability to be commercially minded and to deliver improvements which are within their gift. These improvements are limited by their 'silo' service-specific nature, decisions made at the political level, and insufficient resources to deliver the required ICT and digital improvements.

2. The ability of the 'lean review' process to deliver improvements and implement recommendations is severely undermined by the failure to include a member of the Digital Services team within each lean review, so as to identify what improvements can be implemented with current systems and to guide the review team on what is deliverable so as the review focuses on relevant areas.

3. There needs to be a separate budget for digital transformation, distinct from service budgets. This will enable an overarching vision, strategy and implementation plan to be developed with the resourcing for this known in advance, rather than being reliant on services making the necessary funding available.



Budgeting & monitoring

Budgeting & monitoring
Summary of work done

Background

The Council approves its budget for the coming financial year in February of each year. In recent years, this has included revenue raising measures by applying a 'standard' uplift of 10% to fees & charges. Services report on financial matters – including performance against budget – to the relevant Committees and full Council on a quarterly basis throughout the year.

Areas considered

- The current approach to budget setting, focusing on price determination.
- The appropriateness of the current monitoring structure with regards to income.
- Options for improvement.

Response

We have reviewed the budget setting process, including discussing the process with relevant personnel. We have considered the approach utilised by the Council for determining service price increases and the impact this has on income generation.

We have reviewed the monitoring systems in place to determine their impact on incentivising appropriate corporate behaviour and encouraging focus on income generation and collection. We have considered the arrangements the Council has in place to monitor how it is achieving its targets and addressing areas of poor performance.

Our view

The Council's external auditors have confirmed that the Council has robust governance arrangements in place. However, there is room for improvement in the level of financial detail reported to service committees and to the Council. It is important that the Council focuses on areas other than 'income' and 'expenditure' with a move towards considering wider financial performance within the service, which can be aided by utilising key financial ratios. As the Scottish Government moves increasingly to a focus on outcomes, it is important that the Council does the same – budget decisions are currently justified by 'service impact' with there being no clear link between this and the achievement of outcomes.

In order to ensure that the financial measures required by the budget are achieved, the Council needs to ensure sufficient management buy-in from services. This can be helped through utilising the data the Council has available on price elasticity (by reviewing demand fluctuations in response to historical price changes) which is being developed through a 'Fees & Income' project. Further, while the Council is acting in line with best practice by allowing increasing service autonomy, it is incumbent on the Council to incentivise good performance through rewarding services which over-perform and implementing recovery measures where services under-perform. At present, there is a feeling amongst services that it does not pay to perform well, and this has a detrimental impact on the achievement of budget targets.

As a result of this service autonomy and the failure to enforce adherence to Council policies, inconsistencies have arisen between services where there is no business rationale or justification for this to be the case. While appreciating the distinctness of services, it is important to have a single responsible officer for fees & charges to ensure that a consistent approach is adopted across the Council and to measure compliance with Council policies. We are aware that the Council currently has a vacancy for an 'Income Generation Manager' and this is part of an ongoing structure review of the Corporate Efficiency Team – this recommendation could be addressed as part of this process.

Budgeting & monitoring (continued)

Current process

Budget setting

In recent years, the Council has approved its budget with 'expected savings' from redesign and 'anticipated income' from raising prices across the board fundamental to closing the funding gap. The achievability of these savings and the probability of collecting this income are not considered in appropriate detail. This has resulted in significant budget overspends - £1.1m in 2017/18, and forecast at £5.1m for 2018/19 as at August 2018.

Services have expressed the view that the budget is "a desired rather than achievable" outcome – essentially, the budget has to balance so it is made to balance, but the achievability of it and the actions needed to deliver it are not subject to appropriate discussion. There was some concern that not all income budget proposals are subjected to sufficiently close scrutiny by officers from both services and Corporate Finance staff. Any lack of this communication undermines management buy-in within the services as the budget setting exercise is essentially seen to be a box-ticking exercise, rather than a beneficial tool to be used in the year ahead.

Services feel that in certain respects, the budget setting process is inappropriately 'top down' in nature. Services feel that there is a lack of appreciation in the Council of the distinctions between services and how income is generated in each. Further, they feel that the Council fails to give sufficient attention to the expertise of the personnel on the ground, delivering the service.

Performance against budget

The effectiveness of the budget as a performance monitoring tool is undermined due to the lack of consequences for failing to deliver. The Council is following best practice in allowing autonomy in delivering the budget, however, this best practice also requires that there are serious consequences for failure to properly use that autonomy.

Services have expressed concern that those areas which perform well are essentially 'punished' for their good performance by being required to make additional savings, whereas areas which fail to stay within budget are 'rewarded' by being given additional funding.

The perception by services that the budget is fundamentally unachievable and that there are no consequences for failing to deliver the budget is a self-perpetuating cycle that needs to be tackled.

Focus on outcomes

The Scottish Government is moving increasingly to considering the achievement of outcomes for determining funding, rather than the historical focus on geographic/demographic issues. Aside from the potential impact on central funding, it is important that the Council can demonstrate the impact the money it spends is having on the users of the service, rather than on the service itself.

Services have expressed the view that "in the Highland Council, outcomes aren't on the radar." Regardless of the accuracy of this sentiment, the perception is telling and needs to be addressed.

Each year, the Council attempts to identify exactly the amount of savings/additional income needed to close the funding gap, rather than taking a longer term view. The budget fundamentally focuses on income and expenditure, with the savings and income generation targets detailing the impact on the service, rather than the impact on the outcomes that that service is trying to deliver.

There is a failure in the budget to holistically consider the Council's performance, key performance indicators and key financial ratios to identify areas of poor performance or worrying trends which need to be tackled in the coming year.

Budgeting & monitoring (continued)
Governance

Reporting to Committees & Council

On a quarterly basis, services report their performance against budget to the relevant service committee. Overall Council performance against budget is also reported to the full Council. By design, these are at a high level – focusing on income generated and expenditure incurred – in order to be comparable to the approved budget.

Whilst it is important to consider these areas, it is also important to consider the financial performance of the service as a whole: including service income actually collected and the level of service debt outstanding. Despite debt having an impact on both income and expenditure, this is not considered by committees or the full Council until the year end, at which point it is not possible to address the issue for that year's accounts. In order to encourage services to take ownership of their income (as discussed on page 9) – from generation to collection – it is important that these measures are reported to Members (collection rates, debt outstanding, average days overdue, etc.)

Considering wider areas of financial performance – including key financial ratios and performance indicators – helps to close the gap between the 'financial' accounting used to develop the budget (to be in line with the year end accounts and to measure the impact on the general fund) and 'management' accounting which should be used for reporting internal performance and considering the impact of future actions.

Incentivising good performance

As discussed on page 33, services are concerned by the lack of consequence for underperformance and the perceived 'punishment' for performing well. This perception is severely damaging in that it discourages over-achievement of budgeted amounts and rewards underperformance with additional funding. This removes financial responsibility from the relevant service management and committee.

In order to tackle this issue, once the budget is approved, any deviation from it should be dealt with from within that service rather than relying on other services over-achieving. This should only be deviated from where budget overspends are *genuinely* unforeseeable. This is a simple step, necessary to combat the perceptions outlined above and to incentivise all services – and the relevant service committees – to achieve their targets.

Services have expressed concern that Members influence – or attempt to influence – operational decision making within the service, outside the committee reporting structure. This is particularly felt to be the case with charging 'discretionary' fees for services. This undermines the consistency of the approach taken to income generation. To ensure appropriate governance and segregation between operational and strategic decision making, services need to ensure they keep a record of contacts from Members regarding financial matters outwith the committee reporting structure and these should be reported to the relevant committee on a quarterly basis along with the financial information.

Addressing poor performance

The Council has adopted the best-practice approach of service autonomy with regards to delivering savings. However, the reward of autonomy must be matched with appropriate consequences for failing to use it appropriately. There is currently no clear, documented consequence for failing to deliver the budgeted savings and there is a history of the Council simply funding areas which underperform. Steps need to be taken to address this, including the establishment of a process whereby a senior member of staff can be 'seconded' into services which are under performing – sitting above the previous budget holder – as a check that decisions which impact on delivery of the budget are appropriately considered and to ensure that failure to deliver the budget is genuinely unavoidable, rather than as a result of poor buy-in or a failure to implement agreed improvements.

Budgeting & monitoring (continued)
Income

Budget setup

The setup of the budget is not conducive to appropriate income management. Despite income being broken down in great detail and credited directly to the service and the relevant budget holder, debt is held centrally by the Council. It removes the responsibility from the service for collecting income provided on credit and results in unnecessary delays in collection (page 9). This issue fatally undermines the Financial Regulations with regards to who has responsibility for collecting income.

Consistency of approach

Each service within the Council is distinct and operates independently, as is necessary due to the differences in service being delivered. However, the acceptance of this has resulted in services dealing with income generation and collection in fundamentally different manners, with inconsistencies between every service. Importantly, each service is also unaware of what the other services are doing.

In order to address these inconsistencies and to ensure compliance with the Financial Regulations and associated guidance policies, the Council needs to assign a single responsible officer for fees & charges. Whilst services should retain their roles as present, this new position should act as a consistency check to ensure that decisions taken by services with regards to income are consistent with Council policies and other services. This would also identify areas of good and poor practice and enable 'lessons learned' and solutions (e.g. the Music Tuition review) to be applied across the Council in a controlled and efficient manner, rather than ad-hoc at present.

Given the issues raised in this report around the existence of 'unwritten' policies and issues with adherence to Council policies (which has a financial impact on the Council), the Council should consider engaging internal audit to specifically look at this issue and make recommendations for improvement as it is highly unlikely that this is an income-specific issue.

Pricing

The Council applies a standard uplift to fees & charges as part of the budget setting process, outlining certain exceptions from this uplift. This goes against Audit Scotland best practice that identifies 'across the board' measures as being generally ineffective and demonstrating a lack of commercial awareness.

Where services disagree with the uplift but adhere to it – historical examples include music tuition and school meals – there has been a drop in demand which exceeds the additional income raised, ultimately resulting in lost income for the Council. Where services do not adhere to the uplift because of the anticipated impact on demand, it means they have to raise fees and charges on other areas to offset the difference in order to still achieve the budget. This results in further deviations from Council policies and even more inconsistency across the Council.

There is work currently underway on 'Fees & Income', being led by the Commercial Efficiency Team ('CET') and this needs to be prioritised by the Council and feed into the budget setting process for 2019/20 onwards. This work will enable the Council to make more economically desirable decisions by understanding the price elasticity of its services. The importance of understanding this key issue cannot be understated as it has the potential to identify areas where income can be raised significantly above the 'standard' uplift without substantially impacting demand, and can enable the Council to better identify which areas should be exempt from the uplift for economic reasons.

The Council ultimately needs to be able to accurately quantify the cost of delivering its services – this has been raised as an issue affecting councils across Scotland by Audit Scotland. However, in the meantime, the work being carried out by the CET on fees & income will allow the Council to identify the best economic decisions it can make on income, even if it is not immediately clear what relationship that has to the cost of delivery.

Budgeting & monitoring (continued)
Summary of findings

Qualitative findings

1. The budget is not used to full effect due to it being perceived as a 'box ticking' exercise rather than a management tool. This perception has resulted from the belief that the 'top down' approach is not appropriate and failing to properly consider the distinctions between services in the Council. The budget is considered to be a desirable rather than required outcome and the lack of consequence for under performance or reward for over performance reinforces this view.

2. The Council focuses too heavily on the 'impact on the service' rather than the impact on outcomes and there is no clear link in the budget setting papers of the relationship between that service impact and achievement of outcomes.

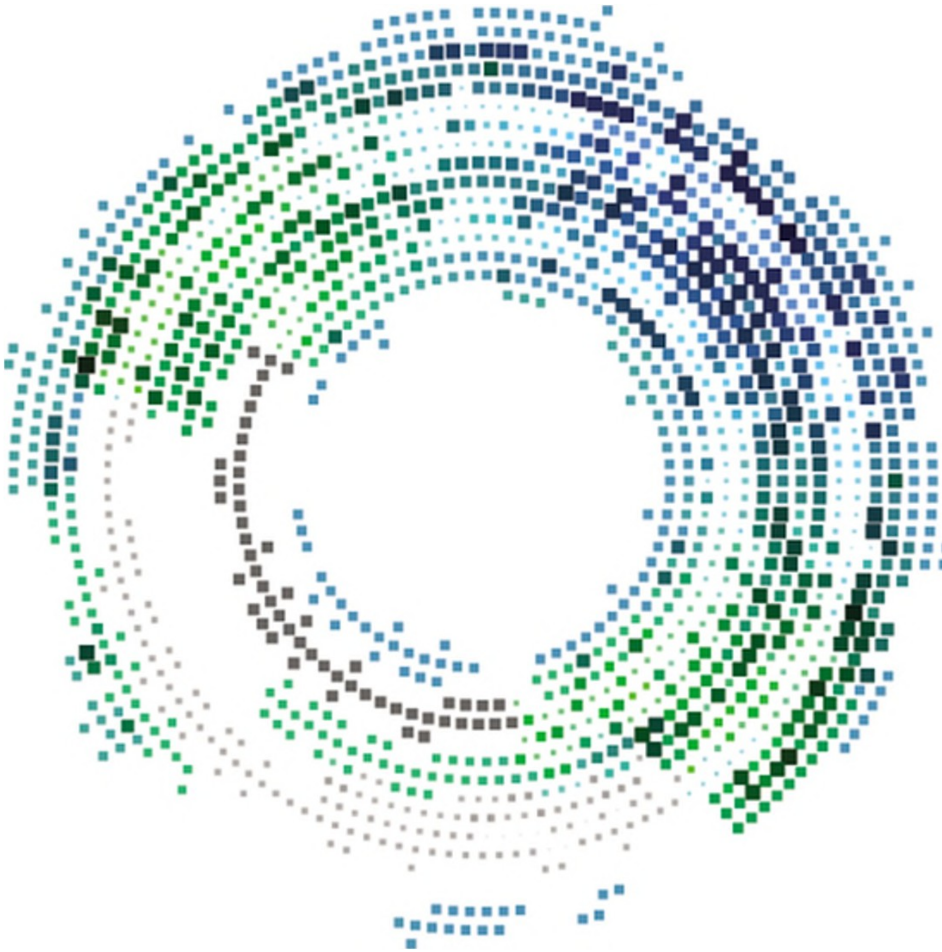
3. The level of detail in financial reporting to committee and Council is insufficient to enable scrutiny of actual financial performance by the service, as it is heavily skewed towards 'financial' accounting measures (to allow comparison to budget/year end figures) and fails to appropriately consider 'management' accounting information, such as key financial ratios.

4. The setup of the budget is not appropriate to incentivise services to comply with the Financial Regulations with regards to income collection. The current process results in the service budgets being automatically credited with income when the invoice is raised, whether it is collected or not. A mechanism whereby services are only credited with the income when it is collected (for management reporting, rather than financial reporting purposes) would be more effective at engaging services in debt management activities.

5. The approach to income differs across services without any clear rationale or justification. This needs to be addressed through the appointment of a single responsible officer for fees & charges to ensure consistency across the Council.

6. The Council has historically failed to fully utilise the data it has available to appropriately consider the impact of pricing decisions on the demand for services.

Embedding improvement



Action plan
Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Credit	The Council should develop a new credit policy, including consideration of when credit is given, encouraging up-front payment, and charging for invoicing and for late payment. This credit policy needs to shift the balance from reliance on the centralised sundry debt team for income collection to services being responsible for this. (Refer to page 20 for details.)	Agreed.	Head of Revenues & Customer Services	31 March 2019	High
Processing	The Council should consider establishing a distinct 'digital transformation' budget, as opposed to keeping this budget within services. This should then be used to develop a unified vision, strategy and implementation plan to deliver the required digital transformation for services. (Refer to page 30 for details.)	Agreed.	Head of People & ICT / Head of Corporate Finance & Commercialism	31 March 2019	High
Processing	Each lean review should include – at the appropriate stages – a member of staff from ICT Services to help inform the review team on ICT options, solutions and ICT-related recommendations. (Refer to page 30 for details.)	Agreed.	Head of People & ICT / Head of Redesign	31 December 2018	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Processing	The Council should consider engaging an independent specialist to work with the services and the Council's in-house ICT function to determine the scope of interfacing and integration changes required and to aid with the development of a business case for investment. (Refer to page 30 for details.)	Agreed.	Head of People & ICT	31 December 2018	High
Budgeting and monitoring	The Council should consider incentivising improvement in budget management whereby areas of poor performance are helped by 'seconding' a senior member of management to help oversee the relevant budget and to provide an extra layer of challenge and review of service decision making at an operational level to ensure that all steps are being taken to address poor performance before relying on additional funding being sourced from other services. (Refer to page 36 for details.)	Agreed.	Head of Corporate Finance & Commercialism	31 March 2019	Medium
Credit / Budgeting and monitoring	The Financial Regulations and associated guidance notes need to be reviewed to ensure they remain appropriate and they need to be subject to greater enforcement, resulting in greater consistency across the Council. The Council should appoint a single responsible officer for service income to aid with this process. (Refer to page 36 for details.)	Agreed.	Corporate Audit & Performance Manager	31 March 2019	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Budgeting and monitoring	In order to support management buy-in with budgetary decisions, the Council should empower service budgetary submissions through requiring discussions with Corporate Finance to 'sense check' and guide services on the financial impact of their submissions. Services should be required to link their submissions with the work being carried out on 'Fees & Income' to demonstrate the impact of price changes on demand. (Refer to page 36 for details.)	Agreed.	Head of Corporate Finance & Commercialism	31 August 2019	Medium
Collection	In order to improve collection rates, the Council should help services take greater ownership of their debts, empowering them to improve overall collection levels. Each service should have dedicated contacts within the sundry debt team to go to for advice and guidance on collecting income, with dedicated contacts for high value debts. The sundry debt team should undertake reviews of service income collection and deliver training as appropriate. (Refer to page 25 for details.)	Agreed.	Head of Revenues & Customer Services	31 March 2019	Medium
Budgeting and monitoring	In line with Scottish Government guidance, budget decisions should be based on outcomes. As part of the budget setting process, the Council should consider the impact on outcomes of changes in charging and funding. (Refer to page 36 for details.)	Agreed.	Head of Corporate Finance & Commercialism	31 March 2019	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Budgeting and monitoring	The level of detail contained in quarterly budget reporting to service committees and Council should be reviewed to look at reporting other metrics in addition to the income and expenditure currently reported. (Refer to page 36 for details.)	Agreed.	Head of Corporate Finance & Commercialism	31 March 2019	Medium
Budgeting and monitoring	The Council should consider engaging internal audit to review implementation of recommendations across the Council and adherence to Council policies. (Refer to page 36 for details.)	Agreed	Head of Redesign	31 March 2019	Medium
Sharing best practice	As part of the ongoing restructure of the Commercial & Efficiency Team, the Council should consider the scope for members of this team to be dedicated to delivering the Council's transformation programme. Consideration should also be given to the engagement of specialist external support as and when required to support and challenge the internal work carried out by the Council. (Refer to page 42 for details.)	Agreed	Head of Corporate Finance & Commercialism	31 March 2019	Medium

Sharing best practice

Deloitte is involved in a number of cost reduction and transformation programmes in England and this experience has been used to guide this joint review with Highland Council and drives the recommendations outlined in the Action Plan on pages 38 – 41. As this review has progressed, discussions have been held with key personnel throughout the Council to share areas of best practice around transformation from our work elsewhere.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

The Council accepts that the Redesign Programme has not delivered the anticipated financial results as yet, resulting in significant budget shortfalls. A dedicated team is required to drive transformational change and the Council needs to implement this going forward. It is fundamental that clear targets and milestones – not just in terms of savings – are set to aid in the monitoring of this process.

Given the complexity of the changes required, the Council needs to consider the supporting infrastructure required to deliver transformational change, such as: external support; a full time, dedicated programme management office; the change management approach, and tools and templates to assess whether the intended outcomes and benefits of change have been achieved.

Strategic Driven	A "Place" leader	Digital data analytics and insights	Efficiency, productivity and income generation	Outcome focused partnership working	Relation with the Citizen
Plans and strategies need to be completely transparent and reflect **personal accountability** of those involved.	**Leadership** must drive transformation with partners and the rest of the workforce. Leadership development is key to effective change.	Bodies should rely on their **digital capacity** to drive productivity and efficiency.	New standardised processes need to reflect the agreed design, be **efficient**, effective and scalable.	Resources need to be targeted to **key priorities and outcomes** at a partnership level.	Shifting focus from servicing people's needs towards **empowering** their strengths to enable them to meet their own needs.
A key challenge is achieving buy-in from the workforce. Personal accountability is effective in ensuring this buy-in.	Difficult decisions may need to be made if leadership do not willingly buy-in to the transformation agenda.	There is a wealth of data available to public sector bodies to help identify and achieve greater efficiency.	Essential for systems to be integrated as much as possible to achieve most benefit.	Transformation plans should be clear as to the expected impact on priority outcomes.	Processes need to be structured and systematic to be effective.

Sharing best practice (continued)

Below are some real life examples of work done in other public sector bodies to demonstrate how some of these six key requirements outlined on page 42 can be applied in practice.

Relation with the Citizen

Outcome focused partnership working

A health body had a patient that required an extensive care package costing approximately £3,000 per week. This was a "needs-based" package and despite the level of care provided, the patient still felt isolated and alone. As part of a transformation to service delivery, the patient's package changed from a needs-based approach to focus on their strengths.

The patient became more active through engagement with their interests (specifically, the health body helped them join a local model-aeroplane building club), and this small but significant change to service delivery approach saw the cost of the patient's care package reduce from approx. £3,000 a week to approx. £20 a week. The patient was able to largely care for himself with appropriate support in the community. Whilst this is an extreme example, this is what real transformation to service delivery represents.

A Health and Social Care Partnership transformed its care at home service by introducing a "Front Door" approach. A single team of social workers, occupational therapists and support assistants based across two locations is now in place to talk to people who may need to use services. The council refers to this as changes to 'front door' services. Previously, individual teams provided separate care, with a referral process between teams. The new model of care encourages local people to develop the confidence and skills to care for themselves, using personal strengths, assets and wider community resources.

This approach is more personalised and helps reduce the demand for social care and acute hospital admissions. Individuals now have only one worker to deal with, and staff from different services can liaise with each other more easily. This reduces inappropriate referrals and, in some cases, removes the need for a referral, for example if information and advice is all that someone needs.

Relation with the Citizen

Outcome focused partnership working

Efficiency, productivity

Sharing best practice (continued)

Below are some real life examples of work done in other public sector bodies to demonstrate how some of these six key requirements outlined on page 42 can be applied in practice.

Relationship with the Citizen

A Council in England committed to a series of pledges and in return required residents and businesses to play their part too (known as "The Deal"). Through working together, the Council has saved £115m so far, with evidence based outcome improvements.

The Deals are wide ranging, offering partnership work and support in a number of areas. As an example, the **Deal for Health and Wellness** includes the following:

Our Part

- Ensure there are a wide range of facilities within local communities including parks, open spaces, leisure, safe cycling routes, good quality housing.
- Ensure easy, timely access to good quality GP services, seven days a week, to screen, diagnose and treat and prevent disease as early as possible.
- Support families to ensure their children have the best start in life.

Your Part

- Keep active at whatever stage of life.
- Register with a GP and go for regular check-ups – taking charge of your own health and wellbeing.
- Quit smoking. Drink and eat sensibly and encourage your children to do the same.

Digital data analytics and insights

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. This information led to a programme to stagger the prescriptions throughout the week, resulting in the acquisitive crime rates levelling out and becoming more manageable.

Other publications

Our publications and insights to support the Council

Publications

The State of the State 2018/19
Government beyond Brexit

This year's report finds the UK government amid the complex and politically-charged challenge of leaving the EU. But while Brexit may dominate daily headlines, our report finds a wider set of challenges – and opportunities – for government and the public services as they gear up for a Spending Review.

Now in its seventh year, **The State of the State** has once again brought together Deloitte LLP and Reform to reflect on the most pressing public sector issues along with new, exclusive research. Central to the report is our citizen survey, which provides a platform for the most important voice of all in the public sector: that of the public. Also exclusive to the report is our research with the people who know the public sector's challenges best: the people who run it.

Download a copy of our publication here:
https://www2.deloitte.com/uk/thestateofthestate

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with organisations large and small, across all industries and in the private and public sectors.

Recent publications relevant to the Council are shared opposite.

Article: Keeping pace?
Government's technology transformation
Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

Read the full article here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/governments-technology-transformation.html

Article: The ascent of digital
Understanding and accelerating the public sector's evolution
In recent years, the public sector began adopting digital processes and operating models, heralding the dawn of a new digital era. This new era has been made possible by rapid changes in technology.

At the same time, unprecedented cost pressures and rising public expectation have converged to create pressure for change.

Read the full article here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/the-journey-to-governments-digital-transformation.html

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Each of the below members of Highland Council staff have been involved in the development of this report and have reviewed it prior to its presentation to the Redesign Board to confirm that they agree with its findings.

Highland Council staff

1. Derek Yule (Depute Chief Executive & Director of Corporate Resources)
2. Malcolm Macleod (Acting Head of Redesign)
3. Allan Gunn (Head of Revenues & Customer Services)
4. Brian Murison (Revenues Manager)
5. Alasdair Cameron (Principal Revenues Officer)
6. Matt Bailey (Principal Project Manager)
7. Moira Green (Technical Business Analyst)
8. Caroline Campbell (Head of Performance & Resources)
9. Tony Usher (Harbours Manager)
10. Steve Walsh (Head of People & ICT)
11. Daniel Scott (ICT Strategy & Engagement Manager)
12. Allen Henderson (ICT Technical Design Architect)

Highland Council staff

13. Lesley Gray (Chief Registrar)
14. Andy Summers (Head of Environmental & Amenity Services)
15. Dorothy MacKenzie (Operations Manager)
16. Imogen Percy-Bell (Waste Management Officer)
17. Murdina Boyd (Business Development & Support Manager)
18. Finlay MacDonald (Head of Property Services)
19. Evelyn Miller (Cleaning & Facilities Management Manager)
20. Sandra Kennedy (Resources Officer)
21. Sue Nield (Catering Services Manager)
22. Margaret Grigor (Finance Manager)