

The Highland Council

Agenda Item	9.
Report No	EDU/29/24

Committee: Education

Date: 21 November 2024

Report Title: High Life Highland Service Delivery Contract Review

Report By: Assistant Chief Executive - People

1. Purpose/Executive Summary

1.1 The Highland Council (THC) established High Life Highland (HLH) to deliver Council services, whilst achieving reductions in the cost of service delivery. THC has a Service Delivery Contract (SDC) with HLH (“the Contract”) to define the services. This is the second report on the SDC review, and it provides Members with the information required to conclude the review at elected member level and seeks approval of the new Contract.

2. Recommendations

2.1 Members are asked to **note**:

- i. that the HLH Board was consulted on this report, in draft, at a special meeting held on 25 October 2024 and feedback from the Board is reflected in this report;
- ii. the arrangements for properties and vehicles associated with the adult learning and youth work services in **Appendix 1**;
- iii. that the performance reporting required of HLH by the Council has been updated as a result of the SDC review and has been included in the revised contract in **Appendix 2**;
- iv. that the service level agreements which specify the services which THC provides to HLH to allow it to operate will be reviewed by Council and HLH officers over the course of the coming year;
- v. that specialist legal advice on the overall arrangement/legal framework has been sought by both organisations and that the arrangement continues to meet all legal requirements.

2.2 It is recommended that Members **agree**:

- i. the revised Contract in **Appendix 2** subject to final legal checks following comment by both the HLH Board and Education Committee at this meeting.

3. Implications

3.1.1 Resource – there are no material financial implications for THC arising from this report. The officer SDC Review Board has taken account of the small number of youth work/adult learning buildings to minimise any potential impact of rates relief as provided in **Appendix 1**. The net liability arising from this is £26k and will be met within existing resources.

There will be a transfer of staff to the Council as a result of the Adult Learning and Youth Work teams coming across from High Life Highland. This has previously been considered and approved by the Education Committee at its meeting held on September 2024.

3.1.2 Property Costs – HLH was set up by THC to maximise cost savings, with immediate benefits from Non-Domestic Rates (NDR) relief. THC decided to retain responsibility for properties and property maintenance when HLH was established. This gave assurances to THC that properties and property maintenance in its buildings was legally compliant and avoided HLH duplicating costs by having to set up its own property team and associated property maintenance contracts, with all of the associated economies of scale. Other than a modest increase in NDR costs, there will be no change in property costs when transferring the adult learning and youth work buildings to THC.

3.2 Legal – there are no new legal implications associated with the review. Both organisations have taken specialist legal advice on: the revised contract in **Appendix 2**; and the overall legal framework to ensure that the best practice model for Council-owned Arms Length External Organisations (ALEOs) continues to be followed.

3.3 Risk – there are no risk implications requiring changes to the risk register arising from this report.

3.4 Health and Safety (risks arising from changes to plant, equipment, process, or people) - there are no health and safety implications arising from this report.

3.5 Gaelic – there are no Gaelic implications arising from this report. There is a specific part in the Schedule in the Contract which sets out what is required of HLH in support of Gaelic language and culture.

4. Impacts

4.1 In Highland, all policies, strategies, or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children’s Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform this. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report following the Education Committee meeting held on 12 September 2024. The report can be seen at this [link](#). The changes relating to in-sourcing of services were discussed and approved then. This is recorded in the background section below. An impact assessment is, therefore, not required.

5. Background

5.1 The Highland Council (THC) established High Life Highland (HLH) in 2011 to deliver services on its behalf, while making recurring savings mainly through non-domestic rates (NDR) relief. HLH has been both an efficient and effective deliverer of THC Services, as well as being an organisation which has protected and developed them. Its effectiveness in these areas has been confirmed by external audit (Accounts Commission and Audit Scotland joint audit in 2019 which can be seen at this [link](#)). There is further information on HLH's successful operation as an ALEO of the Council in the HLH Progress report which was considered by the Education Committee at its meeting held on 30 May 2024. The report can be viewed at this [link](#).

5.2 The Service Delivery Contract that was put in place when the ALEO was first created was last reviewed in 2017. It was therefore considered timely to undertake a review to ensure the contract remained fit for purpose and identify what changes, if any, should be made to it. In future, the intention will be to undertake a review of services and service levels every Council term as a minimum, which would mean that the next review will take place following the 2027 local government election. There are opportunities to make adjustments mid-term using the change control procedure in the Contract.

5.3 A project board comprising Council and HLH Officers was established to review the Service Delivery Contract (SDC) with HLH. The Education Committee considered report ref. EDU/16/24: "High Life Highland Service Delivery Contract Review Update" by the Assistant Chief Executive – People, at its meeting held on 12 September 2024, where the committee **noted**:

- i. progress made on the contract review and that there will be a final report for Member consideration at the 21 November 2024 meeting of the Education Committee;
- ii. the need to adjust the SDC scope following THC's introduction of the Operational Delivery Plan and Highland Investment Plan;
- iii. following the review of Public Service Obligations (PSOs) it is proposed that HLH should continue to deliver all but two of the services currently delivered on behalf of THC;
- iv. it is considered that the transfer of adult learning and youth work services to THC would support the Council's plans for education, employability, poverty reduction and community planning;
- v. no additional THC services have been identified as suitable for transfer to HLH during this contract review;
- vi. the report to the Education Committee on 21 November 2024 will focus on the actions listed in section 7 of the report; and
- vii. the HLH Board was consulted on the report, in draft, at its meeting held on 28 August 2024 and feedback from the Board is reflected in this report.

and **agreed**:

- i. that matters relating to services delivered from assets owned by THC and operated by HLH be considered as part of the Reconfiguration of Council Assets Portfolio in the Operational Delivery Plan and also the Highland Investment Plan;
- ii. the commencement of the transfer process of adult learning and youth work from HLH to THC; and

- iii. that HLH should continue to deliver the remaining Public Services Obligations that it operates on behalf of THC.

6. Situation Post Pandemic

- 6.1 The need for the review has also been driven by the wider economic situation. The financial impacts of the COVID-19 pandemic were mitigated by implementing a range of measures: strict cost control; receiving customer support through donations; government support (drawing down in excess of £7m from the COVID Job Retention (Furlough) Scheme) and additional financial support for the Council. Post pandemic, inflation, and in particular staff pay inflation, has grown rapidly. With most of HLH services not legally permitted to generate income, it has not been possible to increase charges and growth from income generating services at a level that could cross-subsidise other services without risking significant customer loss and further undermining the charity's financial viability. With 84% of HLH's budget as staff costs, there were pay award pressures in excess of £2m in FY 22/23 and 23/24. This led to the HLH Board raising concerns that, without changes to the SDC, the charity would become unsustainable as a going concern.
- 6.2 Working in partnership to protect services, THC has provided additional funding from reserves in each of the last 4 years, whilst HLH has expended its reserves, increased income and continued to deliver significant efficiencies.
- 6.3 Since the pandemic, HLH's earned income has increased and income for each year along with a forecast for the current year can be seen in the following table:

Category	20/21 (£,000)	21/22 (£,000)	22/23 (£,000)	23/24 (£,000)	24/25 (£,000)	Increase since 20/21 (£,000)
Earned Income	13,592	12,217	15,945	18,043	19,700	6,108

- 6.4 Since the pandemic HLH has made the following savings:

Category	20/21 (£,000)	21/22 (£,000)	22/23 (£,000)	23/24 (£,000)	24/25 (£,000)	Total (£,000)
Efficiencies	239	353	424	711	476	2,202
Reductions	150	56	651	154	0	1,012
Total	389	409	1075	865	476	3,214

- 6.5 Since the pandemic, the additional support from the Council was as follows:

	20/21 (£,000)	21/22 (£,000)	22/23 (£,000)	23/24 (£,000)	24/25 (£,000)	Total (£,000)
THC Support	0	1,500	608	2,422	2,764	7,294

- 6.6 It has been agreed that there will be additional financial reporting at the Corporate Resources Committee until the additional funding from Council reserves is no longer required.

7. Progress Since September Education Committee Meeting

- 7.1 The SDC review actions from the September Education meeting which have been completed are:
- i. Review of Public Service Obligations (PSOs) (work has commenced on the transfer of Adult Learning and Youth Work staff to THC).
 - ii. Review of the funding formula which has been included in the new contract in **Appendix 2**.
- 7.2 The items agreed for removal from the review have all been included in the work of THC's Delivery Plan portfolios.
- 7.3 Officers have been progressing with the transfer of adult learning and youth work staff to the Council since the September Education Committee meeting and those two teams will transfer on 1 December 2024. Both teams have been supported by Council and HLH managers and HR officers with trade unions also providing support to the process and their members.
- 7.4 At the 12 September 2024 Education Committee meeting it was reported that the officer SDC Review Board would take account of the small number of youth work/ adult learning properties on a case-by-case basis to minimise any impact regarding rates. This work is included at **Appendix 1**.

8. SDC Review Actions for Consideration at this Meeting

- 8.1 The actions which are required for consideration at this meeting are as follows:
- i. performance reporting;
 - ii. service level agreements; and
 - iii. overall arrangement/legal framework.

9. Performance Reporting

- 9.1 The current SDC lists the statutory performance indicators required of the Council and the corporate and service plans. HLH reporting has been developed since then to:
- i. twice per year reporting to the Education Committee (normally May and December); and
 - ii. provision of KPI reporting to officers for inclusion in the overall THC performance report.
- 9.2 For the Education Committee reporting:
- i. Performance indicators have been established that provide Elected Members with an overview of HLH's performance in terms of its effectiveness, efficiency and relevance to the Highland population, to allow a balanced assessment of its performance to be considered;
 - ii. narrative reporting on how HLH contributes to THC's corporate plan; and
 - iii. updates on particular areas of service delivery agreed between the two parties in advance of each committee.
- 9.3 It is proposed that the Contract be revised to ensure that: HLH's progress can be monitored effectively by THC; and HLH continues to align its services to Council plans. The wording in the draft contract reflects this and will be as follows:

- i. HLH will be required to provide customer and financial information as required by the Council for its statutory reporting purposes;
- ii. HLH will be required to provide progress reports to THC's Education Committee twice per year, once through reporting on its contributions to the current Council corporate plan, and once through the provision of its statutory Annual Report;
- iv. HLH will be required to report annual performance indicators which reflect effectiveness, efficiency, and relevance to the Highland population, with the current ones being customer numbers (in-person and digital); services fee as a percentage of expenditure; and the number of individuals who engage with HLH services (where this can be counted). A new measure will be added for reporting customer satisfaction with HLH services.

9.4 The wording for the performance indicators has been included in the draft revised contract in **Appendix 2** (Part 2 of the schedule).

10. Service level agreements between the Council and HLH

10.1 The service level agreements between THC and HLH are essential to making the arrangement work in the most cost-effective way possible for THC. They allow HLH to operate effectively (including ensuring legal compliance and charity regulator (OSCR) eligibility as a Charity) without it having duplicate overheads for support/enabling functions such as ICT, payroll, banking, insurance etc. They also allow HLH service delivery to benefit from the significant buying power of THC for services such as property maintenance contracts (fire, electrical, alarm etc.); ICT infrastructure; and utilities.

10.2 The review has included SLAs, all of which require to be maintained to continue to maximise cost efficiency to THC through avoidance of duplicate overhead costs in both organisations:

- i. corporate governance;
- ii. finance and payroll;
- iii. grounds maintenance;
- iv. ICT;
- v. insurance;
- vi. internal audit;
- vii. library/service points;
- viii. school accommodation;
- ix. vehicle leasing and maintenance;
- x. cleaning.

10.3 There was a catering SLA referred to in the original contract which was not developed because it was not required; this has been removed from the SDC.

10.4 There is reference to a refuse collection SLA in the original contract but this had not been fully developed. This has led to a situation where the organisations are operating as if there is an SLA in place in some instances and charges being made to HLH in others. This is not as tax efficient as it could be to the Council. In order to achieve maximum efficiency, it is intended to formalise the arrangement with an SLA.

- 10.5 Data Protection Regulations came into force after the establishment of HLH and the review has highlighted the need for an 'Information Governance' SLA to be developed. This will formalise the responsibilities of each organisation when Council ICT systems are used to hold data required to deliver services.
- 10.6 There is a property agreement which is in place for the same reasons that underpin the SLAs. The property agreement specifies the roles of THC and HLH in greater detail because the legal implications involved in the operation of properties is more significant than those covered by the other SLAs.
- 10.7 All of the Council's lead officers for SLAs have met with HLH to initiate the reviews and agree timescales for this and future review meetings.

11. Review of overall arrangement/legal framework.

11.1 Contract

- 11.1.1 The original contract as revised in 2017 has been circulated separately as **Booklet A** and the proposed revised contract is in **Appendix 2**. The main changes are to bring the contract up to date with legislation changes since it was first signed and to update the funding arrangement and performance indicators. Footnotes have been added to explain the changes to the revised contract.
- 11.1.2 The schedule, part 1 specifies the services that THC requires HLH to deliver on its behalf. Following agreement at the 12 September 2024 Education Committee meeting "that matters relating to services delivered from assets owned by THC and operated by HLH be considered as part of the Reconfiguration of Council Assets Portfolio in the Operational Delivery Plan and also the Highland Investment Plan", this schedule will be kept up to date to reflect the work of that Board through the use of the change control procedure in the contract.
- 11.1.3 It is proposed that Members agree to the revised contract being signed following a final legal check after the HLH Board and Education Committee have commented on and approved the contract. It anticipated that its start date will be immediately following the transfer of the Adult Learning and Youth Work staff which takes place on 1 December 2024.

11.2 Legal Framework

- 11.2.1 The key elements of the existing arrangements between HLH and THC are as follows:
- HLH is a company limited by guarantee which provides a separate legal entity, distinct from the individuals operating the entity and which also provides the benefit of limited liability for the board.
 - HLH is a charity, registered with the Office of the Scottish Charity Regulator ("OSCR"). This means that HLH must only deliver activities that fall within its charitable purposes which are derived from the Charities and Trustee Investment (Scotland) Act 2005.
 - THC is the sole member of HLH which allows THC to appoint and remove the board of directors of HLH (upon recommendations from a Nominations Committee). It also provides a mechanism for THC to transfer and assign PSOs without a competitive tendering process.

- HLH has a wholly owned trading company which is formed as a Community Interest Company (C.I.C.). This trading subsidiary carries on certain trading activity that HLH, as a charity, could not carry out directly. The subsidiary then passes all surpluses that are generated to HLH by way of gift aid, to be utilised in furtherance of HLH's charitable purposes.

11.2.2 There are in place a suite of contractual documents which govern various elements of the arrangement between THC and HLH, including:

- Service Delivery Contract – this contract sets out the services that are entrusted to HLH by THC and narrates the contractual provisions around the provision by HLH of those services. Any change to services or service level governed by the service delivery contract would be subject to a change control process which is monitored for THC by the Education Committee.
- Property Agreement – this agreement documents the arrangements between HLH and THC as regards the use of the various properties across the portfolio. The properties within the portfolio, from which HLH delivers its services, are owned by THC but with a lease arrangement to HLH. This agreement documents provisions relating to maintenance and repair obligations.
- Collections Agreement – this allows the use of collections within the museums and libraries and regulation of the archives managed by HLH on behalf of THC.
- Service Level Agreements – these set out the services which THC provide to HLH, and the payments in exchange for these services avoiding additional cost with economies of scale e.g., ICT, grounds maintenance etc. (This arrangement also allows THC to make corporate savings across THC and HLH).

11.2.3 The existing framework between HLH and THC has been considered in the context of the review of the service delivery contract. Legal advisers to both HLH and THC consider that the structure currently in place remains fit-for-purpose and have not recommended any specific changes to that overall framework. It has been noted that the arrangements currently in place between HLH and THC are consistent with the typical arrangements seen in various other local authority ALEO settings, including specifically in relation to the sports and culture sectors.

12. HLH Board Consultation

12.1 At its meeting held on 25 October 2024, the HLH Board considered this report in draft and agreed that the following to be fed back to THC where the HLH Board:

- welcomed the progress made in the Service Delivery Contract (SDC) review and the support of the Council during and following HLH's recovery from the pandemic;
- noted that legal advice on the revised SDC in the Education Committee Report has been sought and that the overall legal framework is still considered to be fit for purpose;
- agreed, subject to any final checks required following the Education Committee meeting on 21 November, that the revised Contract be signed on behalf of the Board by the HLH Chair; and
- noted that the Service Level Agreements (SLAs) and Property Agreement (where THC provides services to HLH) will be reviewed between THC and HLH at Officer level by the end of 2025.

13. Future Contract Review Work

- 13.1 It is the intention that this report brings the formal review to a conclusion with the following operational activities to be completed over the coming year:
- Updating the Service Level Agreements and Property Agreement (to be complete by December 2025).
 - Review of the SDC Review process and lessons learned (to be complete by end March 2025).
- 13.2 There is a change control procedure in the Contract which allows THC and HLH to contractually agree changes to services or service specifications which will be used to keep it up to date. The procedure outlines a process of change proposal, defining the reasons for changes and includes any associated changes to the Services Fee. The procedure can be seen in **Appendix 2, Schedule 1 part 5**.

Designation: Assistant Chief Executive - People

Date: 8 November 2024

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Background Papers: High Life Highland Service Delivery Contract Review Update to the Education Committee Meeting held on 12 September 2024

Appendices: Appendix 1 – List of Adult Learning and Youth Work properties to be transferred to THC
Appendix 2 – New Service Delivery Contract
Booklet A – Service Delivery Contract V2 as per change control
Document signed 010917

List of Adult Learning and Youth Work properties to be transferred to THC

HC Ref Number	Description	Associated Rates Cost
HC 00379	Alness Youth Centre	£4,731
HC 00090	Brora Learning Zone	Inc. in Primary School Costs
HC 00202J	Caol Youth Centre Rooms/spaces NB. Caol Library, within the building, will remain within HLH	£22,659
HC 03634	Joss Street Hall	£6,374
HC 07159	Kinlochbervie Youth Portacabin	N/A
HC 05282B	Megacaf Melvich	N/A
HR 03353	Plantation Hall	£2,639
HC 05762	HUB - Aviemore	£7,221
N/A	Tain Youth Workshop (lease)	£1,245
	Total Rates – New Cost for the HC	£44,870

List of Vehicles to be transferred

Vehicle Type	Location
Minibus	Auchtertyre Community Education Centre
Minibus	Cameron Youth Centre
Minibus	Caol Community Centre
Minibus	East Caithness Community Facility

Income and Expenditure Details

All current operational costs inc. costs for space within the Spectrum Centre, the Tain Workshop Unit for service delivery, leased minibuses, ICT etc. covered within existing budgets transferring with CLD – No additional costs	
New Income (Newton Room, Aviemore HUB, Minibuses, Brora Learning Zone, Joss St Hall,) included in Budget Transfers coming with CLD	£18,566
Total Rates liability for the HC - x 9 properties transferring	£44,870

Notes

For continuance of service delivery operations, for the **dedicated assets fully aligned to HLH Adult & Youth Services**, the following approvals are required:

- HC approval for ongoing usage and that all current staff can continue to work from these venues (including non-CLD staff)
- HLH ICT approval that any IT equipment can remain in venues for continued use by THC
- HC approval to take over Private Lease Agreement for the Youth Project Unit £3,180 PA (included in Budget Transfer)
- Alness Youth Centre – HC approval for HLH Active Schools to continue to use venue free of charge
- Joss Street Hall - HC approval for 2 non CLD HLH staff members to continue to use desk space free of charge

- Megacaf Melvich - HC approval for continued use:-
 - outside space occasionally use by HLH Active Schools free of charge
 - Melvich Community Council use of Hall for monthly meetings with donation to tuck shop
- Caol Youth Centre –
 - HC approval for a HLH Active Schools Co-ordinator to hot desk from office on an ad-hoc basis
 - HLH approval for Adult Learning staff to continue to use office in HLH library area
- Minibuses to transfer with the CLD team - HC to define strategic approach for retention of minibuses in geographic regions utilising data gathered to date by the operational team.

For continuance of service delivery operations, for **town halls & community centres used by HLH Adult & Youth Services**, the following approvals are required:

- THC approval to pay £700pm Spectrum Centre office space rental (included in Budget Transfer)
- HLH approval that there will be no charge for HC CLD continued use of venues:
 - Use of 7 venues for Halls/External Pitches
 - Use of 6 venues for Halls + Office Space

For continuance of service delivery operations, for **libraries used by HLH Adult and Youth Services**, the following approvals are required:

- HLH approval that there will be no charge for HC CLD continued use of venues: -
 - Use of 6 venues for Office Space
 - Use of 1 venue for Office Space + Hall