
NORTH AYRSHIRE COUNCIL

11 June 2019

Cabinet

Title:	Better Off North Ayrshire update
Purpose:	The purpose of the report is to update members on the latest performance and financial position and seek approval for the approach to exiting the contracted delivery.
Recommendation:	<p>The Cabinet is invited to –</p> <ul style="list-style-type: none">(a) Note the update provided on Better Off North Ayrshire.(b) Note the issues raised with regards to the financial risks to the Council(c) Agree the steps being put in place to mitigate those risks and reduce projected spend by £300k.(d) Seek a further update report in 6 months, with an update on the financial position and the future service arrangements for financial inclusion services.

1. Executive Summary

- 1.1 This report sets out the background to the Better Off North Ayrshire service, which is a financial inclusion service funded through a 3-year contract with the National Lottery Community Fund(NLCF).
- 1.2 Since launch of the programme in March 2017, the programme has experienced difficulties in securing income through the funders to reimburse costs. This situation has been mirrored with the other lead contractors across Scotland. These challenges have been reported to Cabinet previously and the Council effectively lobbied for changes to the funding model during 2018. New Key Performance Indicators(KPIs) and payment triggers were agreed and formalised at the end of 2018.
- 1.3 The report outlines that income has increased in recent months but not to levels expected. Risks remain and these have been highlighted to the funders. The report sets out how the Council is continuing to manage this risk and sets out the approach to managing the end of service delivery.

2. Background

- 2.1 The Better Off North Ayrshire service was launched in March 2017, based on a 3-year contract with the Big Lottery Fund (now rebranded as the National Lottery Community Fund – NLCF). The contract had a total potential value of £3M, including programme management costs. North Ayrshire Council is one of five lead contractors in Scotland, with similar programmes operating in Argyll and Bute, Dundee, Inverclyde and Glasgow. The programme value across Scotland is circa £18M. The funding is provided to deliver innovative financial inclusion services.
- 2.2 North Ayrshire Council led a partnership of local 3rd sector partners to develop and deliver on the contract. The partnership currently includes – Community Housing Advocacy Project (CHAP), Citrus Energy – a subsidiary of Cunninghame Housing Association, ANCHO and 1st Alliance Credit Union.
- 2.3 NLCF match fund the programme with European Social Funds (ESF), meaning that all activity is bound by compliance rules around ESF. The contract operates on a payment by results model, which incorporates compliance with ESF rules and NLCF contract stipulations.
- 2.4 Cabinet has received previous reports highlighting the difficulties experienced across the programme since its inception. These difficulties had led to very few contract payments being made by NLCF in the first 18 months of the programme. As a result, all five lead contractors became very concerned about the viability of the programme.
- 2.5 In November 2018, Cabinet approved the continuation of the programme based on a new agreement with NLCF, which reduced contractual KPIs significantly and provided a new model for payments to be made. The new arrangements were welcomed; however it was recognised that risks remained which needed to be managed effectively.

2.6 Claims and income

- 2.6.1 NLCF make standard regular payments each quarter to cover our programme management costs and as such there are few concerns that income will be sufficient to cover these costs.
- 2.6.2 As part of the new funding model agreed, NLCF made a one-off payment in January 2019 as a proportion of costs incurred to date. This provided income of £749,000 for the North Ayrshire programme. The remaining income required to be generated will come from the achievement of outputs and outcomes and requires NLCF to approve each case file we submit. For every case file approved, a unit cost payment is received.
- 2.6.3 A test claim of 14 cases was submitted in January and NLCF feedback was that only 1 case submitted was deemed compliant. Several cases could be deemed compliant if various amendments to paperwork and additional evidence were provided. 5 cases were completely ruled out as non-compliant.
- 2.6.4 The first official claim under the new model was submitted on 21st March 2019. NLCF have reported some satisfaction that progress is being made in terms of meeting their expectations in terms of compliance. 26 cases were submitted and 12 were deemed compliant without any amendments. Several cases

required amendments and 3 were ruled out for payment completely. With errors rectified this claim for 23 cases has generated income of £61, 680.

- 2.6.5 The test claim and the first official claim submitted have highlighted the continuing difficulties in producing claims which NLCF view as ESF compliant and fit with their interpretation of the programme guidance. The work involved to get 23 cases approved for payment has been substantial both for the programme management team and the local delivery partners. It took almost 7 weeks from submission of claim to payment being received (on 7 May). It should be noted that claims have been kept small at this stage at request of NLCF, to test compliance.

2.7 **Current outlook**

- 2.7.1 Despite discussions last year with NLCF leading to reduced KPIs, a significant one-off payment and a new funding model, it is evident that across Scotland the programme continues to struggle as evidenced by the persistent low number of claims accepted for payment. While the NAC claims approved for payment has grown in recent months and compliance is on an upward trajectory, the new arrangements have not been sufficient to at this stage suggest the programme will perform as expected in North Ayrshire or indeed across Scotland.

- 2.7.3 The Council is continuing to make representations to NLCF on the difficulties being experienced with their claims process but there appears to be no progress in resolving this. Whilst the Council has upwards of 1200 cases currently, that should qualify for payment; there is now an expectation that a proportion of these not to be deemed acceptable.

2.7.4 **Actual Claims**

Payment trigger	Revised KPIs	Claimed to date
Stage 1	700	14
Stage 2	200	9

2.7.5 **Projections for remainder of the programme**

Revised KPIs were set knowing that we had sufficient case files already in existence and a year of delivery to generate more income. However, we are now assuming a proportion of case files will not qualify for payment, unless the NLCF change their position. Based on the decisions made in recent months by NLCF on what is payable and what is not payable through the claims process, our projections have been revised as follows:

2.7.6 **Projected claims**

Payment trigger	KPI	Projected claim to end of programme	Projected income
Stage 1	700	440	£542,080
Stage 2	200	120	£648,000
			£1,190,080

2.7.7 These projections if achieved would result in a total income for the programme delivery of £1,190,080 + £749,000 (one off payment) + £9,000 claim 1 = £1,948,080. Projected costs to the end of the programme are £2.2M, leaving a potential deficit of £260,920.

2.7.8 While we believe this is a realistic position given the feedback received on the most recent claim, there remain several risks associated with this position –

- The sample size of claim made recently is relatively small, therefore assumptions made need to be revised as larger claims are submitted.
- Retention of staff within the programme management team to check and submit compliant claims is vital and subject to risk.
- Retention of staff within delivery partners to ensure customers receive a high-quality service and that paperwork is compliant.
- The capacity of both NAC and partners to collate, check, submit and fix claims.
- The capacity of NLCF to check, provide feedback and approve claims.
- The ongoing difficulty in understanding how NLCF will view each claim – guidance has been inconsistent throughout the programme and decisions made we feel remain subjective, so difficult to predict.

2.8 Mitigating risk

The approach to mitigating risk falls into two main categories – Increasing income and reducing costs.

2.8.1 Increasing income

The service will continue to seek a more reasonable approach from the funders and do everything we can to increase the size, frequency and compliance of claims we are submitting.

2.8.2 A meeting involving senior executives from both organisations took place on 21st May to raise concerns at the highest level. NLCF made it clear that the most recent claim made by NAC was encouraging but that larger claims are now required to provide a clearer picture on the prospects moving forward. The difficulties in submitting larger claims were discussed and both parties agreed to re-look at what could be done to expediate the process. Following the meeting, we have developed a clear plan for claims submissions over the next year. We have decided to focus on claiming Stage 2 cases for the next 2 claims, as these generate more income.

2.8.3 At the meeting NAC made it clear that any financial deficit arising from this programme is unpalatable. NLCF confirmed that they recognised this and were focused on avoiding it by working with us to get more claims paid. If this approach does not succeed, NLCF did make a commitment to look at a contingency plan to deal with any potential financial deficit – however feel it is too early to make any formal commitments.

2.8.4 Following the officer meeting with the NLCF, the Leader of the Council has now written to the UK Government's Secretary of State for Digital, Culture, Media and Sport and the Scottish Government's Cabinet Secretary for Communities and Local Government; to seek political support for a resolution that reduces risk for the council in the coming months.

2.8.5 Reducing costs

While efforts to increase income remain very challenging, we are taking steps to reduce costs in the final year of delivery more quickly. We expect staffing costs to reduce naturally in the final year of the programme as staff seek new opportunities. We have made decisions to reduce funding to all providers in Year 3. These changes will reduce the financial risk by £300,000.

2.8.6 All these savings have been agreed with local providers who have been understanding of the Council's position and need to mitigate risk. The savings are such that 1st Alliance Credit Union will cease to be a contracted provider for the remainder of the programme.

2.8.7 By reducing our projected spend by £300,000 (to £2.2M), we reduce the amount of income required to cover our costs.

2.9 Performance

2.9.1 The contractual performance has been noted above but outwith this the service has achieved the following –

- 2407 people supported in total
- £1.8m of savings/reduced costs for residents

2.9.2 In addition to these outcomes, both the providers and programme management team regularly receive feedback from residents supported through the scheme. Customer satisfaction sits at 95% and often letters and “thank you” cards are received in recognition of the service provided to people who are often in great need. As all programmes across Scotland have struggled with the funding arrangements, we believe the issues are systemic to the programme and not reflective of a service which we have strong evidence has supported many people and provided an excellent service.

2.10 Exit strategy

2.10.1 The contract with NLCF states that delivery must cease completely on 20th February 2020. It has always been recognised that there would be a requirement to stop accepting new cases sometime before this to (a) ensure we didn't commence work on cases that would not complete before contract end and therefore would not qualify for payment (b) to ensure we don't start a journey of support and then leave customers stranded at the end of the contract. Discussions around the most apt time to stop taking new registrations have been ongoing with NLCF, local providers and we have also looked at what other lead contractors across Scotland are planning. Based on those discussions, we will stop accepting new cases to Better Off North Ayrshire at the end of September 2019. The remaining 5 months of delivery will see providers concentrate on existing caseloads and achieving outcomes and closing cases.

2.10.2 It should be noted that although contracted delivery will cease in February 2020, the programme allows for several months after this point for the submission of financial claims. As such the programme management team have been contracted until the end of July 2020 to ensure that we can continue to submit claims during this period.

2.10.3 The Council are considering how financial inclusion and advice services can best be delivered in the future. While it is difficult to envisage how resources can be found to completely mitigate for the loss of Better Off North Ayrshire, the Council will look at the most vital elements and assess how existing council provision could be developed to respond to any gaps that exist.

3. Proposals

3.1 The Cabinet is invited to –

- (e) Note the update provided on Better Off North Ayrshire.
- (f) Note the issues raised with regards to the financial risks to the Council
- (g) Agree the steps being put in place to mitigate those risks and reduce projected spend by £300k.
- (h) Seek a further update report in 6 months, with an update on the financial position and the future service arrangements for financial inclusion services.

4. Implications/Socio-economic Duty

Financial:	<p>Programme Management costs associated with the programme are £298k but are paid as a regular grant and as such not at risk.</p> <p>Projected Programme Delivery costs are projected at circa £2.2M and the objective is to achieve full income to cover this.</p> <p>Projected income to end of programme is £1,948,080. As noted at 2.7.7 this results in a potential deficit of £260,920.</p>
Human Resources:	The Council employs 2 staff directly to manage the programme. These staff are contracted to end of July 2020, but this could be extended if the claims process is not complete at this point.
Legal:	The Council signed a contract with Big Lottery Fund in 2017 and a variation to that contract to reflect new arrangements was signed in January 2019. Colleagues in legal services have been involved in examining the contract to protect the council's position
Equality/Socio-economic Duty:	At the heart of the Better Off North Ayrshire programme are issues of equality, with a focus on providing support to those financial excluded.
Children and Young People:	While Better Off can only support those of working age, a key target group are parents and in particular lone parents. The impact that better financial circumstances of parents can have on child poverty is well evidenced.
Environmental & Sustainability:	Sustainability is a key horizontal theme which applies to all EU programmes and the programme needs to regularly report on how sustainability is being addressed.
Key Priorities:	<p>There is significant evidence that individual and family financial situations impact on many areas of their life. The Better Off Programme directly responds to the following priorities in the draft council plan –</p> <ul style="list-style-type: none"> • North Ayrshire has an inclusive, growing and enterprising economy. • North Ayrshire's residents and communities enjoy good life-long health and well-being.
Community Benefits:	The project itself delivers extensive benefits to the wider community and particularly those experiencing financial hardship. Performance detail is set out at paragraph 2.9 of the report.

5. Consultation

- 5.1 Economic Growth has continued to discuss the programme on a regular basis with the local contracted providers. Colleagues in Financial Services have also been consulted regularly, with the Director of Finance and Corporate Services chairing the most recent meeting with the NLCF.
- 5.2 Colleagues in the Money Matters Service and the Council's Welfare Reform Team have been informed of the exit strategy of the programme.

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Background Papers

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