Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
Wednesday, 13 May 2015

Meeting time:
09.00

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

For further information please contact:
Bethan Davies
Committee Clerk
0300 200 6565
SeneddFinance@Assembly.Wales

Agenda

1 Introductions, apologies and substitutions (09.00)

2 Papers to note (09.00 – 09.05) (Pages 1 – 6)

3 Regulation and Inspection of Social Care (Wales) Bill: Evidence session 1 (09.05 – 10.00) (Pages 7 – 35)

Mark Drakeford AM, Minister for Health and Social Services
David Pritchard, Head of Regulation and Workforce Development, Social Services Legislation & Supporting Delivery Division, Welsh Government
Alison Machon, Head of Regulation and Inspection, Social Services Legislation & Supporting Delivery Division, Welsh Government

Paper 1 – Letter from the Minister for Health and Social Services to Chair
Paper 2 – Letter from Auditor General for Wales to Chair of Health and Social Care Committee
Research brief

4 Finance Wales: Follow up evidence session (10.00 - 11.00) (Pages 36 - 124)

Professor Dylan Jones-Evans
Robert Lloyd Griffiths

Paper 3 - Letter from the Minister for Economy, Science and Transport
Research brief

Finance Committee's Report on Finance Wales - May 2014

5 Collection and management of devolved taxes in Wales: Evidence session 6 (11.00 - 12.00) (Pages 125 - 376)

Doug Stoneham, Senior Policy Adviser, Devolution, HMRC
Sarah Walker, Head of Devolution Team, HMRC

Paper 4 - Additional information from the Welsh Local Government Association
Paper 5 - Additional information provided by the Revenue Scotland Board
Paper 6 - Additional information provided by Revenue Scotland
Research brief

Collection and management of devolved taxes in Wales: Consultation Responses

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 7, 8, 9 and 10

7 Regulation and Inspection of Social Care (Wales) Bill: Consideration of evidence (12.00 - 12.05)

8 Finance Wales: Consideration of evidence (12.05 - 12.10)

9 Collection and management of devolved taxes in Wales: Consideration of evidence (12.10 - 12.15)

10 Consideration of powers: Public Services Ombudsman for Wales: Options paper (12.15 - 12.30) (Pages 377 - 379)

Paper 7 - Options paper

Finance Committee

Meeting Venue:	Committee Room 1 – Senedd
Meeting date:	Thursday, 23 April 2015
Meeting time:	09.00 – 12.02

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

This meeting can be viewed on Senedd TV at:
http://senedd.tv/en/3034

Concise Minutes:

MeetingTitle

Assembly Members:	Jocelyn Davies AM (Chair) Peter Black AM Christine Chapman AM Mike Hedges AM Ann Jones AM Julie Morgan AM Nick Ramsay AM
Witnesses:	Lesley Griffiths AM, The Minister for Communities and Tackling Poverty, Welsh Government Simon White, Welsh Government Ceri Breeze, Head of Housing Directorate, Welsh Government Jon Rae, WLGA Nick Jones, Rhondda Cynon Taff County Borough Council Gary Watkins, Cardiff Council Iestyn Davies, Federation of Small Businesses Wales Mark Lang, Federation of Small Businesses
Committee Staff:	Bethan Davies (Clerk) Tanwen Summers (Deputy Clerk) Richard Bettley (Researcher)

Gareth David Thomas (Researcher)
Joanest Varney-Jackson (Researcher)

1 Introductions, apologies and substitutions

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Alun Ffred Jones.

2 Papers to note

2.1 The papers were noted.

3 Renting Homes (Wales) Bill: Evidence Session 1

3.1 The Committee took evidence from the Minister for Communities and Tackling Poverty on the financial implication of the Renting Homes (Wales) Bill.

3.2 The Chair agreed to write to the write to the Chair of the Communities, Equality and Local Government Committee.

4 Collection and Management of Devolved Taxes in Wales: Evidence Session 1

4.1 The Committee took evidence from the Welsh Local Government Association, Cardiff Council and Rhondda Cynon Taf Council for its inquiry into Collection and Management of Devolved Taxes in Wales.

4.2 The Welsh Local Government Association agreed to provide information on benchmarking the costs of collection of council tax and non-domestic rates.

5 Collection and Management of Devolved Taxes in Wales: Evidence Session 2

5.1 The Committee took evidence from the Federation of Small Businesses Wales on its inquiry into Collection and Management of Devolved Taxes in Wales and agreed to provide information on governance.

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

6.1 The motion was agreed.

7 Local Government (Wales) Bill: Consideration of Draft Report

7.1 Members agreed to draft report with a few amendments.

7.2 Members noted the additional information provided by the Minister for Public Services.

Finance Committee

Meeting Venue:	**Committee Room 4 – Tŷ Hywel**
Meeting date:	**Wednesday, 29 April 2015**
Meeting time:	**08.30 – 11.56**

This meeting can be viewed on Senedd TV at:
http://senedd.tv/en/3028

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

Concise Minutes:

MeetingTitle

Assembly Members:	**Jocelyn Davies AM (Chair)** **Peter Black AM** **Christine Chapman AM** **Mike Hedges AM** **Ann Jones AM** **Julie Morgan AM** **Nick Ramsay AM**
Witnesses:	**Eleanor Emberson, Revenue Scotland** **Kay Powell, The Law Society** **Mark Evans, Allington Hughes** **Gerald Holtham**
Committee Staff:	**Bethan Davies (Clerk)** **Leanne Hatcher (Second Clerk)** **Tanwen Summers (Deputy Clerk)** **Richard Bettley (Researcher)** **Joanest Varney-Jackson (Legal Adviser)**

1 Consideration of powers: Public Services Ombudsman for Wales: Consideration of Draft Report

1.1 The Committee considered the draft report on the Consideration of powers: Public Services Ombudsman for Wales and agreed a small number of changes.

2 Introductions, apologies and substitutions

2.1 The Chair welcomed Members to the meeting.

2.2 Apologies were received from Alun Ffred Jones.

3 Papers to note

3.1 The papers were noted.

4 Collection and management of devolved taxes in Wales: Evidence Session 3

4.1 The Committee took evidence from Eleanor Emberson, Chief Executive, Revenue Scotland.

4.2 Eleanor Emberson agreed to forward a note provided by Dr Keith Nicholson, Chair, Revenue Scotland Board in his absence.

5 Collection and management of devolved taxes in Wales: Evidence Session 4

5.1 The Committee took evidence from Kay Powell, Policy Adviser, The Law Society and Mark Evans, Partner, Allington Hughes.

5.2 Kay Powell agreed to provide the Committee with the number of people who undertake their own conveyancing and the figures around lawyers failing to pay stamp duty land tax.

6 Collection and management of devolved taxes in Wales: Evidence Session 5

6.1 The Committee took evidence from Gerald Holtham.

7 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

7.1 The Motion was agreed.

8 Collection and management of devolved taxes in Wales: Consideration of evidence

8.1 The Committee considered the evidenced received.

9 Scrutiny of the Welsh Government Second Supplementary Budget for 2014-15: Consideration of the Welsh Government Response

9.1 The Committee noted the Welsh Government's response to the recommendations contained within the Committee's report on the Second Supplementary Budget for 2014-15.

10 Future Funding: Approach to Scrutiny

10.1 Members agreed the approach to scrutiny for the Committee's inquiry into Future Funding.

Mark Drakeford AC / AM
Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref LF/MD/0460/15

Jocelyn Davies AM
Chair
The Finance Committee

Jocelyn.davies@assembly.wales

Dear Jocelyn,

5 May 2015

Regulation and Inspection of Social Care (Wales) Bill – Finance Committee

Thank you for inviting me to attend the Finance Committee on 13 May 2015 to discuss the Regulation and Inspection of Social Care (Wales) Bill.

The Regulatory Impact Assessment which accompanies the Bill sets out options for twenty policy areas addressed by the Bill. For each of the options, the costs and benefits to relevant stakeholder groups are discussed. My officials worked with stakeholders to ensure the estimates and their underlying assumptions are evidence-based.

My officials continue to keep the Regulatory Impact Assessment under review and have drawn my attention to three areas in which updating will be required. The enclosed appendix provides the details of these together with their impact on the overall cost of the Bill. These changes will be incorporated in the Regulatory Impact Assessment when it is revised after Stage 2 proceedings.

I trust this information will assist Members in their scrutiny of the Regulation and Inspection of Social Care (Wales) Bill. If you or any Members require further information, please do not hesitate to contact me.

Best wishes,

Mark

Mark Drakeford AC / AM
Y Gweinidog Iechyd a Gwasanaethau Cymdeithasol
Minister for Health and Social Services

Bae Caerdydd • Cardiff Bay
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Llinell Ymholiadau Cymraeg 0845 010 4400
Correspondence.Mark.Drakeford@wales.gsi.gov.uk

Amendments made to the RIA

1. Dual registration

Managers are currently required to register with both the workforce regulator and the service regulator. Option one sets out the costs for maintaining the existing system of dual registration (see table 27, page 228) and option two sets out the preferred option of requiring managers to only register with the workforce regulator (see table 28, page 230).

Table 27 will be updated to reflect more accurately the estimated costs with the existing system of dual registration. The cost in 2016/17 has been increased to £324,900. This cost includes an additional £6,125 which has been moved from 2017/18 to more accurately reflect the cost of the existing system in 2016/17 (see table 27 below). There is no cost to years 2018-19 to 2020-21.

Table 27: revised summary of costs associated with maintaining dual registration

	2016-17	2017-18	2018-19	2019-20	2020-21
Service regulator					
Workforce regulator	143,000	143,000	143,000	143,000	143,000
Managers with outstanding service regulator applications	12,500	0	0	0	0
Managers making fresh applications to the service regulator	63,800	63,800	63,800	63,800	63,800
Managers making fresh applications to the workforce regulator	33,100	33,100	33,100	33,100	33,100
Ongoing costs for managers to remain registered with the workforce regulator	72,500	72,500	72,500	72,500	72,500
Total cost	**324,900**	**312,400**	**312,400**	**312,400**	**312,400**

Table 28 will be updated to reflect more accurately the estimated costs for managers, as set out in the regulatory impact assessment, where they are required to register only with the workforce regulator. The cost for managers for 2016-17 has increased by £6,425 from £175,475 to £181,900 and the cost to managers has been increased from by £41,800 from £63,800 per year to £105,600 per each of the years 2017-18 to 2020-21 (see table 28 below).

Table 28: revised summary of estimated costs and benefits associated with removing dual registration

	2016-17	2017-18	2018-19	2019-20	2020-21
Service regulator					
Workforce regulator					
Transition	1,800				
Ongoing	143,000	165,500	165,500	165,500	165,500
Managers	181,900	105,600	105,600	105,600	105,600
Total cost	**326,700**	**271,100**	**271,100**	**271,100**	**271,100**

2. Due diligence of key providers

Option one sets out potential costs associated with the disorderly closure of care providers. Paragraphs 7.462 to 7.467 set out the costs to service users, where a large care home closes in a disorderly manner. The total cost to services users is estimated to be £923,000. An assumption has been made that only one large provider is likely to exit the market in a disorderly manner every 10 years. Thus, the cost to service users is £92,300 per annum.

Option two sets out the costs and benefits of introducing due diligence of key providers. Undertaking due diligence aims to prevent disorderly closures of care providers and, in turn, to prevent the associated costs being incurred. For service users, the introduction of due diligence should reduce the risk of incurring costs of £92,300 to zero. Thus, there is no cost to service users, resulting in a saving of £92,300 per annum. Rather than a stated cost of zero to service users, tables 42 and 43 (see pages 279-287 of the regulatory impact assessment) have a stated cost of -£92,300. This has resulted in the potential savings over the five year period 2016/17 to 2020/21 being stated as £738,400 rather than the intended estimate of £369,200.

3. Social Care Wales

Table 39 sets out the current grant funding of £19,458,575 for workforce regulation and improvement, research and service improvement. This grant funding will be used to fund Social Care Wales, as set out in table 40.

This information is not presented accurately in the summary tables 42 and 43, which state the cost to public finance is £19,147,575. This figure will be amended to read £19,458,575. Whilst this has an impact on the total ongoing cost and the total cost of implementing Social Care Wales, it has no impact on the additional cost of implementing the preferred options set out in the regulatory impact assessment.

Summary tables 42 and 43 will be updated to take account of the changes outlined above. The amended totals are set out in the table below.

Appendix

Total costs

	2016/17			2017/18	2018/19	2019/20	2020/21		
Do nothing			Introduce preferred option						
	Ongoing	Total 5 years - do nothing	Transition	Ongoing	Ongoing	Ongoing	Ongoing	Total 5 years - preferred option	Cost difference
Original figures	33,981,085	169,905,425	3,357,412	35,382,513	35,376,388	35,376,388	35,376,388	178,850,174	8,944,749
Amended figures	34,298,510	171,492,550	3,357,412	35,821,488	35,821,488	35,821,488	35,821,488	180,941,874	9,449,324

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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Mr David Rees AM
Chair, Health & Social Care Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Date: 24 April 2015
Our ref: HVT/2314/fgb
Page: 1 of 2

Dear Chair

THE REGULATION AND INSPECTION OF SOCIAL CARE (WALES) BILL: CONSULTATION ON GENERAL PRINCIPLES

Thank you for the invitation to the Wales Audit Office to provide evidence to the Committee on the general principles of the Regulation and Inspection of Social Care (Wales) Bill. I am responding as Auditor General since the issues raised are primarily ones that relate to my functions as the auditor of the Welsh public sector.

You will know that the Wales Audit Office has been established as a statutory board and that, since 1 April 2014, it has been responsible for employing staff, procuring services, and providing other resources to enable me to exercise my functions as Auditor General.

As Auditor General I audit the accounts of the Welsh Government, its sponsored and related public bodies, and National Health Service bodies and local government bodies in Wales.

As well as auditing accounts, I also have the functions of undertaking examinations of economy, efficiency and effectiveness in the use of resources, and other study, assessment and inspection functions. In the context of the Bill, it is of particular relevance that I undertake studies for improving economy, efficiency and effectiveness in the discharge of functions of local authorities, which include social services (studies under section 41 of Public Audit (Wales) Act 2004).

It is perhaps appropriate that in responding to your consultation I focus on issues that are relevant to the exercise of the Auditor General's functions, rather than commenting more broadly on the policy merits of the Bill. I have not, therefore, sought to respond to all your consultation questions, but, as set out in the annex, have tried to focus on relevant questions. These chiefly concern the financial implications of the Bill and wider efficiency and good governance in the conduct of public business.

Given the interests of the Public Accounts Committee and the Finance Committee, I am copying this response to Darren Millar AM and Jocelyn Davies AM.

Yours sincerely

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

enc *Annex: Response of the Auditor General for Wales to the Health and Social Care Committee consultation on the general principles of the Regulation and Inspection of Social Care (Wales) Bill*

cc *Mr Darren Millar AM, Chair Public Accounts Committee*
Ms Jocelyn Davies AM, Chair, Finance Committee

RESPONSE OF THE AUDITOR GENERAL FOR WALES TO THE HEALTH AND SOCIAL CARE COMMITTEE CONSULTATION ON THE GENERAL PRINCIPLES OF THE REGULATION AND INSPECTION OF SOCIAL CARE (WALES) BILL

Q4. Do you think there are any major omissions from the Bill or are there any elements you believe should be strengthened?

Omission of access rights for Social Care Wales

1. Clause 69 of the Bill effectively transfers the function of undertaking studies for improving economy, efficiency and effectiveness (in the discharge by local authorities of their social services functions[1]) from the Welsh Ministers to Social Care Wales. (The clause also broadens that function so that it addresses economy, efficiency and effectiveness in the provision of a care and support service, i.e. it is not confined to local authority social services.) The Bill does not, however, transfer or otherwise provide Social Care Wales with the attendant access rights for undertaking such studies. This omission may impede Social Care Wales in undertaking studies.

Omission of duty on Social Care Wales to publish reports

2. The Bill also does not transfer the duty to publish reports of such studies. It appears that the publication of studies can still be achieved by Social Care Wales using its supplementary powers under paragraph 9 of Schedule 2 to the Bill, and I expect that Social Care Wales will choose to publish its reports. I am not sure, however, whether the Assembly is aware that Social Care Wales would have the option of not publishing reports of its studies (as the Welsh Ministers are currently required to), and whether the Assembly is content with such a situation.

Omission of duty on Social Care Wales to pursue value for money in exercising its functions

3. In repealing section 54 of the Care Standards Act 2000, clause 66 of the Bill repeals the general duty (in paragraph 4 of Schedule 1 to that Act) on the Care Council for Wales to carry out its functions economically, efficiently and effectively. The Bill does not, however, re-enact that duty so that it applies to Social Care Wales. While I expect the new organisation will in practice continue to pursue economy, efficiency and effectiveness, the repeal may send an unhelpful message.

[1] This study function is currently contained in section 95 of the Health and Social Care (Community Health and Standards) Act 2003.

Q5. Do you think that any unintended consequences will arise from the Bill?

Cost increases following improvements in quality driven by judgement ratings

4. Page 169 of the Explanatory Memorandum sets out risks arising from the introduction of quality judgement ratings under clause 35 of the Bill. One point that is not mentioned, however, is that increased quality may lead to increased costs to service-users and, where care is publicly-funded, to the public purse. Increased cost in return for increased quality may often be justified, but the possibility should nevertheless be recognised.

Potential undermining of proper regulation of service providers arising from use of penalty charges

5. Clause 51 of the Bill provides for the Welsh Ministers to impose penalty notices on service providers for such failings as omission to submit an annual return, with amounts up to two and a half times level 4 on the standard scale (I believe that at the time of writing this would be up to £6,125). The amounts of penalties are to be set by Welsh Ministers in regulations. In the case of an offending service provider convicted in court any fine (under clause 50 of the Bill) would be paid into the UK Consolidated Fund, as is normally the case with fines, but a payment of a penalty under clause 51 would be surrendered to the Welsh Consolidated Fund because of section 120 of the Government of Wales Act 2006.

6. As accessing funds from the Welsh Consolidated Fund requires the approval of one legislature rather than two, and is therefore more straightforward than accessing funds from the UK Consolidated Fund, it is possible that concerns may arise that penalties under clause 51 could exert undue influence on enforcement practice. The proper regulation of service providers could be undermined if there were a perception that the frequency with which penalties were imposed and the level at which they were set had implications for the funding position of the Welsh Ministers. This risk might be addressed by very careful drafting and scrutiny of the penalty regulations.

Impediments to Social Care Wales studies of economy, efficiency and effectiveness

7. The omissions mentioned under question 4 above may be, and may lead to, unintended consequences in terms of Social Care Wales undertaking studies of economy, efficiency and effectiveness.

Q9. What are your views on the provisions in Part 3 of the Bill to rename and reconstitute the Care Council for Wales as Social Care Wales and extend its remit?

8. Please see answer to Question 4.

Q13. What are your views on the financial implications of the Bill as set out in parts 6 and 7 of the Explanatory Memorandum?

9. It is not appropriate for me to comment on the financial implications of the Bill in terms of policy merits. I do, however, consider that it is appropriate to give views on the clarity of the financial implications.

10. The Explanatory Memorandum (see Table 42 on page 279 and Table 43 on page 283) appears to indicate that the net additional cost of the Bill in terms of transitional costs plus additional ongoing costs of the preferred options for five years (less savings in that period) will be some £9 million. Of that amount, some £3.4 million is one-off transition costs, suggesting ongoing additional net costs of £1.1 a year. The largest single item of ongoing expenditure arising from the Bill appears to be £1.5 million a year for quality ratings.

11. However, I have concerns that Table 42 does not give a clear view of costs, and that it may contain some significant errors, in particular:

    a. on page 281 the table appears to double count savings in respect of "due diligence of key service providers"—for the years 2017-18 to 2020-21, rather than recording the cost to service users of supplier exit as zero (i.e. prevented), the table shows negative costs of £92,300 in each year (though only three years appear to have been added together), which is the equivalent of service users not only avoiding costs of £92,300 a year but also being paid that amount each year. Taken together with the cost of producing national statements, the result appears to be an understatement of the cash cost of Chapter 7 of Part 1 of the Bill by £276,900;

    b. paragraph 7.466 (with footnote 74) indicates that the savings in respect of "due diligence of key service providers" is based on a monetised valuation of the well-being effect of "an orderly resolution to a care provider failure". "An orderly resolution" may not be the correct event to take into account, but in any case the point that is not made clear in Table 42 is that the £92,300 figure on page 281 is not cash savings, but a valuation of a benefit. There is nothing wrong with providing monetised valuations of benefits, but I consider it potentially misleading for such benefits to be mixed in the middle of a table of cash figures;

    c. similar to (a) above, Table 42 appears to contain errors that lead to the overstatement of savings in respect of discontinuing voluntary registration by some £60,000.

12. The mixing of monetised benefits with cash costs appears to me to make the Explanatory Memorandum fall short of the requirement of Standing Order 26.2(vi) that the Explanatory Memorandum must:

    set out the best estimates of:

    (a) the gross administrative, compliance and other costs to which the provisions of the Bill would give rise;

    (b) the timescales over which such costs would be expected to arise.

13. There are also other matters that I consider make it hard to obtain a fair view of the costs of the Bill:

    a. the presentation of the costs of the Bill solely by inclusion in a lengthy options analysis (173 pages) makes it hard to readily identify the make-up of various costs without confusion with options other than the Bill;

    b. the summary tables of costs (Table 42 and Table 43) are 166 pages into the regulatory impact assessment, rather than being presented at the beginning.

14. I have not considered in detail the accuracy of individual cost estimates, and cannot therefore comment on them in that respect.

15. As far as I can tell, there is no specific rationale for providing costs of the Bill in terms of transitional costs plus additional ongoing costs of the preferred options for five years (less any savings in the period). There is no indication that the Bill is to have a five-year life-span, so the five-year figure is in a sense arbitrary. It is, however, consistent with other recent Welsh Government Regulatory Impact Assessments contained in Explanatory Memoranda.

16. I note that some of these points are matters that I have previously raised in my December 2014 report *Review of the Regulatory Impact Assessment of the Well-being of Future Generations (Wales) Bill*. Key points raised in that report included:

    a. the need for a clear summary of costs;

    b. consideration of the appropriate time-period over which to analyse costs;

    c. strengthening arrangements for the development and internal review of impact assessments.

17. As the Welsh Government presented the current Bill's Explanatory Memorandum in February 2015, I am not sure whether the Welsh Government has had sufficient opportunity to consider my report.

Q14. Are there any other comments you wish to make about specific sections of the Bill?

Co-operation in respect of value for money studies

18. Paragraph 41 of Schedule 3 to the Bill amends section 41 of the Public Audit (Wales) Act 2004 so as to require the Auditor General and Social Care Wales to co-operate with each other in respect of their relevant value for money study functions (i.e. functions under section 41 of the 2004 Act and clause 69 of the Bill). In practice, the Auditor General would in any case seek to engage in sensible co-ordination, but nevertheless this is an appropriate provision. It reflects equivalent existing provision in section 41 of the 2004 Act, and is conducive to ensuring that the Auditor General and Social Care Wales avoid overlapping work or unintended gaps in work. I am grateful that the Welsh Government liaised with WAO staff regarding this provision.

19. Paragraphs 21 to 23 of Schedule 3 to the Bill also amend sections 41 and 42 of the Public Audit (Wales) Act 2004. In this case, the amendment includes a requirement on the Auditor General and the Welsh Ministers to co-operate with each other in respect of the Welsh Ministers' re-enacted[2] function of reviewing studies and research by others, which is to be inserted as section 149A of the Health and Social Well-being (Wales) Act 2014 by clause 56 of the Bill. This is in addition to a requirement to co-operate in respect of the re-enacted[3] (but augmented) Welsh Ministers' function of undertaking reviews of local authority social services. I understand that, regrettably, the Welsh Government did not liaise with WAO staff regarding the additional co-operation requirement imposed on the Auditor General in respect of reviews of studies and research. However, as far as I can tell, the Welsh Ministers (CSSIW) have not undertaken any such reviews under the existing power. Instead, CSSIW review relevant research in the course of undertaking other reviews and studies (e.g., section 95 of the 2003 Act). If this pattern of activity continues, the additional requirement will not have significant practical consequences. The pattern of activity does, however, also raise the question whether re-enactment is necessary, especially as section 60 of the Government of Wales Act 2006 gives the Welsh Ministers wide-ranging powers to undertake activities for the promotion of well-being.

20. I am also concerned at the potential circularity of the situation and its implications for audit independence. The new section 149A power to review "studies and research undertaken by others" provides for the Welsh Ministers to review of "the methods used in such studies [by others]…and…the validity of conclusions drawn." This appears to provide a power for the Welsh Ministers to call into question the methods and conclusions of the Auditor General and others, including Social Care Wales, and to lay reports to that effect before the Assembly.

21. I gather that the original provision in the Health and Social Care (Community Health and Standards) Act 2003, from which the new section derives, was not necessarily intended to be used in that way, and that seems to have been borne out in practice. As the Explanatory Note for the original provision says, "This section enables the CSCI to evaluate work carried out by other bodies, such as academic institutions." Nevertheless, the provision potentially undermines audit independence.

Value for money and the new section 149D "General considerations" to be inserted by clause 56

22. The new section 149D "General considerations" to be inserted by clause 56 of the Bill into the Social Services and Well-being (Wales) Act 2014 includes (in subsection (d)) in its list of matters that the Welsh Ministers must have regard to in undertaking reviews, "the economy and efficiency of their [local authority] provision and their value for money". This formulation is somewhat confused and circular. Value for money is the short description of economy, efficiency and

[2] The existing provision is in section 93 of the Health and Social Care (Community Health and Standards) Act 2003.
[3] The existing provision is in section 94 of the Health and Social Care (Community Health and Standards) Act 2003.

effectiveness (see, for example, Part 2 of the Public Finance and Accountability (Scotland) Act 2000), so the phrase in section 149D(d) is akin to “apples, oranges and fruit”.

Social Care Wales Accounting Officer and Accounts Directions

23. Paragraph 15(2) of Schedule 2 to the Bill sets out that the accounting officer of Social Care Wales is to have the responsibilities specified in a direction by the Welsh Ministers. Similarly, paragraph 16(2) sets out that Social Care Wales’ accounts must comply with any directions given by the Welsh Ministers. In order to help ensure consistency of approach across the public sector, it is desirable that these provisions provide for directions by the Welsh Ministers with the consent of Treasury.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Edwina Hart MBE CStJ AC / AM
Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth
Minister for Economy, Science and Transport

Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref EH/00000/15

Jocelyn Davies AM

Chair, Finance Committee

Dear Jocelyn

10 March 2015

In June 2014, I commissioned Professor Dylan Jones-Evans to chair a task and finish group to undertake a feasibility study into the creation of a Development Bank for Wales.

I am pleased to attach a copy of the group's report. I expect this will be of interest to you and fellow members of the Finance Committee, following your informative and helpful Inquiry into Finance Wales. The report covers a number of issues the Committee commented upon, and you might wish to refer the report to the Committee.

I will be making an Oral Statement on 17 March, which will provide an opportunity for an initial discussion on the study, and I look forward to hearing your and fellow members' views in the Chamber next week.

Edwina Hart

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Llywodraeth Cymru
Welsh Government

WRITTEN STATEMENT
BY
THE WELSH GOVERNMENT

TITLE **Update on Access to Finance**

DATE **10 March 2015**

BY **Edwina Hart MBE CStJ AM, Minister for Economy, Science and Transport**

Following my previous statements on *Access to Finance* and the *Availability of Funding for SMEs in Wales*, I would like to update Members on the work which has been undertaken on the feasibility of creating a Development Bank for Wales (DBW).

In June 2014, I asked Professor Dylan Jones-Evans to lead a Task & Finish Group to explore the potential mission, role and operations that a Development Bank could undertake and to provide an evidence-based feasibility study on the options for consideration.

I have now received his report which raises key points about the methods to close the funding gap and help deliver finance to Welsh SMEs including charitable, community and social enterprises. It also raises questions about some of the principles which underpin the provision of finance and the role of government funding for SMEs in economic development.

In undertaking the feasibility study, the Group sought contributions from numerous industry bodies and institutions, engaged extensively across the banking and finance sector, as well as with intermediaries, academia and the wider business community. I would like to thank all of the individuals and organisations who have participated and contributed to this study, and in particular I would like to place on record my thanks to Professor Jones-Evans and the Members of the Group for producing this significant body of work.

I will be making an Oral Statement on the 17th March which will provide an opportunity to discuss the report.

The report can be accessed at:

http://gov.wales/topics/businessandeconomy/policy/access-to-finance/development-bank-for-wales/?lang=en

A FEASIBILITY STUDY INTO THE CREATION OF A DEVELOPMENT BANK FOR WALES

A report to the Minister for Economy, Science and Transport from the Development Bank for Wales Task and Finish Group

March 2015

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INTRODUCTION

This report presents the deliberations and conclusions of the Task and Finish Group established by the Welsh Government to examine the feasibility of establishing a new Development Bank for Wales.

It has been an exhaustive and comprehensive process during the last seven months with contributions from all of the members of the group on their respective areas of experience and expertise. It is this detailed work that forms the foundation for this report.

I would therefore like to extend my sincere thanks to the following individuals who served on the Task and Finish Group and contributed to this report: Katy Chamberlain, Patrick Crawford, Nelson Gray, Robert Hunter, Juliet Luporini, Roger Maggs, Christopher Nott, Richard Pepler, Tim Pezzack, Mark Rhydderch-Roberts and Seth Thomas. I would also like to express my gratitude to Rhidian Morgan of the Welsh Government for his valuable administrative support and Dr Tianshu Zhao for her excellent and groundbreaking research into the state of finance for SMEs in Wales.

It is the view of the Task and Finish Group that the current solutions being provided by Finance Wales, as a subsidiary of the Welsh Government, will not be able to fully address the challenges in closing the widening funding gap for SMEs in Wales. Therefore, we recommend that a new organisation - the Development Bank for Wales - be established that will enhance the capability of the Welsh Government to support SMEs in Wales. It will do so by working more closely with the private sector to address the supply and demand dynamics of the Welsh finance market as well as developing its own innovative approach to provide solutions that directly address the needs of the SME sector.

By benchmarking itself against global best practice, the creation of the first public regional development bank in the UK could be the catalyst and driving force in revolutionising the way that finance is provided for Welsh businesses and, as a result, create further growth within the Welsh economy. Given this, we hope that the Welsh Government will carefully review the findings of this report and act upon our recommendations.

Professor Dylan Jones-Evans OBE
Chair, Development Bank for Wales Task and Finish Group.

EXECUTIVE SUMMARY

Background

- A Task and Finish Group was appointed by the Minister for Economy, Science and Transport in June 2014 to produce a report on the possible form, function and feasibility of a Development Bank for Wales (DBW).

- It identified that a number of market gaps need to be addressed in the provision of finance to Welsh SMEs and that there is a geographic bias regarding the availability of bank credit, informal investment and venture capital to businesses in Wales.

- Unfortunately, much of the public sector response within Wales has been undertaken largely in isolation from the private sector and has not taken account of market changes that has led to limited funding from the banks to SMEs. There is also room to improve the utilisation of private funding in the form of informal investors and venture capital to boost high growth firms that can have a disproportionate effect on the economy.

- Therefore, it was concluded that not only is government involvement warranted to support SMEs but also the existing intervention in Wales needs to be reviewed and its efficiency improved.

What is the Development Bank for Wales?

- A range of different options has been examined as to how the Welsh Government could deliver this intervention. It has concluded that the current provider - Finance Wales - should not take this role in the future.

- Instead, it is proposed that a new institution - the DBW - should be created with some of the functions of Finance Wales integrated into this organisation. This would be the first regional development bank in the UK and could have a significant impact on the Welsh SME sector.

- The DBW will follow a hybrid model where the primary focus will be on addressing market failure in key sectors of the SME community by working more closely in partnership with key stakeholders to deliver a wider range of financial products and services to Welsh SMEs. However, the DBW will also be able to manage its own funds including those currently under management by Finance Wales or developed in partnership with other organisations.

- It will therefore focus on closing the funding gap and help deliver finance to Welsh SMEs including charitable, community and social enterprises in a cost effective manner. It will directly address the supply and demand dynamics of the Welsh SME finance market, will be flexible in developing solutions that address market needs, is able to mobilise Welsh and external financial sources, and is aligned with business support providers.

- This will require an organisation that is built around a business model, structure and culture that needs to respond to a very different set of market dynamics when compared to the challenges that were faced by Finance Wales. It will also provide a more holistic approach and thus enhance the capability of the Welsh Government to support SMEs in Wales.

What are the principles behind the DBW?

- The public sector should not displace the private sector but address a market failure in the provision of finance to SMEs.

- Viable businesses in Wales, including those in the social sector, should have access to appropriate and affordable funding.

- The primary role of government-backed funding for SMEs is to drive forward economic development.

- Business support should be offered alongside financial support to businesses rather than as separate elements.

- Funding solutions should be customer-oriented and reflect the needs of SMEs at different stages of growth.

- There should be stimulation of demand for business finance within the SME community.

What will the DBW do?

- Focus on the provision of finance to microbusinesses (0-9 employees) in Wales given the growing importance of this sector for employment.

- Work with private sector to fill the funding gap by providing the finance that will enable the banks to overcome collateral, or affordability issues and lend to Welsh SMEs.

- Address gaps in the awareness and provision of invoice financing to SMEs in Wales.

- Create a Welsh Angel Capital Association to act as an umbrella organisation to encourage the development of multiple angel groups and networks.

- Boost investment into high growth and innovative firms by outsourcing venture capital to a network of specialist funds and establishing a network of micro-venture capital funds with regional and sector focus.

- Ensure that the products of UK Export Finance are marketed effectively within Wales so as to drive forward internationalisation in the economy and the benefits of higher efficiency that exporters competing in a wider market can obtain.

- Support the use of alternative finance as well as encouraging public finance providers to seek investment opportunities in Wales.

- Give social sector organisations guidance and sign-posting support to providers of advice on how to become 'investment-ready' and work with other funding providers to address any market gaps.

- Ensure that financial support through the DBW is fully aligned with Welsh Government business support functions.

- Develop a strategic research and development function that will enable the DBW and the Welsh Government to understand the SME sector in Wales and to deliver the products and services required.

- Have an active outreach programme that will build relationships with key stakeholders in the business, finance and social sector community, including the provision of financial training and support for businesses and intermediaries.

- Provide subsidised consultancy support to supplement existing programmes, especially to those businesses that have been identified as needing to strengthen their management team if the funding they receive is to be fully maximised for the benefit of the business.

- Stimulate business demand in the marketplace by acting as a catalyst in promoting new business development and growth in Wales as well as supporting businesses through acting as a signpost to different types of funding mechanisms.

- Ensure there is positive engagement with key stakeholders through connecting positively with politicians, civil society, the media and others as well as ensuring there is growing Welsh visibility with external financial providers and public bodies.

1. INTRODUCTION

1. In January 2013, the Minister for Economy, Science and Transport commissioned an independent review into access to finance for SMEs in Wales. The aim of the review was to examine how effectively SMEs in Wales were served by existing sources of funding, identify areas of particular challenge and provide recommendations for action. Two reports were published in June and November 2013 examining these areas. In addition, the Finance Committee of the National Assembly for Wales (NAfW) undertook a more focused examination into the role of Finance Wales, which was published in May 2013.

2. The Access to Finance review concluded that similarly to the rest of the UK, SMEs faced difficulties in accessing finance within Wales. It estimated that there remained a funding gap of around £500 million in the provision of funding to SMEs from mainstream finance organisations such as the banks. Evidence from the review also indicated that the current government response to supporting SMEs to access finance in Wales was not adequate to fill this gap and it was therefore recommended that the Welsh Government examine the feasibility of establishing a Development Bank for Wales (DBW) as a vehicle that would draw together the various sources of public sector funding in Wales and utilise these more efficiently alongside private sector finance solutions.

3. In June 2014, the Minister established a Task and Finish (T&F) Group to explore the form, function and feasibility of a DBW. This has included an examination of closer ties between the Welsh Government's financial support offer and the business support regime, as well as securing greater levels of private sector funding, potentially both debt and equity, to support businesses in Wales. This should include attracting new investment into Wales.

1.1. The Economic Case

4. Over the last six years, lending to SMEs has fallen as various restrictions have been imposed on, and developed by, the banking sector in the UK in response to the 2008 financial crisis and its aftermath. Whilst the UK economy has recovered during the last three years, various reports show that bank lending has not kept pace with the growing economy. Similar to other studies on funding SMEs, the Welsh Government's access to finance review has detailed the continuing decline in bank lending to businesses in Wales. More recent data suggests that the situation remains broadly the same with a significant proportion of those businesses that are seeking finance from high street banks being refused facilities.

5. The lack of funding available from the financial sector for small and medium-sized enterprises (SMEs) is known as the "funding gap". This occurs when the

private sector funders are unwilling to accept certain risks that they deem too high, have relatively high transactions costs, and the benefits are not sufficient to cover the cost incurred, and when it cannot capture the full economic and social value of its investments. They may also be unable to accept certain risks because of internal limitations or regulations. This can result in SMEs with viable projects being systematically constrained from receiving external finance to maximise their potential and contribute to economic output; and in such circumstances, government intervention to address any under-investment or market failure would be warranted.

6. The intervention of government cannot only be justified solely on the grounds that it is better placed than the private sector to intervene to address market failures. It must also show that in the long term, the intervention could lead to a greater development of SMEs in terms of the innovation, job creation and dynamism of economic growth.

7. In addition, the role of government should not be focused only on providing money to fill any funding gap. Instead, it should be working together with private sector to nurture and promote an underserved market through a disciplined and targeted involvement of public intervention within the market gap that is carefully identified and evaluated.

8. Part of the role of any future solution by the Welsh Government would be to address the funding gap in the market-place i.e. the difference between the funding required by SMEs and the funding available from the private sector. Using a combination of data from the British Bankers Association (BBA) and the SME Monitor, the Access to Finance review estimated that the funding gap for SMEs in Wales was approximately £500 million.

9. Other reports have estimated the funding gap for the UK from which the level in Wales can be extrapolated. Deloitte's analysed long-run survey data of SMEs in 2012 in preparation for the British Business Bank and estimated there to be a gap in the provision of finance to UK SMEs of around £5 billion but that by the end of 2017, this figure could rise to about £22 billion. Assuming that this is proportionately applied to Welsh SMEs, the funding gap would have been about £200 million in 2012 but would rise to around £800 million by 2017.

10. During its review of Finance Wales, the NAfW Finance Committee requested a more detailed estimate of the funding gap and an updated examination of new data was undertaken for this report (the detail was provided in a separate paper to the T&F Group). This research estimated the funding gap in Wales to be a minimum of £240 million or a maximum of £749 million. This would place the mean funding gap at approximately £500 million, similar to the original estimate from the Access to Finance Review.

11. Can other sources of existing funding fill this gap? According to the presentation from the British Business Bank (BBB) to the T&F Group, its various

programmes supplied £28 million of support to Wales in 2013-14 (although it would be expected that the volumes supported under the Enterprise Finance Guarantee programme of the Department for Business Innovation and Skills form part of the bank lending figures in the BBA data).

12. In addition, Finance Wales provided £33 million of investments in 2013-14 with a further £2.3 million facilitated by xénos, the Wales Business Angel Network. Whilst some have suggested that the alternative finance market could fill this gap, best estimates of the current impact of this new and growing sector shows that around £44 million of funding is currently coming into Welsh SMEs.

13. With 80 per cent of the funding gap remaining (£400 million), one of the key objectives of the DBW would be to ensure that this is reduced through relevant interventions if it is to contribute to the growth and development of the Welsh economy.

14. Therefore, the key question for the Welsh Government in considering a specific intervention to support the finance needs of Welsh SMEs, including those in the charitable, voluntary, community and social enterprise sectors, is whether the situation in Wales is the same as for the other parts of the UK or if there is a case for greater public involvement to ensure that Welsh SMEs get access to finance to enable them to become more competitive and make a stronger contribution to the growth of the Welsh economy.

15. An examination was made of the situation regarding debt funding (which is largely supplied by the banks) and equity funding (which comes from informal investors and venture capital). If specific areas can then be identified where intervention may be justified, this will enable the Welsh Government to consider the delivery of specific actions that can close the funding gap for SMEs in Wales.

1.2 Debt funding

16. The Access to Finance review noted the difficulties in gathering detailed data on funding provided by banks to SMEs in Wales. Currently, the only survey that undertakes a regular analysis of this is the SME Monitor, which has been gathering information on the finance requirements of SMEs since 2011. As part of this work, a detailed analysis of this data for Wales was undertaken and a separate paper presented to the T&F Group. This shows that:

- SMEs in Wales have a high likelihood of applying for overdrafts (including both new overdraft and renewal of the existing ones) compared to SMEs in England (but not Scotland). Regarding applications for bank loans/commercial mortgage, SMEs in Wales have higher application rate than for those in England and Scotland. This suggests a greater dependency on bank funding in Wales than other parts of the UK.

- SMEs in Wales face a higher degree of bank credit constraint compared to their counterparts with similar characteristics in England and Scotland i.e. they face a higher likelihood of being an unsuccessful applicant. As a result, owners of SMEs in Wales have a higher probability of having to inject personal funds into the business because the firm has tried unsuccessfully to obtain bank finance or has assumed that the bank would not lend to their business.

- SMEs in Wales have a higher probability of being rejected for both overdrafts and bank loans as compared to those in England and Scotland. Also, Welsh SMEs that were offered smaller amounts of funding than they applied for are more likely to be offered an amount more than 50 per cent lower than requested. This failure in the market place suggest there could be a role for government in working with the banks to close this funding gap for SMEs in Wales.

- SMEs in Wales are more likely to be discouraged from applying for a bank overdraft or bank loan even though there is a need by the business. This is mainly due to concerns over rejection and a perception of the reluctance of banks to lend. There are also issues over the security requirement (collateral) and terms and condition associated with borrowing, as well as the affordability of overdrafts.

- SMEs in Wales are more likely to report a negative impact of not seeking an overdraft/bank loan facility especially as there is a greater need for funding as compared to SMEs in England and Scotland. Analysis of this data also suggests that SMEs in Wales face higher degree of bank credit constraint relative to England and Scotland, and a shortage of alternative external financing channels.

- SMEs in Wales that are younger, smaller, have a higher risk rating, have new bank credit or are first time applicants have a higher rate of rejection for funding from the banks. Also applications for bank term loans are rejected more often than those for bank overdrafts. In terms of industry sector, manufacturing, construction and wholesale/retail firms seems to have a higher degree of bank credit constraints. Given the disadvantage of being new or small when applying for a bank loan, it is not surprising that applications below £25,000 have the highest rate of rejection for both overdraft and loans. This clearly suggests that the high street banks are not adequately serving those Welsh firms - start-ups and microbusinesses - that require finance.

17. This geographical bias in bank lending is not unusual given the inherent spatial basis for the availability of bank credit to SMEs in a branch banking system. Research has shown that the closeness of physical distance between borrowers and the branches of national banks eases the interaction between

the loan officers at local branches and SMEs and can reduce default risks for lenders materially. A centralised branch banking system together with the use of mechanical credit scoring models in assessing the creditworthiness of SMEs in lending works against that benefit.

18. The competitiveness condition in the local market will also play a role since it would influence how loan officers in banks would act in such circumstances. An analysis of the characteristics of banks' credit market at a regional level shows that it is characterised in Wales by high concentration, a low density of branches, and the longest functional distance, which implies a lower willingness and lower capacity of national banks in supplying lending to SMEs in Wales. This is consistent with the highest credit constraint faced by Welsh SMEs as revealed in the analysis based on SME Monitor.

19. This detailed analysis of two different datasets shows that there is a geographical bias in terms of the provision of finance to SMEs in Wales compared to England and Scotland. This suggests that the banks need to increase their funding to Welsh SMEs although this seems unlikely given recent historical data from BBA on bank lending to SMEs from 2011-2014 which show that the overall value of bank facilities approved in Wales has fallen by £1.1 billion since 2011 with loans accounting for 84 per cent of that decline. It would have been expected, given tighter credit and collateral regulations within banks over this period, for lending to smaller firms (with less than £1 million annual turnover) to fall and the overall value of approved loans to this group indeed declined by £157 million.

20. Medium-sized firms (that have a turnover of between £1 million and £25 million) have also experienced difficulties, with the overall value of loan facilities falling by £758 million. This indicates that all categories of SMEs in Wales are finding it difficult to secure funding from the high street banks and that this situation is unlikely to change in the future.

21. The decline in bank facilities also suggests that current public sector solutions that have been established to support firms that have been refused bank credit are not addressing this issue sufficiently and that the Welsh Government may need to develop or promote alternative sources of funding in the private and public sector.

1.3 Equity funding

22. The Access to Finance Review has examined the level of informal and formal investment into Wales through business angels and venture capital firms respectively. Further updating of this information shows the following information.

23. The latest data on the Enterprise Investment Scheme (which serves as a proxy for angel investment) shows that for the period 2010-13, 200 investments were made in Wales with a value of £48.2 million (£20.8 million in 2012-13). This equates to 2.8 per cent of the UK total by number and 1.9 per cent by value. Only Northern Ireland and the North East of England have performed worse than this during this period.

24. With regard to the Seed Enterprise Investment Scheme (SEIS), only 10 investments were made in 2012-13 with a total value of £400,000. This was the lowest average investment of any of the UK regions.

25. British Venture Capital Association (BVCA) data on equity investments in the UK shows that there has been a decline in the number of equity investments in Wales since 2008. In 2013, Wales attracted £55 million of equity investment into 25 companies i.e. 3.7 per cent of all UK investments but only 1.3 per cent of the value of those investments. Of this, only £9 million was invested into venture capital with £42 million into expansion projects. On a comparative basis, Wales had 0.13 investee companies per 1,000 of total VAT registered businesses, half of the level for the UK and the lowest of all UK regions.

26. During the period, 2009-2013 Finance Wales invested venture capital in only 9 start-up companies as compared to 340 start-ups across the UK by BVCA members. On a population basis, Finance Wales invested in three start-ups per 1 million head of population whilst for the UK the figure is 5.5 start-ups.

27. Despite the perceived gap in equity-based funding to Welsh firms, there have been very few investments by British Business Bank backed venture capital funds in Wales, with only £1.3 million of equity investments going into Welsh SMEs in 2013-4 (1 per cent of the total invested in the UK).

28. Since the Business Growth Fund was established in 2011 to support equity investment into businesses, there has only been one investment into Wales as compared to fourteen for Scotland.

1.4 Conclusions

29. Analysis of the data on both debt and equity finance indicates there are a number of major market gaps that need to be addressed.

30. The first is the provision of finance requests of less than £25,000 that the current providers are largely rejecting. This means that there needs to be a focus on helping both new firms and microbusinesses to access funding and support.

31. Welsh firms are also likely to be offered less than they need for their business, suggesting that direct interventions could be developed in partnership with the

banks that can overcome some of the issues associated with a lack of sufficient collateral and affordability of the loan. This would especially pertinent for larger SMEs that have seen their approved loans fall by £157 million since 2011.

32. Informal investment through business angels is lower in Wales than expected and more could be done to stimulate this vital source of private sector funding. Similarly, venture capital investment into start-ups remains below expectations and could be limiting the development of high growth firms that can create wealth and employment in the economy.

33. Therefore, the data indicates clearly that government intervention is warranted. However, it also suggests that the existing government intervention in Wales needs to be reviewed and its efficiency improved.

2. STRATEGIC CASE

34. Given the presence of a funding gap and the reduction in bank financing to Welsh SMEs, the T&F Group is of the opinion that there are six options for the Welsh Government to consider with regard to the way forward to support the financial needs of SMEs in Wales, two of which are variations on the current institutional model operated in Wales and two of which are new approaches.

2.1 OPTION A - No Welsh Government support

35. One of the priorities of the Welsh Government is to "strengthen the conditions that will enable business to create jobs and sustainable economic growth". Currently, the Welsh Government provides grants, loans and equity to businesses either directly or through Finance Wales as part of its strategy to achieve this aim.

36. The Welsh Government could withdraw from the supply of funding to SMEs in Wales and leave this to the private sector. However, the Access to Finance review (which examined the current situation regarding the supply of finance to SMEs by both the private and public sector in Wales) identified a considerable funding gap in the supply of finance to SMEs in Wales, a finding that has been reinforced by the data presented earlier in this study. This gap is currently not being met by existing providers.

37. More importantly, there is not only clear evidence of a continuing contraction in lending to SMEs (especially new firms and micro businesses) but that the situation in Wales is worse than for both England and Scotland. In addition, there is evidence that equity funding needs further stimulation to encourage more high growth firms.

2.2 OPTION B - Part of the British Business Bank

38. Rather than becoming directly involved in funding SMEs, the Welsh Government could seek a solution through the auspices of the British Business Bank, which could set up a division in Wales. Whilst this looks attractive, there are a number of political and economic obstacles to this approach.

39. Devolved responsibility for economic development (including the funding of SMEs both directly and via European Structural Funding) would mean that any Welsh element of the British Business Bank could not fall directly under the remit of the UK Government.

40. The strategy adopted by the British Business Bank, where wholesale funds are allocated to intermediaries that then distribute these to SMEs, may not be the best approach to supporting SMEs in Wales, especially as evidence presented to the T&F Group showed that the venture capital funds supported by the British Business Bank have made a negligible impact in Wales.

41. In addition, the data analysis in the last section shows that the status of the existing financial structure in Wales is weaker than other regions and there may need to be a direct regional intervention to nurture the market, as this cannot be done by the UK Government alone.

42. There is a clear recognition that microbusinesses need to be supported in Wales and yet this is one area where the British Business Bank has yet to intervene despite the success of the Start-Up Funds scheme.

43. The T&F Group is supportive of using guarantees as a form of flexible funding instrument to ensure that any funding gap identified by the banks can be addressed for the benefit of SME clients although such instruments have yet to be developed by the British Business Bank, with the historical exception of the Enterprise Guarantee Scheme (EFG).

44. Under current circumstances, the BBB may not be the best vehicle to deliver financial solutions to SMEs in Wales. However, it is critical that the Welsh Government (and any body it currently manages or develops in the future) should work closely with the British Business Bank at both a strategic level but also to deliver specific solutions for Welsh SMEs. So how should the Welsh Government deliver public funding to businesses in Wales?

2.3 OPTION C - Maintain the status quo.

45. In Wales, the majority of the funding currently provided to SMEs by Welsh Government and its subsidiary Finance Wales is provided directly to the final beneficiary in the form of grants, loans and equity. An exception is the £100 million Life Sciences Fund, which is currently managed by an independent organisation, Arthurian Life Sciences, on behalf of Finance Wales and the Welsh Government.

46. The creation of Finance Wales since 2001 has made positive contributions in terms of providing funding to Welsh SMEs. However, it can be argued that there has been a reluctance to respond to the changing environment for SMEs since the financial crisis of 2008 and a disinclination to create radical, proactive, and scalable financial solutions in the market place to support Welsh business.

47. There has been uncertainty, beyond its simple key performance indicators, of what its role should be, both within the organisation itself and within its parent, the Welsh Government. As the NAFW Finance Committee suggested, Finance

Wales has not been as transparent as it could have been which impacts on issues about overall accountability.

48. While there is interaction between Finance Wales and other parts of SME support within the Welsh Government, there is considerable room for improvement in ensuring that SME clients are able to benefit from both financial support and business advice.

49. There was also evidence in the Access to Finance review that some private sector providers had begun to perceive Finance Wales as a direct competitor rather than fulfilling the role of a market gap funder. In addition, most of Finance Wales funding is done without working with the existing private sector, which can result in information opaqueness, low efficiency and low return.

50. These matters are now gradually being addressed but there is a concern that the activity still focuses almost solely on providing a financial solution on its own rather than providing a wider solution that encompasses both financial support and business advice.

51. There is concern from the evidence produced that Finance Wales does not, in its current form, have the strategic direction and operational ability to be able to develop new approaches that will make a step difference in the funding of SMEs that is required within Wales. As a result, keeping Finance Wales in its current form would potentially result in limited change to the current provision by the public sector.

52. That is not to say that some of the functions of Finance Wales should not be amalgamated into a new financial body with a different strategic remit. In fact, the T&F Group concurs with the conclusions of the NAfW Committee that any changes to Finance Wales should utilise some of its existing skills and infrastructure.

53. This option of maintaining the status quo could only be feasible if the Minister believes that the short-term costs of change in keeping Finance Wales in its current form outweighs the longer-term benefits of a more coherent and comprehensive strategic solution. However, this would require continued government subsidy as Finance Wales has yet to break even financially as an organisation.

54. It is the opinion of the T&F Group that the government provision of access to finance is too important a priority to be left within the narrow remit of this institution that has failed to adapt sufficiently to changing market conditions.

2.4 OPTION D - Enhanced Finance Wales

55. This approach would enhance the role of Finance Wales by maintaining its current fund management role but adding such functions such as research, financial institutional relations, and the provision of more integrated business support. This has the benefit of allowing 'business as normal' and adding new capabilities. The major problem is that this solution fails to address the issues discussed earlier that are at the heart of Finance Wales namely effectiveness, efficiency and public responsiveness.

56. In addition, the current structure of Finance Wales means that it is has been organised as a fund manager; it would be difficult for it to outsource any functions whilst also taking on additional responsibilities as part of a new strategic approach deemed necessary to deliver what is needed for Wales. There seems to be very little ethos that is geared towards the economic development role of the organisation that would need to be a priority for any new SME finance body in Wales.

57. Members of the T&F Group have shown concern over the high costs associated with the management of loan funds, and the approach taken with regard to equity funding in Wales. This would not be expected to change under any enhanced body with the same mission and remit.

2.5 OPTION E - Full in-house provision

58. This would be a fully integrated financial organisation with in-house provision of financing and business support. This would be similar to development bank models elsewhere such as Canada and the USA where financial and business support are provided by the same organisation.

59. This may be an expensive model to implement at a time when there is reduced public funding available, especially in ensuring that a whole suite of funds relevant to the needs of SMEs across Wales are developed and serviced accordingly.

60. By providing funding directly to businesses without directly addressing a market failure and in competition with the high street banks and other alternative finance providers, there could be a risk of crowding out existing private sector providers. The role of a public sector funding entity should not be to replace private sector funding but to generate greater investment. Simply lending money to businesses by government directly does not necessarily generate any additional private sector leverage.

61. While there may be potential efficiencies to gain in bringing in business support under the auspices of a new body, in terms of scale and outreach, the extent of Welsh Government business support under the Business Wales brand

may be too wide to sit easily within the Development Bank. In addition there could be concern that changing the Business Wales brand or integrating it directly into a new organisation, may place business support at risk given that it has begun to establish itself in the marketplace

62. The creation of what some would perceive essentially to be a similar model to Welsh Development Agency, albeit with a strong finance function, may not be politically palatable. However, the T&F Group felt that such an organisation could be developed in the future but at this stage, other options are easier to implement to deal with the financial issues facing SMEs.

2.6 OPTION F - Hybrid provision.

63. As with the British Business Bank, the consolidation of all access to finance schemes into one institution in Wales creates the opportunity to build a new organisation that becomes a strong brand that Welsh SMEs will see as the 'go to' location for financial support.

64. In order to be efficient and effective, it is proposed that where possible, such an organisation should not only deliver its own funds if necessary but also work with private intermediaries to deliver its programmes.

65. Unlike the British Business Bank that is only a wholesale institution, the degree of involvement of the public sector may vary according to the type of financial intervention required. This could range from outsourcing all equity financing to private venture capital organisations, to acting in partnership with banks to provide gap funding to existing SMEs, to utilising the existing business support mechanism to deliver funding to microbusinesses.

66. The new entity could also work in partnership to support and enhance alternative sources of funding, especially invoice finance, and act as a catalyst in developing a strong business angel network in Wales.

67. If Finance Wales were to be merged or amalgamated into a new body, then consideration would need to be given to the management of its existing funds.

68. The hybrid model would allow the Welsh Government's current policies to be implemented whilst, at the same time, reducing the costs of due diligence, attracting higher levels of private sector leverage and enabling public sector funding to be targeted at those products and services which can have the biggest benefit to the Welsh SME community. Therefore, the aim of the hybrid model is not to crowd out the private sector but to work with it to ensure that the most appropriate funding is provided to Welsh SMEs.

2.7 Conclusions

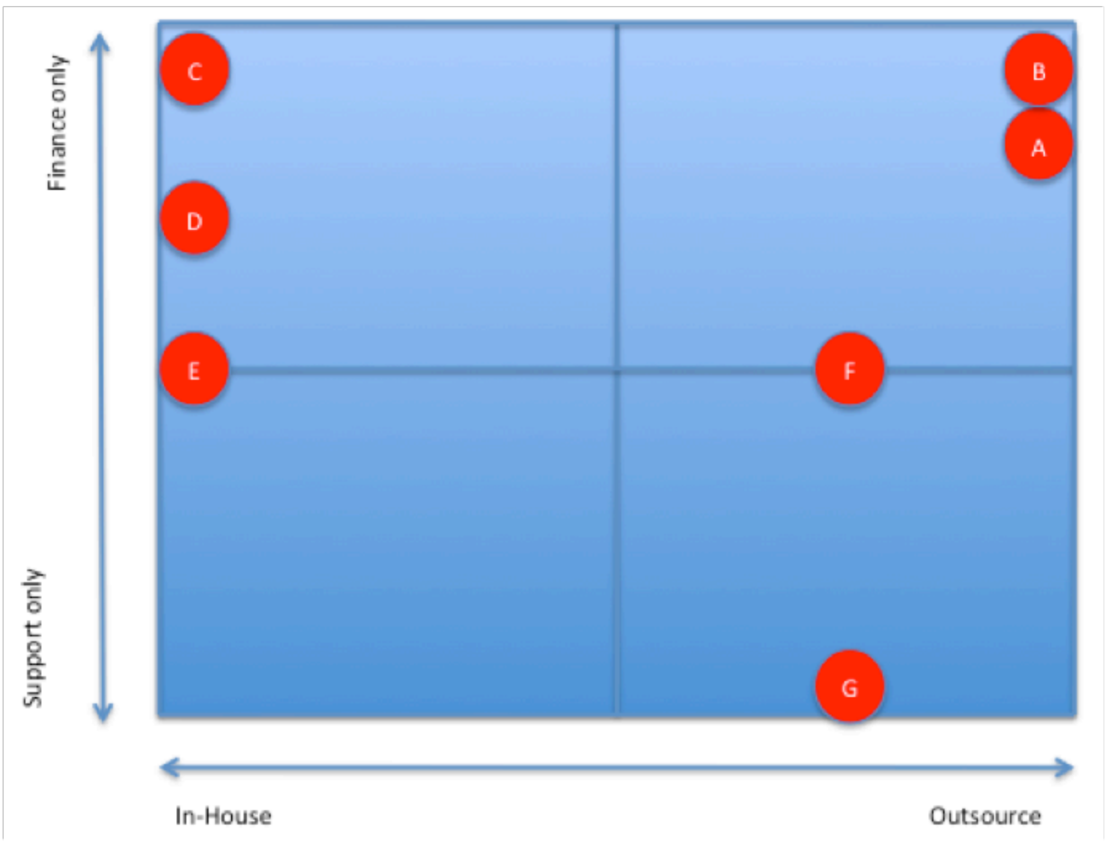
69. This hybrid approach is the preferred model where the primary focus would be on working more closely in partnership with key stakeholders to deliver a wider range of financial products and services to Welsh SMEs. The entity should also, if necessary, be able to manage its own funds; these could include those currently under management by Finance Wales or developed in partnership with other organisations.

70. This is a major change in the approach currently taken by Welsh Government directly or through its subsidiary Finance Wales but will enable the public sector to maximise the impact it can have on supporting the SME community in Wales, in a potentially cost effective manner (subject to full cost comparisons).

71. There are potentially negative impacts from this approach but these can be minimised through the experiences of the British Business Bank in undertaking the same process with Capital For Enterprise Ltd, and the Welsh Government's amalgamation of the Welsh Development Agency and other bodies.

72. Figure 1 below shows the different options available to Welsh Government along with (G) Business Wales.

Figure 1. Options for supporting SMEs in Wales



3. THE ORGANISATIONAL CASE

3.1. Characteristics of a Development Bank

73. The evidence suggests that a new organisation should be created to manage the public funding of SMEs in Wales that should be along the lines of a public development bank (PDB).

74. A PDB is a state-owned financial institution whose mandate is to promote socioeconomic development by financing specific economic activities, sectors, or segments. This can include public participation in the financial system and/or providing financing for projects considered valuable for economic development or that are key elements of national public policy.

75. If a PDB is to be set up in Wales to undertake such a role, then consideration must be made of how they operate in other countries to ensure that best practice is adopted. Consideration needs to be given to a number of key issues in how a PDB might work in Wales including mandate, targeted market segment, positioning vis-à-vis the private sector, financial sustainability, pricing policy, key performance indicators and how the PDB is financed.

Mandate

76. It is critical that a PDB's mandate and resources are properly framed relative to the government's strategy within that public policy domain and the PDB's own legal foundation.

77. A clear mandate will not only guide the scope of activity undertaken by the PDB but will also act as a benchmark against which performance should be monitored and assessed whilst allowing for flexibility at the operational level. The Access to Finance Review and the NAfW noted that there has been no clear mandate for Finance Wales and this has led to confusion over its role.

Targeted market segment

78. The determination of the targeted market segments should be dictated by the analysis of market failure in the finance market for SMEs and its primary causes. A clearly defined and focused target market enhances the transparency of the PDB and facilitates oversight over the operation of the PDB. Unfortunately, Finance Wales has not targeted parts of the SME market and has instead managed general funds that do not provide any specialised support to deal with aspects of market failure. As will be discussed later, this has been most prominent in its support for equity funding support.

79. The scope of the PDBs activities must also fit its resources (including both financial and human resources). Given the heterogeneous nature of the SME market, there is need for defined assessment of the market gap and subsequent prioritisation that should focus on those segments whose development has more substantial implication for the government's long-term economic strategy. Given that the market gap can change according to the economic and business environment, it should be subject to a periodic review and update.

Positioning of the bank

80. In terms of positioning, the targeted market segment should also be guided by the extent to which government has an enabling tool to attract the participation of the private sector to the segment. To ensure maximum impact from PDB operations and minimise possible distortions, the ideal positioning of a PDB is to act complementarily with the private sector, a strategy that is consistent with the pro-market activism view of public intervention.

81. Public intervention in the SME market via a PDB should avoid both a "deadweight" effect, when the beneficiary from the public intervention is a SME which would have survived and grown in any case; or a "substitution effect", where the SME would have exited the market in the absence of the intervention.

82. In the former case, providing support to businesses that can obtain finance from conventional sources ties up government resources that could be used to support viable businesses that cannot obtain finance. That is why the public sector should not compete 'head to head' with the private sector in the supply of funding to businesses. The latter case not only wastes scarce public resources but also distorts market selection process and harms the positive spillover effect of new business formation. This suggests the significant importance of the evaluation of the viability of business in the provision of financial support by the PDB. It also highlights that the evaluation of the performance of SMEs receiving financial support from the PDB should be one of crucial performance indicators in the evaluation of its effectiveness.

Financial sustainability

83. While the PDB's main objective is not to maximise profit, any mandate should ensure that the PDB achieves self-financial sustainability over time. A development bank without financial self-sustainability would pose fiscal risk for the government and create a threat towards a commitment of public intervention. Despite reducing the Welsh Government subsidy from £5.5m in 2010 to £3.5m in 2014 Finance Wales is still someway off achieving financial self-sustainability.

84. The requirement of financial sustainability in the mandate would incentivise the board of directors and management team of the PDB to utilise the financial

resources efficiently and conduct management professionally. The board of a PDB that is not financially sustainable is more likely to request periodic subsidisation and recapitalisation from the government, compromising its independence. Financial sustainability will need to be defined (maintenance of capital, rate of return, return on capital, cost/income ratio) and the time period to be taken to achieve it needs to be specified in any business plan for the PDB.

Pricing policy

85. In order to maintain a break-even situation as described above, the cost of borrowing charged by a PDB to SMEs in the provision of debt finance should, on average, be the sum of the funding cost, the operating cost, and the risk premium (covering the default of principal). In a case where there is a requirement for an explicit positive return on capital, the mark-up to support the return should be an additional variable to take into account.

86. It is natural to compare the pricing policy of the PDB and that of the private sector in order to establish the extent to which the presence of the PDB improves the affordability of debt finance for SMEs. The spirit of pro-market activism requires the PDB to operate at the market gap that is underserved by private sector with the greatest negative impact being faced by SMEs is when the external finance market for SMEs does not exist.

Key performance indicators

87. To hold the PDB accountable to its mission, the mandate should make provisions for reviewing its performance on a short-term, medium term and long-term basis. As the ultimate goal of PDBs in promoting SME the finance market is to contribute to long-term economic development through facilitating access to external finance, the SME's development objectives should be included in the key performance indicators for its assessment.

88. Regarding the definition of development objectives, these should be directly linked to the efficiency of the allocation of financial resources toward the productive activities (i.e. outputs) rather than the quantity of the allocation (i.e. inputs), i.e. the main focus should not be on the number and value of investments but on the return from that investment or the number of jobs created.

89. The key policy concern should not be on the aggregate levels of inputs, but how resources (inputs) are allocated to support activities that raise productivity since those are more relevant parameters for economic development. The traditional measurement of development objectives of public intervention such as the targeted investment rate and targeted number of deals over-emphasises the quantity of financial support by the government and has contributed to the low efficiency of public intervention.

90. At a micro-level, the evaluation of the performance of the SMEs who received financial support from the government should also be measured to ensure that the development objectives of PDB are translated into policy and processes at the operational level.

91. This requires a commitment to research and evaluation by the PDB. It would also help to distinguish the tangible progress attributable to the intervention the SME firm has received from those that would have happened without public intervention.

92. Moreover, the development objectives should measure the extent to which:

- The activity is incremental to that provided by private intermediaries
- Private intermediaries have increased their market share in the segment where the PDB is active (i.e. demonstration effect)
- The PDB has organised training or other non-financial assistance activities to improve business and professional skills (i.e. transfer of skills),
- The PDB improves environmental and social awareness.

Financing the PDB

93. There are several ways in which a PDB can be financed, including (a) receiving budget allocations from the government, (b) borrowing from other financial institutions, (c) raising money in the domestic or international capital markets, and (d) taking savings and deposits from the public.

94. Like all other public financial institutions, PDBs are endowed with a certain amount of equity capital by public authorities when they are founded. After the initial injection of equity by government, the next step is to create leverage from non-governmental funds to maximise the PDB's impact. Most PDBs resort to market financing while only a minority are solely funded through public equity endowments. Since a PDB is owned by government bodies, public guarantees, either in an implicit or in explicit manner, would enable them to borrow in the capital market at a yield that is slightly higher than gilts but less than corporate bonds.

95. Raising funds from public debt markets can be viewed positively since this would improve the quality of the management of PDB and the clarity of its financial performance due to market discipline, increasing the accountability of its directors. The information transparency and disclosure required for the fund raising in the public debt market should result in less government interference and increased external monitoring in the activities of PDBs. Raising such funds may be an option in the future for a development bank in Wales but is unlikely in the short term given the restrictions on public borrowing by the Welsh Government although this should certainly be explored once the bank is operational.

96. Finally, there are PDBs that raise deposits from the general public. Most institutions of this kind are retail banks and normally have strong ties to a particular region, primarily delivering financial services within that geographic area. Some have argued that PDBs should avoid taking deposits from the general public so that they focus their operations in the asset side, avoiding competition with private banks and limit potential taxpayers' exposure to liability management-related losses.

97. The distinction between a development bank and a commercial bank might become blurred when PDBs are allowed to offer savings and deposits accounts to the general public. Unless their mandate is related to fostering savings, preventing capital drain from poorer to richer regions, or enhancing the payment system in certain market segments, retail funding should generally be outside the scope of PDBs because it imposes additional challenges in management, transparency, and supervision. Again, this would be unlikely for a new body in the short term given the regulatory hurdles to achieve this in Wales.

3.2. Principles for a Development Bank for Wales

98. The T&F Group believes that six principles should form the core for any changes to the current way in which Welsh Government supports access to finance for the SME community.

Addressing a market failure.

99. The public sector should not displace the private sector but address a market failure in the provision of finance to SMEs.

100. Government access to finance schemes should be targeted at correcting an identified market failure, ensuring that the market mechanism in the supply of finance to SMEs is well functioning. The key market failure relates to asymmetric information between the financial institution and SME. Interventions should not be used to distort the competitive market mechanism by propping up inefficient businesses.

101. It should therefore be the role of the private sector and not the public sector to provide direct funding to SMEs. Where market failure has been identified, then there is strong case for Government to address any shortfalls in funding that could affect the competitiveness of the business community and the economy as a whole.

102. This should avoid competition with the private sector and work with the finance community to provide the most relevant solutions whilst increasing the joint effectiveness of public and private schemes in encouraging greater levels

of funding. They should use the expertise of private sector financial institutions and investors to make the investment or lending decision.

103. While the main aim of the DBW is to fill the funding gap, the ultimate method that should be used is by incentivising the participation and risk sharing of private sector and co-operating with the private sector to fill the gap rather than working on its own to supply the gap underserved by the private sector. The specific design of any funding scheme should align the private interests of the investor or lender with the objectives of the Government.

104. The real success of the DBW will be when the private sector displaces its operations and the market gap is filled.

Appropriate and affordable funding

105. Businesses in Wales should have access to appropriate and affordable funding.

106. SMEs face different financial challenges depending on their size, sector and stage of growth. Given this, it can be argued that where there is a funding gap due to market failure, the public sector should provide specific interventions to support the provision, either directly or indirectly, of the most appropriate type of funding to each business.

107. There should be greater flexibility within publicly funded finance schemes to limit the cost of borrowing to SMEs and where possible, to utilise state aid regulations to support this.

Economic development as a priority

108. The primary role of government-backed funding for SMEs is to drive forward economic development.

109. During the recession, publicly owned financial institutions across the World played a vital role in supporting SMEs and their financial requirements albeit with a dual focus on both a financial outcome and a wider social role. This has meant lower rates of return on capital but delivered greater stability and long-term support for SMEs.

110. The role of any publicly funded programme to support access to finance for SMEs should be to focus on economic policy goals as its first priority; but it should also support the individual goals of SMEs at the same time. In some cases, this may be best served by outsourcing the management of any related funding to an external organisation whose focus will be on developing the funded business more widely.

Financial and business support offered together

111. Business support should be offered alongside financial support to businesses rather than as separate elements. This joined-up approach is important for a well-functioning SME finance market since non-financial support is expected to bring about a stronger demand side that could stimulate the supply side.

112. Research has shown that various public organisations that are involved in supplying financial support to businesses also provide various types of business support to their clients. A recent evaluation of European financial instruments suggested that the provision of business advice is a key element of some financial intervention tools although this can depend on the stage of development of the SME.

113. There are advantages in having a joined up approach to business and financial support so that a company can evolve as it grows towards different services that it may not, for various reasons, be able access from the private sector at that stage in its lifecycle. The appropriate level of integration of these two services is discussed later.

114. There could also be benefits both in terms of reduction in costs and a stronger relationship with the beneficiary, leading to better access to information on the business that can lead to a reduction in risk when lending. More importantly, financial and business support needs to be available at different stages of the life cycle of the business.

Customer focused approach

115. Funding solutions should be customer-oriented and reflect the needs of SMEs at different stages of growth.

116. There are a plethora of different public funding schemes that are available to businesses in Wales including grant support, debt and equity funds, UK government export guarantees and credit insurance, and finance provided by the British Business Bank through intermediaries.

117. This is in addition to the different types of funding available from the private sector, such as loans, asset finance, and invoice discounting, as well as new types of alternative funding such as crowdsourcing.

118. This creates a confusing landscape for the average SME. Given this, there is a need for a single brand for in Wales that is responsible for the promotion and management of all public finance support schemes for SMEs in Wales.

119. In addition, government access to finance schemes should be targeted at where they have most impact. Providing support to businesses that can obtain finance from conventional sources (known as deadweight) ties up government

resources that could be used to support viable businesses that cannot obtain finance

Stimulation of demand

120. There should be stimulation of demand for business finance within the SME community.

121. It is appreciated that the provision of SME finance to Wales is not only a supply issue. There is a need to increase the awareness of the different types of funding that are available to SMEs, provide greater stimulation of opportunities for firms at all stages of the growth cycle and support the development of a stronger investment culture.

122. The financial ecosystem should also be strengthened through various mechanisms such as investor readiness programmes and the development of business angel groups.

3.3. Organisational and operational aims of the DBW

123. Given the requirement for a Development Bank for Wales, the Welsh Government needs to determine what the organisation will do to meet its objectives.

124. The DBW will therefore be a Welsh public institution driven by public policy and market needs. Its mission will be to address the funding gap in the Welsh economy through being an effective and efficient public investor, supplying integrated finance and support whilst also stimulating demand, especially through non-financial services.

125. To achieve this, it will:

- Provide loans, guarantees, equity and other financial instruments to support Welsh SMEs, whether in the profit or non-profit and social enterprise sector, as well as stimulating and encouraging new sources of finance
- Act as a gateway for financial and business support for SMEs, some of which will be provided in-house and some through aligning closely public and private sector partners.
- Stimulate the financial ecosystem through providing support for key stakeholders such as business angels as well as showcasing Welsh business to potential investors
- Gather, collate and provide detailed information on the SME sector in Wales to enable an understanding of the dynamics of the Welsh economy and the funding gap in more detail so that appropriate interventions can be developed

- Be aligned with Welsh Government economic policy and establish close relationships with the sector panels, the enterprise zone boards and city regions.
- Ensure that, at a time of fiscal austerity, its access to finance schemes are cost effective.

4. WHAT IS A DEVELOPMENT BANK FOR WALES?

126. This section will examine the arrangements for a new Development Bank for Wales in terms of governance, management and organisational structure, legal structure, financial issues, pricing, cost and resources, drawing on best practice globally.

4.1 The shareholder and governance

127. Research shows that governments should develop and publicly communicate an ownership policy toward a PDB. The ownership policy includes the definition of the general terms and conditions that will apply to decisions regarding the amount, structure, terms and conditions, and the subsequent handling of the investment and the manner in which government will exercise its ownership. In a PDB whose main shareholder is the government (as in the case of the DBW), the shareholder's role is to appoint the board of directors, monitor the performance of the PDB, and to satisfy itself that an appropriate governance structure is in place.

128. Within PDBs, it is critical that there is an appropriate corporate governance framework that sets out the rules of engagement and the respective roles and responsibilities of the government shareholder, the board of directors, management and auditor. Across the world, PDBs can have either a one-board system (as is the current case for Finance Wales) or a two-board system (as in Finnvera and other European public banks). In the latter case, there is a supervisory board in addition to a management board and the supervisory board is to inform the government about the policy direction of the PDB and ensure there is mutual alignment. It is believed that a two-board structure would not be suitable within the UK context where it is less familiar and seen as both more cumbersome and adding cost, although its principles of accountability should be adhered by a unitary board.

129. The board of directors is responsible for the governance of the institution, including setting its strategic plans and establishing performance indicators in line with the policy objectives defined by the shareholders and providing leadership toward their achievement, supervising management, and reporting to the shareholder. The chief executive (CEO), the senior management, and head of internal audit are appointed by board of directors. A board audit and risk committee should supervise external audit functions, review risk management and the system of internal control, and monitor the work of internal audit. This committee should be composed only of non-executive members and its chair should not be the chair of the main PDB board.

130. A transparent, structured process for nominating board members, including minimum fit-and-proper criteria, is important. A board governance committee would prepare an assessment of the skill requirements of the board members, recommend skill requirements for the selection of new directors and assess the capabilities of the current board members, and be responsible for approving the appointment of the CEO and other senior executives and for monitoring their performance and decisions on their remuneration.

131. For a SME-focused PDB such as the DBW, expertise in finance, innovation, technology and entrepreneurship, as well as governance, inclusion and regulation, are the necessary skills profile for members of the board that will help in decision-making. The shareholder representative should avoid nominating government officials as official board members if possible. As far as size is concerned, research indicates that the average number of members on the boards of PDBs is eight members.

132. The communication between the government and the PDB should be exclusively through the shareholder representative and the chairperson of the board of the PDB. The shareholder representative specifies the information required for evaluating the performance of the board of directors against pre-specified specific, quantitative and qualitative objectives. The shareholder representative is also responsible for coordinating the activities of the PDB and that of other economic development functions of the government. Also, given best practice amongst PDBs elsewhere, there should a clear delineation between non-executives and executives in terms of their responsibilities within the organisation, i.e. no executive member should be a member of the main board.

133. Board members should be appointed for a fixed term and the terms of individual members should be staggered. The purpose of this is to maintain the continuity of the institutional behaviour within the board. It also defends the independence of decision-making by the board since the shareholders are not able to remove board member whenever there is a disagreement (unless in extreme circumstances).

134. The levels of transparency and disclosure should be comparable with those of publicly listed companies, i.e. timely financial statements and annual reports are essential for making PDBs accountable for their actions. Conflicts of interest of the board members and senior management need to be publicly disclosed, including transactions with related parties. There should also be transparent remuneration policies set for executives and non-executives by an independent panel.

135. These best practice guidelines suggest that the governance arrangements of the new DBW should follow the following principles:

- The institution is a public body, fulfils a public mission and must be accountable to its public shareholder
- At the same time, it must also be able to pursue a long-term approach to its agreed strategic outcomes and should be held at arms-length from Welsh Government's day-to-day decision-making
- The board fulfils an important role as the buffer between the executive management and the Welsh Government and supervises the management. No executive member of the DBW should be a member of the board.
- The board must ensure that the DBW carries out its public mission while balancing the ability of management to execute this mission as they see fit.
- The governance of the DBW must comply with the relevant sections of the UK Corporate Governance Code
- Whilst having a continental model supervisory board and management board is unsuitable for this type of development bank, it is proposed that there is a formal meeting between the Welsh Government and the chairman of the board every six months to review progress and consistency with the policy aims of the government. The chair and the CEO will also be required to appear before the relevant NAfW committees annually.
- As part of this process, the board will release a detailed half-yearly report that will be published online for public consumption. This will contain details of performance against a focused set of qualitative goals and quantitative key performance indicators as agreed with the Welsh Government. It will also publish an annual report and be subject to regular external audits, the results of which will be made public.

4.2 Management and organisational structure

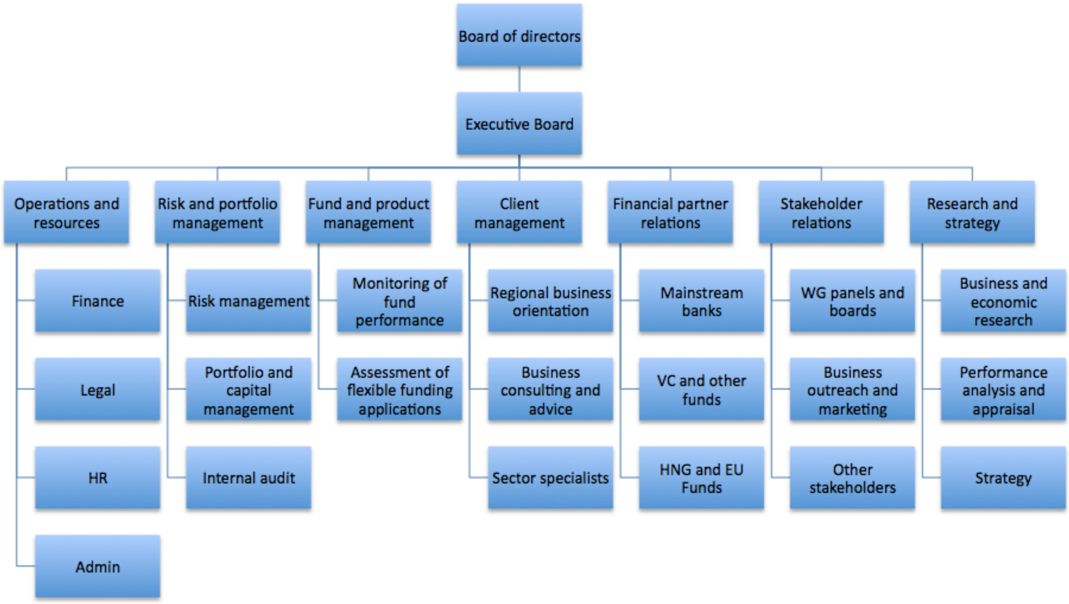
136. A hybrid model will be adopted for the bank where it may not have direct responsibility for running its own funds. This will mean that the management and organisational structure of a new DBW will be different to that currently being managed by Finance Wales.

137. As noted earlier, an executive team governed by a non-executive board would lead the DBW. The board of directors would be appointed by the Welsh Government in its capacity as sole shareholder and would ensure that the DBW delivered the mandate given by the Government and that the institution operated in accordance with best practices of governance.

138. The executive board will be led by the CEO who would be responsible for the executive leadership and management of the institution, taking charge of mandate delivery, strategy, financial performance and organisational health under the guidelines and delegated authorities set by the board. This role would be the public face of the DBW, particularly leading on relations with stakeholders (other than the government itself) and financial partners. A Chief

Operating Officer should also be appointed to counter-balance the CEO's expected strategic strengths with operational management capabilities.

Figure 2: Proposed organisational structure for the DBW.



139. It has been recommended that business support and Welsh Government grant support will remain organisationally separate to the DBW at this time. Given the importance of a close alignment of business and financial support, it is proposed that an operational liaison board is formed consisting of the directors of the DBW along with the heads of business support and grant funding within the Welsh Government. Meeting every month, this body will enable operational decisions regarding all three provisions of support to be better aligned. There will also be a need for operational resource to be allocated within each service – the DBW and each strand of Business Wales – to ensure the appropriate joint working and cross referrals happen on the ground.

140. Reporting into the executive board would be seven main operating teams namely operations and resources; risk and portfolio management; fund and product management; client management; financial partner relations; stakeholder relations; and research and strategy (Figure 2). Each team would have several functions as set out below, although it is likely that a number of the functions may be led by one senior executive. The teams are as follows:

- *Operations and resources*: This team would be headed by the COO and would handle internal organisational capabilities, such as budgeting and finance; external advisors (for example, the legal panel, or the pool of potential non-executive directors for client boards); human resource management functions, IT and general institutional administration. At the outset, the COO would be one of the early appointments for the DBW and would be instrumental in ensuring that the Board and the CEO's planned structure was delivered efficiently on the ground. The COO would also lead in establishing appropriate operational protocols and procedures to ensure that the organisation was effective in delivering the strategy

- *Risk and portfolio management*: This would be an independent function that would lead on ensuring that all financial commitments were made in compliance with the DBW's risk framework. Where necessary, the client-facing teams would work with risk to obtain approval for and price individual extensions of credit. In parallel, the portfolio team would actively manage DBW's overall risk exposure. At the outset, the Welsh Government must be clear about the risk parameters for the DBW and ultimate degree of governmental support. For example, if the DBW would offer a guarantee under flexible funding, then the risk team would review it and suggest appropriate pricing.

- *Fund and product management*: This will be a different role to that currently being offered through Finance Wales, as it would be expected that the decisions for most funds on financing would be made largely outside the DBW. For example, the micro-loans fund would follow the example of the start-up loans fund by having delivery partners making the final decisions on loans up to £25,000. Similarly, the proposed equity funds would be contracted to various external firms although direct support would be provided in-house for the micro-equity funds. It would be expected that all flexible funding proposals would be subject to internal assessment before approval, although this would include the partner bank's due diligence results as it would be that bank, not the individual business, that would be applying to the DBW for financial support.

- *Client management*: One of the key roles of the DBW will be acting as the 'one-stop shop' for advice on funding for Welsh businesses; this would be reflected in its staffing. One capability greatly valued by businesses that seek investors is an understanding of the specific commercial context and an ability to provide useful linkages. This expertise is something that is expected by large corporations from their banking providers and there is no reason why we should not transplant this best practice to Wales. Therefore, the DBW client team would be composed of sector and regional specialists who could intelligently advise clients on the best route to seeking finance but also apply their specialist knowledge and contacts to the client's situation. To support Welsh Government policy, the advisers could mirror the same focused sectors as the sector panels. As a national institution, the regional teams would be embedded in the Welsh Government offices in Llandudno, Aberystwyth and Swansea but would spend most of their time visiting clients in every part of Wales. These advisers would work closely with the Business Wales general business, growth and accelerated growth advisers or client managers.

- *Financial partner relations*: This team will build an on-going relationship with private finance providers that can be utilised by the Welsh Government for broader purposes, rather than the current infrequent calls for evidence and occasional meetings. It will aim to work as a complement to the banks and non-Wales based venture capital houses, rather than as competition. It should institute a referral and risk-sharing pipeline between Wales and mainstream finance and, where applicable, support those Welsh businesses seeking specialist investment where it would be inappropriate for the DBW to provide it. In addition, this team would lead on building relationships with the UK business support organisations such as the British Business Bank, UK Export Finance and the Green Investment Bank. Currently, there is no consistent message about investing in Wales nor are Welsh companies regularly helped to connect with outside venture finance or growth finance providers. London finance houses see many opportunities from other parts of the UK and Europe, and this function will enable Wales to promote the offering of its indigenous companies.

- *Marketing and stakeholder relations*: The team would handle external relations with the media and other selected stakeholders to ensure that the DBW's profile supported its mandate and aims so that people understand the institution's role and context. This team would be responsible for developing and implementing a more proactive marketing strategy for the DBW as discussed earlier that would help promote greater entrepreneurship and business development in Wales. It would also be responsible for internal marketing within the Welsh Government and would focus on improving alignment between the DBW and Welsh Government's wider policy aims. In this respect, it would work closely with the sector panels, regional boards, regeneration programmes, and universities.

- *Research and strategy*: This team will carry out strategy investigations, research and analysis for the board and CEO. It will also undertake or commission research into SME financing requirements and the business environment in order that the DBW can be responsive to market demands. A final function would be to undertake on-going measurement of the DBW's performance against its aims, as well as appraising the effectiveness of the DBW's activities in supporting business and economic growth.

4.3 Legal and regulation issues

141. There are three main regulatory and legal hurdles for the DBW to clear before it can call itself a bank in regulatory and legal terms.

142. The primary regulatory issue is whether an institution carrying on ‘public developing banking’ activities would need to be regulated in the UK. Given the precedent of the British Business Bank, which was recently authorised by the Financial Conduct Authority (FCA), and subsidiaries of the Green Investment Bank and Finance Wales, some of the activities of a Development Bank, which would include making and managing investments, could fall under the offices of the FCA.

143. A second hurdle could relate to EU State Aid – again the precedent of the British Business Bank is helpful – as it received clearance in October 2014 and having received a positive response on its application, it has offered to assist with the process.

144. The final hurdle relates to whether Companies House would allow an institution to call itself a Bank if it was not regulated as a bank, yet was carrying out financial business. The FCA would therefore need to provide permission for the DBW to call itself a bank.

4.4. Financial structure.

145. As discussed earlier, PDBs can be funded in several ways and given its initial remit, it is expected that at this stage the DBW will not immediately look to borrow from other financial institutions, raise money in the capital markets or take savings or deposits from the public. However, these strategies could be adopted in future, depending upon any potential changes in the borrowing powers of the Welsh Government and a greater appetite for SME finance than public funding can fulfil. Hence for the first five years of its existence the DBW will be dependent on the Welsh Government (including EU funds) for its funding.

146. The aim of the DBW would be to be self-financing within its first five years, if not sooner. This will need a careful balance between ensuring the cost of borrowing for SMEs is minimised to encourage greater development with covering the operational costs of the organisation.

147. It was a key recommendation of the NAfW Committee that, when designing future funds, there needs to be sufficient flexibility to adjust interest rates and to take advantage of EU State Aid exemptions. For the DBW, the cost of potentially reducing interest rates should then be planned with Welsh Government to ensure that sufficient financial support is available. However, a detailed paper presented to the T&F Group has shown that both the default rates and fund management charges for Finance Wales are high. Reducing operational cost by streamlining the delivery of financial products and establishing more cost-efficient organisational structure could also reduce the interest rate faced by borrowers.

148. Given that in the case of Finance Wales, half of their loans are classed as high risk, then rectifying this and a potential higher default rate, along with the cost of funding and operations, is one of the key requirement of making the DBW sustainable as well as being able to offer a lower cost of borrowing to less risky firms as part of a more balanced portfolio.

149. As in the example of Finnvera, the new Development Bank may wish to consider whether (or not) it provides finance to high-risk businesses through its main funds. If not, then this would enable the default rate to be substantially reduced that will impact positively on the selection and subsequent management of clients. The risk is that there may be an expectation that the DBW will fund any business that applies and that expectation will need to be managed when launched.

150. As a publicly owned body, the DBW will be a responsible lender above all and its overriding objective should be to lend prudently, with low impairments, within a lending book that is grown incrementally. As a PDB could be working at the upper end of the risk spectrum, the higher quality of risk management and due diligence are even fundamentally important.

4.5 Costs of a Public Development Bank

151. The development of a hybrid model where the majority of the funds are outsourced presents the opportunity for the Welsh Government to develop a more efficient and cost-effective organisation for it to support. This will ensure less cross-subsidy across funds (including between debt and equity) and therefore a clear delineation between central costs and fund management costs which are currently blurred within Finance Wales.

152. The final costs of the DBW will be dependent on the organisational strategy adopted within the business plan for the DBW. However, given that staff costs and professional fees account for 75 per cent of the current administrative costs of Finance Wales, there may be scope for reallocation or reduction of these costs, potentially for reducing the cost of borrowing to SMEs. Certainly, greater efficiencies may arise from working more closely with external partners as this could reduce the cost of fund management, internal due diligence and professional fees to intermediaries.

153. The utilisation of professional experience and knowledge from the private sector would also increase the allocation efficiency of public funding, especially as the enhancement of the professionalism of the public intervention is one of criteria recommend by BIS in designing programme to promote SMEs access to finance.

4.6 Performance measurement

154. The emphasis for any PDB must be on the output, i.e. what has been achieved as a result of the investment and not on how much funding has been invested. This is a step-change from the current approach adopted by Finance Wales where the focus on performance is measured mainly by the number of investments made and return on investment, which is largely a result of the fund management function of the organisation.

155. A research function within the DBW will be critical in ensuring that its activities and impact are measured on a regular basis. Not only will this allow informed decisions to be made by the DBW in response to market changes but will enable the Welsh Government to justify the interventions made on its behalf. In this respect, the DBW will draw on the expertise of the British Business Bank which has established a detailed monitoring and evaluation process to understand what the cumulative effect of its activities has been on the market, who have been the main beneficiaries of these activities and what, if any, have been the unintended consequences and why. Furthermore, given the promotional role of the development bank, other measurement such as indicators reflecting incremental effect, the demonstration effect, the achievement of transferring skills and the enhancement of social awareness should be included. There should also be evaluation on the deadweight effect and substitution effect as mentioned above.

5. WHAT WILL A DEVELOPMENT BANK DO?

156. Research has shown that sources of financing for SMEs tend to evolve according to the nature of the firm and over the life cycle of the firm. Different problems arise as firms approach a new phase and deals with different kinds of investors. It is important to have a range of options for SMEs as they progress through their business life cycle.

157. PDBs with a mission to foster the SME finance market typically show a strong propensity to provide a universal range of financial products in order to better suit the particular requirements of individual projects. Therefore, besides traditional commercial loans and guarantees to support SMEs and innovative firms, they also support business angels and provide access (directly or indirectly) to venture capital funds.

158. Within a PDB, a mixed range of financial products would be helpful in mitigating the mismatch between the optimal method of external finance demand by firms and the available public intervention required. Therefore, the provision of different types of finance to be offered has to take into account the possible economic outcomes to be achieved.

159. Cost-benefit analysis of the extent to which the desired outcome could be effectively delivered must also be considered and the provision of the different types of financial products needs to be carefully designed and be prioritised. This is crucially important for a regional PDB like the DBW given the limited resources available and the fundamental significance of maximising the outcomes from public intervention.

160. Therefore, the DBW will undertake the following.

- Provide or commission a full range of debt and equity financing products. This will also include addressing structural failure within the finance and support markets in Wales, such as stimulating the business angels market; encouraging and supporting the use of alternative finance; working with the banks to develop better referral systems between the public and private sector; and encouraging public finance providers to seek investment opportunities in Wales and grow the provision of social finance

- Ensure that financial support through the DBW is fully aligned with Welsh Government business support functions

- Develop a strategic research and development function that will enable the DBW and the Welsh Government to understand the SME sector in Wales and to deliver the products and services required

- Have an active outreach programme that will build relationships with key stakeholders in the business and finance community, including the provision of financial training and support for businesses and intermediaries.

- Stimulating business demand in the marketplace by acting as a catalyst in promoting new business development and growth in Wales as well as supporting businesses through acting as a signpost to different types of funding mechanisms.

- Ensure there is positive engagement with key stakeholders through engaging positively with politicians, civil society, the media and others as well as ensuring there is growing Welsh visibility with external financial providers and public bodies.

5.1 New financial products

161. It is the considered view of the T&F Group that one of the key principles to be adopted in considering the role of the DBW is that it is not the role of the public sector to displace the private sector but to address a market failure in the provision of finance to SMEs. This is why a hybrid model has been adopted for the new bank.

162. Within such a model, consideration must be given as to whether a new DBW continues with the Finance Wales approach of developing its own funds to meet the general needs of SMEs (and effectively competing with other private sector providers) or whether its aim is to address the specific requirements of different target groups not adequately served by current providers such as the high street banks by utilising the most cost-effective and appropriate vehicle for the delivery and the professional knowledge of the private sector.

163. As noted earlier, PDBs need to focus on a number of targeted market segments to be effective. Research undertaken during the review suggest that there are currently seven types of businesses that are struggling to attract funding from traditional lenders and that the public sector could be supporting. These are:

- Start-up firms
- Microbusinesses
- Low to average risk SMEs that have been refused credit due to affordability, collateral or sectoral issues
- High risk SMEs with no collateral and low credit rating
- High growth firms
- Exporting firms
- Social enterprise

164. With the exception of high risk firms and the microloans fund, the current funds operated by Finance Wales do not fully or adequately address the needs of these different target groups in their current structure and that a new approach is needed which specifically addresses the requirements of each category in a different way.

Start-up firms

165. The first Access to Finance review recognised that there was no specific programme targeted towards lending to start-ups in Wales. It was recommended that the UK Government's start-up loans programme should be adopted in Wales and this was introduced in October 2013. This initiative provides low cost loans to start-ups of up to £25,000 alongside mentoring support.

166. The latest data shows that 639 loans have been drawn to date through the start-up loans programme as compared to 76 start-ups supported by Finance Wales through its JEREMIE Fund since June 2009. Whilst it is offered as part the Business Wales provision, the Start Up Loans Company manages the programme itself and contracts directly with four delivery partners in Wales. In this respect, there is no significant management role for the Welsh Government in this process apart from promoting the scheme and monitoring its outputs.

167. At this stage, there is no reason why this arrangement should change. But it should be kept under review going forward, especially as the public support of start-ups remains a devolved issue and considerable funding is targeted towards business support for this segment. At the very least, there needs to be an agreement with the British Business Bank (via its contract with the Start-Up Loans Company) for reporting mechanisms to be in place over the progress of the programme in Wales and there should be a requirement for direct access to information on the key performance indicators for the scheme to be shared with the DBW and the Welsh Government. The DBW may also wish to consider if the scope of the programme changes (such as lower default rates) whether it may wish to use its own funding to ensure that it continues to service the needs of start-ups in Wales.

Microbusinesses

168. Currently there are 219,000 microbusinesses (having between 0-9 employees) in Wales and these make up the vast majority of businesses in the economy, accounting for 34 per cent of all employment in 2014. More importantly, this group of firms had the largest growth in employment in Wales (up 26 per cent) as compared to 15 per cent for all firms during the period 2003-2014. Microbusinesses were also responsible for 53 per cent of the increase in employment during this period and for 85 per cent of the increase in employment between 2008 and 2013 when the economy went through, and recovered from, one of the worst global recessions in living memory.

169. As shown earlier, there remains a gap in the provision of finance to newer and smaller firms in Wales despite the growing importance of this sector for employment in Wales. This demonstrates a clear market failure that the Welsh Government could, if it so wished, directly address.

170. This market failure was recognised in the two main recommendations of the 2012 Welsh Government's Micro-Business Task and Finish Group Report. in terms of access to finance, the Welsh Government should facilitate accessible finance of between £1000 and £20,000 that is simple. It should also reflect the level of investment required and support micro-businesses to access appropriate finance options. This is why the microloans fund was developed in 2012 and was eventually taken on by Finance Wales as one of their products.

171. Given the high number of microbusinesses in Wales, there has been concern as to why the scale of the microloan fund (£5 million) was comparatively small, given the scale of the potential demand. This approach seems to have been confirmed by a recent Regeneris report for Finance Wales, which implied that there was only a case for provision of debt to microbusinesses in Wales within a future fund in the range of £0.8 million-£1 million per annum (£4 million-£5 million in total over five years). Unfortunately, this was based solely on the experience to date of the JEREMIE Fund in supplying funding to microbusinesses and not on any examination of the overall demand in the Welsh marketplace.

172. The introduction of a new fund targeted towards new and small businesses has shown that it has been successful in getting funding out to the microbusiness sector in Wales. Since Finance Wales' Microloans Fund made its first investment in October 2012, £2.5 million has been invested in 105 businesses, attracting a further £2.7 million of private sector funding. This demonstrates the demand in the marketplace from microbusinesses that was previously not being served by the public sector in Wales despite the failure by existing private financial institutions to serve this market.

173. The introduction of a larger fund that is specifically aimed at serving the needs of microbusinesses in Wales reflects one of the key principles of the DBW namely that "the primary role of government-backed funding for SMEs is to drive forward economic development". In focusing on this type of SME finance, it is clear that there could be a considerable economic impact in terms of new jobs across the whole of Wales.

174. Whilst there is clear evidence of a need for funding provision for microbusinesses in Wales, the challenge for any financial institution is in the delivery of a microloans product to a large number of businesses. Given this, the T&F Group is of the opinion that whilst the DBW could deliver this funding directly to businesses (as is the case with the Microloans Fund managed by

Finance Wales) it would be more effective for the DBW to work with partners across Wales to deliver this programme.

175. This process is already being utilised effectively by the Start Up Loans Company. It has a national distribution network of delivery partners who operate across the UK working with individuals to develop their business ideas into a feasible business plan in order to increase their chances of successfully receiving a loan.

176. In Wales, there are three recent examples where the Business Wales business support network has undertaken a similar role:

- The Start Up providers within the Business Wales programme are also now Delivery Partners for the Start Up loan programme in Wales – the UK Government backed fixed interest, unsecured personal loan.
- The Business Wales delivery consortium administered the SME Capital Grant fund in 2013/14, resulting in a Welsh Government investment of £1.8 million within three months, match funded by the successful SME applicants, and delivering 264 jobs (264 created with a further 195.5 safeguarded).
- The Business Wales delivery consortium is currently delivering the Welsh Government's SME Capital grant scheme in Pembrokeshire in response to the Murco closure.

177. The T&F Group concluded that any future microloans programme managed by the DBW should not be directly delivered but should adopt the mechanism currently utilised by the Start Up loan programme, where partners in the Business Wales support network are responsible for working with clients to develop their funding proposals with the role of the DBW being to give final approval on funding. This would ensure that micro-businesses get the maximum support in developing their ideas whilst minimising any administrative delays that would normally be associated with direct delivery.

178. As the Business Wales partners are familiar with the needs of their clients, they will be able to overcome the information asymmetry challenge that many banks now face when dealing with micro-businesses. Such a scheme would require consideration of the requirements of the Financial Conduct Authority (FCA) for the companies involved in delivery and their financial expertise. It would also need clear guidance on the objectives of any such scheme and the results required, as well as a level of volume to make it worthwhile for the deliverer.

179. The DBW through its outreach function, would also raise awareness of the scheme among private intermediaries, such as accountants, encouraging them to work with microbusiness clients to deliver funding proposals across Wales, especially as surveys have shown that SMEs perceive them as the most trusted source of advice, followed by friends, family or business associates and Chamber of Commerce or business representative organisation.

180. Another potential delivery channel that could be considered by the DBW is to work in a partnership with credit unions in Wales, given those institutions would have stronger vested interest in the development of local community, compared to local branches of national banks. In fact, nurturing institutions that have stronger vested interest in the local economy should be one of components of the promoting role of the DBW. While it would be argued that the selection of partners in the private sector should not carry any discrimination propensity, the analysis on the cause of higher credit constraints faced by SMEs in Wales suggests the inefficiency of local branches of national banks and therefore the importance of local solutions in supplying SMEs lending.

181. Evidence suggests that there may be considerable demand in the marketplace for a product that is focused on the financial needs of microbusinesses. For example, data extrapolated from the SME Monitor shows that of those that had applied for a bank loan, only 39 per cent of microbusinesses were offered what they wanted with 48 per cent being declined by banks.

182. That suggests a funding gap for microbusinesses in Wales that had been refused bank funding of around £40 million per annum. Of these, 7 per cent of those initially declined for a loan had managed to secure a loan with either the original bank or, more often, a new supplier. A further 21 per cent had secured alternative funding, with friends/family and/or personal borrowing most likely to be mentioned. 73 per cent of those initially declined did not have a facility at all; this is equivalent to a gap in funding for microbusinesses in Wales of around £29 million annually.

183. In addition to those that have been refused access to funding from banks, the SME Monitor shows that the demand for debt funding from "would be seekers" (those SMEs that had not had a borrowing event and said that something had stopped them applying for loan/overdraft funding in the previous 12 months) amongst microbusinesses could be as much as £127 million. The demand from microbusinesses that classed themselves as "future would-be seekers" (those that felt that there were barriers that would stop them applying to borrow more) in the next three months was estimated to be £435 million.

184. Therefore, this would a major programme of funding and support for the backbone of the Welsh economy. If a fund of £50 million were created, this could support around 3,000-3,500 microbusinesses across the whole of Wales with the expectation that each firm would create at least one job each.

Low to average risk SMEs

185. As the Access to Finance reports and other research have pointed out, banks have tightened their lending to SMEs in the last five years and since the financial crisis of 2008, have reduced lending to UK SMEs by nearly a quarter.

Yet despite the recent growth in alternative sources of funding and the creation of public sector fund managers such as Finance Wales, bank lending remains the most important component of debt financing for the SME sector, with UK SMEs still relying on banks for 80 per cent of all of their credit.

186. In the first Access to Finance report, security against the loan (collateral) and affordability of repayment, rather than the cost of borrowing, was cited in the interviews with banks, intermediaries and small businesses as being the main obstacles to accessing bank finance. Whilst the UK Government has focused particularly on supplying more money to financial intermediaries via the British Business Bank, this has not specifically addressed these obstacles.

187. The DBW would work alongside the banks to address the gap between the funding required by the business and the amount that a financial institution is able to lend under its credit criteria, thus enabling access to external financial resources without diminishing the financial responsibilities of the borrower. It would collaborate with financial institutions to issue guarantees or subordinated loans on the basis of a sound and comprehensive analysis of quantitative and qualitative risks. It would also support invoice financing as a mechanism by which businesses can gain access to funding.

188. In terms of the DBW, this principle of flexible funding would be a focus away from public funds being perceived as a 'lender of last resort' to filling the market gap where it exists by working alongside other finance providers to close those deals that may otherwise be lost to the Welsh economy.

189. The other key advantage is that it would be expected that the due diligence on any guarantee, subordinated loan or invoice discounting support would be undertaken by the bank under full disclosure and not the DBW. Given the high level of administrative cost currently associated with the supply of loans to SMEs through Finance Wales, this would streamline the decision-making process and reduce costs for both the customer and the public purse.

190. If managed properly, this innovative approach to gap funding could generate additional funding for businesses in Wales to enable them to grow. A similar exercise was undertaken with the UK Government's Regional Growth Fund (RGF) that provided grant funding directly to various banks to close this funding gap. For example, data from RBS shows that £300 million of investment was leveraged by using £70 million of RGF grants to close the gap between what the bank could offer and the business required. This is estimated to have created 2,500 new jobs and safeguarded a further 9,400.

191. This concept of flexible funding is something that is currently missing within the Welsh financial system, especially where the public sector works directly with the banks to address a market failure due to issues such as reduced affordability or lack of collateral.

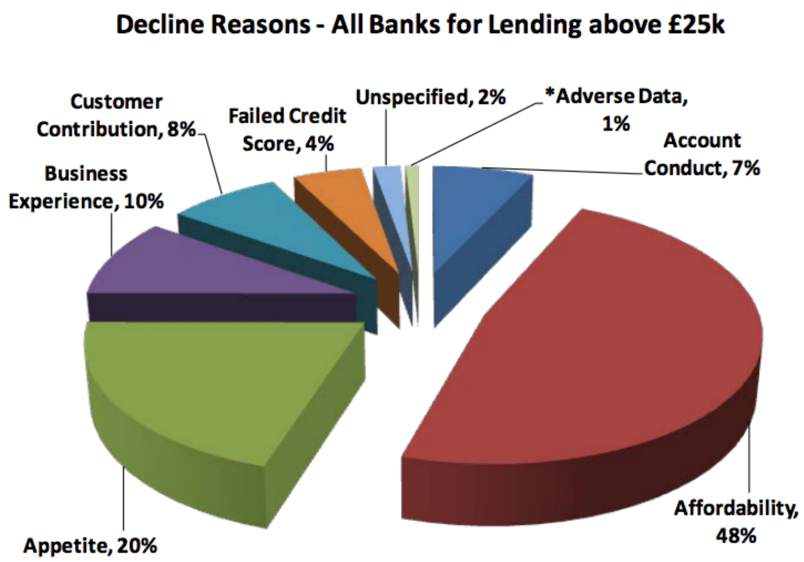
192. As a result, a broader view of flexible funding can be introduced where the DBW works with the banks on individual cases to ensure that any obstacles to supporting businesses can be overcome. This would be expected to be targeted at larger small firms and medium-sized businesses i.e. those looking for funding over £25,000. In this respect, we see three challenges that such a flexible funding approach must address in delivering funding to low to average risk SMEs namely affordability, collateral and invoice financing.

Affordability as barrier to funding

193. From discussions with the banks, it is clear that more stringent rules regarding credit availability have reduced the terms of loans and the affordability to many businesses. This supported from evidence in the Large RBS review that noted that *“RBS shortened the commitment period for term loans offered to customers. For example, the average contractual term for Commercial Banking loans was approximately 9 years for accounts opened in 2008, which shortened to approximately 5 years in 2009, and has continued at that level since.”*

194. In addition, the latest Banking Taskforce Appeals Process Review (2014) has shown that for bank lending above £25,000, affordability (48 per cent) is the key reason for decline followed by a lack of appetite (20 per cent) to lend to this sector due to either the type of business or sector or another internal policy constraint (Figure 3).

Figure 3. Decline reasons by banks for lending above £25,000



195. In terms of how a public authority can make loans more affordable to businesses, the most relevant example comes from Ireland where the Strategic Banking Corporation of Ireland (SBCI) has been established to intervene to support SME lending. Its goal is to facilitate the delivery of lower cost,

innovative and accessible funding to Irish SMEs through a suite of flexible products offered by a wider range of financial institutions than is currently available in the Irish market. These will initially include long-term working capital and capital investment finance through a number of lending partners, including both bank and non-bank lenders. What has been of interest to the T&F Group is the development of specific products that will include longer maturities and payment flexibility for SMEs.

196. In the case of the SBCI Investment example below, the bank would still offer a three-year loan to the business but this would be supplemented by a further three-year loan from the DBW on the same terms so to improve the affordability of the business whilst ensuring that the bank is still involved in providing the funding to the SME and that the risk is not just passed onto government.

SBCI INVESTMENT EXAMPLE
(Source: www.finance.gov.ie)

Background: A group of entrepreneurs have come together to launch a joint venture that would manufacture a product new to Ireland. Their plan is to build a new factory in Cork. They have a successful track record in their individual areas of business. Their proposed business venture will add value to agricultural sector waste products that are normally a cost for farmers and food manufacturers. Ireland produces more of the raw material needed due to its climatic competitive advantage. When the business is up and running, it will employ twelve people. The entrepreneurs have a well thought out business plan and have made contacts with established buyers in both domestic and international markets. As this is a new idea and has not been developed in Ireland before, a new factory has to be built. The machinery will cost €2m and will have a life span of 15 years. The project has a payback period of six years.

Prevailing Loan Conditions - At the moment, their bank will only offer a three-year loan. This puts greater demands on the project and reduces the enterprise's chances of success as there are steep loan repayments to be made monthly over 36 months. Even though the project is profitable, the repayment schedule increases the risk of failure.

Strategic Banking Corporation of Ireland Loan: A possible SBCI loan facility could provide a six-year loan so that the repayment cash outflow each month is a lot less than their bank's current three-year repayment. This reduces the cashflow risk to the business and increases its probability of success as a cashflow crunch for a profitable can cause it to cease trading.

197. In terms of the DBW, it may be more difficult to introduce specific products within the banking system given the way that banks are organised in the UK, especially with the lack of geographical boundaries between England and Wales in terms of corporate finance divisions. In addition, it would seem that

the public funding is merely replacing private funding where there are affordability issues for SMEs rather than ensuring that the funding is there to close the gap between what the bank can offer and what the business requires.

Collateral as a barrier to funding

198. The economic downturn has led to firms' assets reducing in value and consequently limiting the amount they can borrow from the bank to grow the business, a situation that has continued today and, according to discussions with banks, is unlikely to change, especially with property prices stagnant in regions such as Wales.

199. Many SMEs who borrowed against properties valued at the peak of the market have found themselves with loans that they are struggling to refinance as the value of the property has decreased so much. As a result, banks are no longer prepared to finance at high loan to value (LTV) ratios thus reducing the amount that the SME can borrow against a secured asset.

200. One of the key approaches in ensuring that businesses gain access to funding in a situation where the value of collateral is declining is through public guarantees that form part of the European financial services landscape for SMEs. For example, an analysis of European Commission programmes showed that whilst 57 per cent of the value of financial instruments to support enterprises was in the form of loans, 36 per cent were guarantees.

201. While banks have been and indeed continue to be the principal source of external capital for SMEs, publicly funded guarantee schemes have a complementary role to play by making guarantees available to compensate for SMEs' insufficient collateral.

202. In the UK, the only major guarantee scheme is the Enterprise Finance Guarantee Scheme (EFG), the successor to the Small Firms Guarantee Scheme originally established in 1981 by the UK Government. This is a loan guarantee scheme that enables banks and other lenders to lend to small businesses that lack security or a proven track record. It provides lenders with a 75 per cent guarantee on each individual loan issued under the scheme, subject to a 20 per cent limit on total claims arising from a lender's portfolio. This shares the risk of the loan defaulting between the business (that pays a premium), the government and the lender. The scheme is relatively inflexible as it does not address the specific needs of individual businesses but merely provides a guarantee to the lender on each loan.

203. Currently, EFG accounts for between 1-2 per cent of all loans and yet the SME Monitor shows that 7 per cent of loan applicants are offered less than they wanted by the banks. These types of business are likely to be older firms (having been in business for more than 15 years), have an average risk rating, be employers (i.e. not self employed) and applying for loans in excess of

£25,000. This means that whilst growing businesses may require capital for growth initiatives, they may lack the necessary resources or assets to secure the requisite finance and there may be challenges in demonstrating the viability of their projected growth to private sector funders.

204. A mechanism to de-risk private sector investment, such as a flexible guarantee scheme or a subordinated loan providing variable percentages of support, could unlock the true potential of growth businesses in Wales. This could be particularly attractive as a more mature business reviews its finance package as part of a drive to improve operational efficiencies.

205. Some solutions will often require additional security that even well established businesses would lack. In this respect, there is a role for the DBW to play in supporting private sector leverage by means of the guarantee mechanism to release such funding.

206. For example, if there was a Welsh SME that wanted to borrow £500,000 to develop a project to grow its business and its bank would only, based on the security it could offer only provide £300,000, then the options for that business would be to (a) turn down the offer and abandon the project (b) accept the lower amount but restrict its growth plans for the future or (c) look for other funders which might take more time and cost more. Through flexible funding, the DBW could offer either a guarantee for the remaining £200,000 or have its own cash facility to provide a subordinated loan at the same cost of borrowing. This would again ensure that the bank is taking the majority of the risk and providing most of the funding.

207. As with the EFG, the DBW would only sanction facilities once the DBW has confirmed the applicant's plans are viable through the appropriate due diligence, that they would wish to lend to the applicant and that all the applicant's available collateral has been exhausted. This guarantee could be extended beyond a loan into other areas such as overdrafts or invoice finance, as well as new forms of finance such as asset finance, performance bonds and various international instruments.

208. Working with private sector to fill the funding gap is a key priority of the DBW. In this respect, it would be looking to provide the finance, in the form of a guarantee, which enable the banks to over come collateral or affordability issues and lend to Welsh SMEs. Assuming that the average guarantee is 30 per cent of funding request, this would mean that a fund of £50 million would generate an additional private sector leverage (PSL) of around £120m into the Welsh economy (or a ratio of 2.4:1).

Invoice financing

209. As the Access to Finance review demonstrated, the increase in market-demand for working capital finance in the SME sector has created an opportunity for

the invoice finance (IF) providers, particularly independent firms, to grow even more quickly, satisfy this demand and be capable of scale and significant efficiencies. Under the right circumstances, IF can often release funding into the business immediately and at a cost that is considerably lower than many bank overdrafts or loans.

210. Despite these advantages and the continued growth of the invoice finance industry, only 43,000 SMEs out of a total of nearly 5 million are currently utilising invoice finance. It is estimated that there could be a suitable, factorable and untapped market of between 400,000-600,000 UK SMEs (or, proportionately, 1,600 to 2,400 in Wales) indicating that the overall market has significant growth potential.

211. Similarly, asset-based finance can fund the purchase of much-needed new assets to assist growth (machinery, equipment, commercial vehicles, IT, telecoms, shop fittings, office furniture, etc.) and in some circumstances can be used to release funding for working capital against equity in already-owned assets.

212. Whilst both invoice financing and asset-based funding is available from both the banks and independent providers, there is a general lack of awareness by SMEs of the advantages of utilising this source of funding.

213. As part of its wider role within the Welsh finance community, the DBW should look to raise market awareness of this type of financing that could, if adopted properly, have an impact on the way some businesses in Wales can gain access to capital to grow their business. In this respect, the role of the DBW could be to act as a signpost for a panel of preferred independent funders.

214. In terms of any direct financial support, the DBW should only act where there is evidence of market failure. Whilst independent IF providers have a much greater acceptance rates than the bank providers, provide a more flexible facility and a higher level of service, they are restricted in the funding lines they can obtain from their own funders (generally the banks) due to their capital constraints and the cost of borrowing. This restricts the size of their ‘lend’ to a maximum of £500,000 whilst bank providers are primarily interested in the larger ‘corporate’ deals where they are providing over £1 million. Therefore, there is a funding gap in the £500,000 - £1 million segment that is best served by the independents but who are generally unable to satisfy for the reasons given above.

215. There are a large number of Welsh SMEs that fall within that range but are not adequately catered for. If additional funding lines were available, then a huge impact could be made to these businesses and the jobs they wish to create. One of the major advantages of invoice finance is that the cash lent ‘turns’ on average every 57 days. In other words, the amount lent is repaid by collections from the debtors in this timescale and is then lent again. With such a 57-day

debt turnaround, the same amount of funding can be lent over six times annually. This keeps the borrowing requirements of the invoice finance provider to quite low levels. For example, an invoice finance provider lending on average £500,000 to one client can in fact lend this six times annually even though the provider only needs to borrow £500,000 once.

216. A funding line of £25 million would support a provider's lending to 50 Welsh SMEs (all borrowing £500,000 on average), but who would actually receive cash totalling £3 million (£500,000 x 6) during the year. That would support any SME with a turnover of up to £6 million and allow them to grow much more quickly.

High risk firms

217. One of the key market failures regards those firms that currently fall within the highest risk category i.e. have little or no collateral and a low or zero credit rating. As a result, traditional lenders, such as high street banks, will not be able to provide funding for such businesses. Even the instruments described above to support collateral and affordability issues for low to average risk businesses are unlikely to be sufficient to overcome the concerns of the high street banks.

218. With a policy of businesses having to have been turned down by high street banks before they can approach Finance Wales, it is not surprising that nearly half of Finance Wales' loans are to firms in this category.

219. There is evidence that whilst low-to-average risk businesses within Finance Wales' portfolio are paying higher interest rates than would be expected, high-risk businesses are paying only 1 per cent more than the suggested reference rate. Whilst this could be described as an economic development role for the organisation, best practice on PDBs has suggested that such firms should not be supported by public funding,

220. The T&F Group has also raised questions as to whether these types of businesses should be supported by a publicly owned bank, especially as similar institutions, such as Finnvera, have a clear policy of not providing finance to high-risk businesses. As such, there are two options that could be implemented in supporting this group of companies.

221. The first is that a specific high-risk fund could be established by the DBW to service the financial needs of these businesses. It is unlikely that this would be a debt fund as equity is best suited to this category of business. In addition, there would be additional business support for such firms as part of the arrangement.

222. The second, and preferred option is that the DBW does not itself invest in this category of firms but facilitates introductions to alternative lenders as part of

its outreach and information role. In this respect, it would work closely with National Association of Commercial Finance Brokers (NACFB) and its advisers to ensure that firms that are classed as high risk are provided with access to other private funders who are better suited to supporting them.

223. The relationship with alternative sources of funding would form part of the offering to those firms that would find it difficult to gain support from mainstream providers. According to the latest 2014 report from NESTA on crowdfunding, there was around £1.1 billion lent to SMEs through various platforms in 2014. Proportionately, £44 million should have been available to Welsh businesses although the actual amount is probably lower given the small number of deals that have been completed in the equity crowdfunding space in Wales.

224. It would not be expected that the DBW would be directly involved in the supply of all types of alternative sources of funding, such as asset-based finance or crowdfunding, though all have a role to play in the supply of finance to SMEs (although it could help to close a market gap in the supply of funding to SMEs, as the example of the role of invoice finance discussed earlier has shown).

225. Various recommendations were made during the first Access to Finance review including that the Welsh Government should take the lead in supporting alternative sources of funding such as peer-to-peer lending and crowdfunding, either through partnership or direct funding. It could also raise awareness of both types of funding through its various business support programmes.

226. Whilst there is already public sector support for crowdfunding through the British Business Bank, this may not be a market intervention that Welsh Government wishes to pursue at this stage to support high-risk firms. However, the DBW should act as an advocate and signpost for SMEs seeking other types of funding for their businesses that supports the principle that businesses in Wales should have the opportunity to discuss options for appropriate funding.

High growth firms

227. Whilst high growth firms make up only 6 per cent of all those employing more than 10 people, they account for more than 50 per cent of net new jobs created. Again, in focusing on providing support to these businesses, the DBW is not only fulfilling the key principle of addressing market failure (as research as shown that high growth firms operating in innovative sectors face difficulties in attracting early stage funding) but, more importantly, will be again addressing the principle that government-backed funding for SMEs is to drive forward economic development.

228. Various studies have shown that in terms of developing high growth firms, informal investment (business angels) and formal investment (venture capital)

are the two dominant methods of ensuring these businesses grow quickly with the right type of finance and, more relevantly, the type of support required. The T&F Group is of the strong opinion that this type of finance and support is critical in supporting the growth of high potential firms that can have a major impact on the Welsh economy. The DBW will need to work closely with the WG's Accelerated Growth Programme provider (currently under tender) to ensure that growth firms are identified early and receive the targeted support required.

Business angels

229. Wales is currently underperforming in attracting informal investment from business angels, especially as compared to other regions such as Scotland where a strong angel network support system has been established. This is despite research showing that by far the most significant source of equity capital for high growth potential businesses are individual informal investors (or business angels).

230. Business angels provide support for the formal venture capital sector by seeking out new entrepreneurs and nurturing them up to be investment-ready, thereby raising the number of start-ups and increasing the deal flow for venture capital companies. In this respect, business angels are widely recognised to play a key role in the first round of equity capital of 'the funding escalator' prior to entry by venture capital for a small proportion of companies. The vast majority of successful high growth potential businesses taking equity finance do not receive venture capital funding, even in the most developed capital markets such as the USA.

231. There are substantial barriers to entry and disincentives to more high net worth individuals becoming business angels. These include the necessity to learn new skills, the higher risk of business failure and the illiquidity of the asset class.

232. During the last few years, the UK has benefited from a number of governmental policies that have attempted to provide incentives to overcome these issues at a national level, principally through the provision of substantial tax incentive schemes.

233. It is evident that those regions that have taken additional measures to invest in the development of the 'supply-side' of business angel finance are able to achieve far higher levels per head of population than those that do not. Regions that encourage the development of multiple angel groups, syndicates and networks and thus providing a range of choice to entrepreneurs and potential investors to engage, are able to mobilise substantially greater per head volumes of capital than those who have a single network.

234. Government intervention at a regional level is appropriate to facilitate both the increase in capacity and capability of high net worth individuals to provide angel investment funding. Such intervention has been shown to be effective in increasing the skill base of investors, the number of active investors, and the degree of syndication between individual business angel investors and business angel groups, enabling high growth companies to access larger amounts of capital over longer periods of time, as well as hands-on mentoring and other practical business support.

235. Based upon appropriate supply and demand-side analysis, and establishing the case that there is the opportunity to increase both the supply and demand for equity investing into high growth potential businesses within Wales, there is a role for the DBW to stimulate more informal investment into Welsh SMEs by the following means:

- Encouraging more high net individuals to become angel investors;
- Providing training and initial pump-prime funding to establish more angel groups and syndicates that these new angels can join and participate in;
- Increase the general competency and capability of Welsh business angels through the provision of training, master classes, mentoring and linkages to international best practice;
- Create a forum to bring together business angels to work together to improve their skills and to syndicate investment opportunities;
- Through a better understanding of the needs of investors, substantially improve the quality of investment ready training to entrepreneurs;
- Increase the linkages of Welsh investors to potential sources of follow-on funding within the UK and internationally.

236. This would differ from the current model adopted by Finance Wales where it actually owns and manages xénos, the Welsh business angel network. Instead, the DBW would therefore focus on “capacity building” by increasing the number and quality of angel investor groups as opposed to directly facilitating individual investment as is currently done through xénos. This would build on experiences of how this has been done elsewhere (Scotland, Ireland, Northern Ireland, New Zealand). It will result in:

- An increase in the number of visible and sustainable sources of finance for SMEs to target directly;
- An increase in the number of new players qualified to become part of the UK Angel CoFund thereby enhancing and accelerating access to UK national funds by Welsh companies;
- A focus on under-represented geographical areas or sectors;
- Education for both investors and companies on angel financing thus improving efficiency and success;
- A bigger deal flow by volume and value and supporting more companies for longer.

237. The main principle would be to provide sufficient support to allow the private sector to operate efficiently and cost effectively in an area of recognised market failure, and in a manner that encourages the private sector to focus on a return of investment resulting from successful investment outcomes rather than from fee generation from the process of investing.

238. This would be achieved through the creation of a Welsh Angel Capital Association to act as an umbrella organisation to encourage the development of multiple angel groups and networks, and the coordination of these together with family offices and individual business angel investors to work in a co-operative manner.

239. Full details of the business case for this organisation have been presented in a detailed paper to the T&F Group but the expected cost of developing this initiative would be around £250,000 per annum, part of which could be generated through sponsorship.

Venture Capital

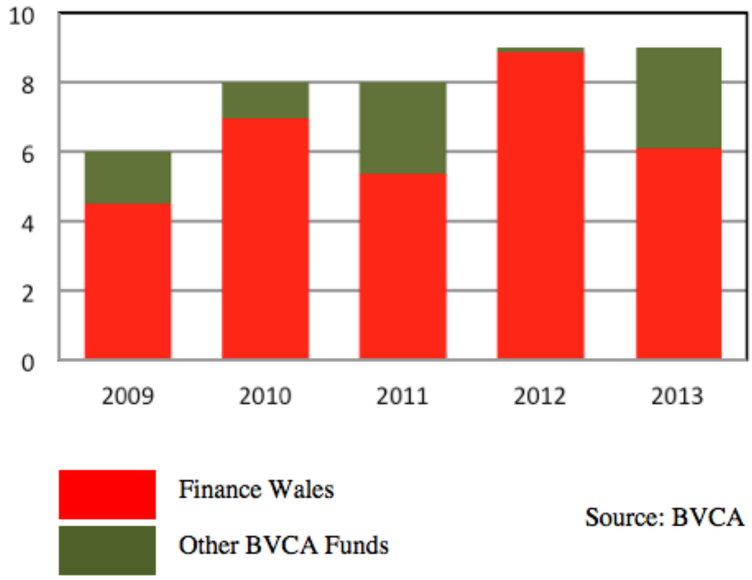
240. Venture capital globally is often associated with technology start-ups that, as they grow, tend to require and attract highly qualified engineers, higher salaries, and requirements for service provision from other companies. Technology companies, if successful tend to grow more rapidly than other sectors, creating proportionally more new products and markets than larger companies. They become the launch pad for other innovative products and technologies and they help create a culture of entrepreneurism.

241. For the period 2009-2013 the main source of venture capital in Wales has been Finance Wales (Figure 4). There are few other venture funds operating in Wales with the exception of firms such as Welsh Fund Managers, Wesley Clover, Eden Ventures, and Westbridge Capital.

242. Over this period, Finance Wales has invested £58 million of private equity. Of this approximately £32 million was venture capital from five funds, namely the Interim Fund, the Jeremie Fund, the two Objective Funds and the Small Loans Equity Fund. More recently a sixth fund - the Technology Seed Fund - was launched in 2014.

243. However, the review has identified seven perceived weaknesses in the structure, practice and organisation of Finance Wales that, in the opinion of the group, lead to sub-optimal venture capital allocation and management. Blame is not expressed, as these weaknesses are the result of a mixture of forces, mainly the overall mandate of the organisation, its structure and certain constraints that do not allow best practice particularly in the area of financial incentives.

Figure 4. Finance Wales' share of venture capital in Wales, 2009-2013



Dominant Ethos

244. The overriding activity of Finance Wales is the provision of debt. Since its inception Finance Wales has invested over £400 million of which around £60 million has been private equity; of that £60 million just over half has been venture capital. Thus 85 per cent of the activity of the organisation has been the allocation and management of debt, an activity requiring caution and avoidance of risk. In complete contrast, venture capital investment requires an acceptance of risk.

245. The quantity of allocations is an important key performance metric for Finance Wales although in the venture capital world, quality is more important and insufficient management attention is paranoia for venture capital funds. A focus on quantity (i.e. spreading as much as possible over as many companies as possible) also flies in the face of another venture capital axiom namely not to invest in projects that are not fully understood.

Performance Measurement

246. Venture capitalists measure their performance using a standard set of venture capital industry measurements that are generally accepted globally as appropriate by the industry, its associations and its regulating bodies. These measurements are of importance to the limited partner funds that have invested in the fund.

247. Venture capital funds need to raise a new fund every five years or so. Without this, fees and investment capital will dry up and the fund will wither and die. Attracting new investment into new funds requires a range of demonstrable abilities but paramount amongst them is comparative investment performance. Thus fund managers are very much driven by fund performance, and, if they do not compare favourably, they will not attract new money.

248. Evidence from discussions with Finance Wales suggests that this pressure is lacking and there is no evidence that performance measurement was of any major concern for the organisation. Neither, it would seem, is comparative performance important in the attraction of new funds that is an allocation process at national and European level. Teams that are not measured by industry standards lack the motivation that comes from that activity.

Financial Incentives

249. Over the last five decades, a model for the financial motivation of venture capitalists has evolved and been perfected. The “2-20” model is generally accepted globally as best practice for maximising the manager’s performance. Between 2 per cent and 2.5 per cent of the fund size is paid by investors of the fund annually to cover operating expenses and salaries of the fund manager. Once the amount of the fund has been returned to the investors and the fund manager has recovered the accumulated annual expenses, the fund manager receives 20 per cent of all further gains. This is called “carry” and is the driving force behind fund management. The principle of 2 per cent expenses and 20 per cent carry “works” and a failure to use this model of compensation and incentive is not normal in the venture capital world.

250. Finance Wales does not use this model and instead pays a bonus on completion of an investment. This could be due to the fact that a separate compensation structure for a relatively small team would be untenable within the larger organisation. This may be appropriate for a loan manager but it is completely the antithesis of how to motivate a risk taker such as venture capitalist or a private equity manager

Strategy

251. The investment strategy of Finance Wales is extremely broad in its application, encompassing a broad array of private equity asset classes from venture capital, expansion capital to MBOs. This is very unusual as the skill requirement and experience to manage an MBO investment is very different from that of a start-up one.

252. There is great variation in size of the individual investments, i.e. individual placements ranging from £20,000 to £7.5 million in 85 separate companies. This is again is very unusual and reflects the great diversity of investment stage and sector that the fund is trying to invest in. In addition, almost all sectors

have been invested in (ranging from tourism to medical instrumentation to food and drink, to aviation services).

253. Within such an arrangement, it is difficult to see how a relatively small team can have as broad a sector knowledge as is demanded by the very different market and technology specifics of the projects, especially when it is commonly accepted that venture capital funds need to specialise. In addition, the remaining reserves in the currently managed fund is around £15-20 million, which is low given that the 85 companies already invested in will require follow-on funding.

Creating New Companies

254. During 2009-2013, Finance Wales invested venture capital in nine start-up companies as compared to the provision of debt finance to some 70 start-ups. An initial £3.6 million was invested in these nine start-ups with follow on investments of an additional £3.2 million at early and later stages.

255. Therefore in five years, only £6.8 million of the £58 million total equity portfolio of Finance Wales has been in brand new companies or (12 per cent of the total). Of the nine start-ups, three received 77 per cent of the £6.8 million, which is not an unusual distribution as investment is favoured for those start-ups that seem to be meeting their potential. In the same five-year period across the whole of the UK, BVCA members invested in 340 start-ups, twice the number of start-ups per 1 million of population.

256. The argument for skilled maintenance of the project after initial investment must again be emphasised as the more complicated technology and intellectual property-based start-ups will require a great deal of support, guidance and management from the investing fund. It is this type of start-up company that, although riskier, more expensive, and more difficult to manage, will create higher value jobs, associated infrastructure, and spawns other start-ups in the sector.

257. In summary, the management of the equity funds has tried to be all things to all people. Perhaps in a genuine effort to fulfil its mission, it has "tried too hard to do too much". The Finance Wales team could not be expected to have the requisite degree of sector knowledge to make investment decisions in the wide categories of companies it has been investing in. Venture funds seek to specialise in a very limited number of sectors, where their knowledge and that of their networks will mitigate the risk inherent in initial investment decisions and, just as importantly, provide the experience and contacts needed to contribute to the management of the investee companies.

258. There are two sides to the problem of improving the situation for venture capital in Wales, namely the supply and availability of funds and the demand for venture capital from SMEs.

259. Quantitatively, there is sufficient supply, in that UK and European Union funding is available. The issue is not in how much funding is available but how the investment of the available funds is organised. It is the conclusion of the T&F Group that a single, large, centralised, entity such as Finance Wales is not the optimal vehicle of delivering venture capital.

260. Further, the necessary constraints and overall mandate of Finance Wales make it difficult for it to operate as a competitive venture capital fund and the financial incentive system it has adopted is not the standard venture fund package of "2+20" that has become the global norm for management of venture capital.

261. Given this, it is proposed that the structure of the current organisation should be reconfigured and replaced with separate entities designed to concentrate more on expert knowledge and on the unique regional social and economic parameters of Wales. The management of venture capital should also be moved one stage further away from government, thus allowing more independent management particularly in the area of financial compensation.

262. The overall effect of these suggestions is that the Welsh Government, via the DBW, becomes a limited partner investor in a series of venture capital funds specialising in different sectors and stages of investment. In this respect, a number of actions are proposed:

Attract Proven Venture Capital Funds to Wales

263. Currently Finance Wales is investing venture capital across a very wide range of sectors and stages. It is difficult to see how its staff could have the required levels of experience and qualification to judge and administer such differing opportunities. The proposal here is to seek to attract established and successful UK or international funds that specialise in stage and sector. The sectors would ideally be those requiring the higher levels of technology. This approach is similar to the 2013 creation of the Wales Life Sciences Investment fund managed by the Arthurian Life Sciences fund. Two separate stage funds are suggested below.

264. *Technology Start-up Fund* - Start-up funds, concentrating solely on that stage are rare and a challenge for start-up funds has always been avoiding being heavily diluted or even wiped out by later stage investors. This is the case, for the start-up fund, of failure bred by success and happens in successful projects where the product or technology has been developed, the market is receptive and more finance is required for ramping the company. One response has been to budget to invest over the life of an investment project but this severely restricts the number of start-ups that can be generated. A scheme whereby the Welsh government or an agency could co-invest at a later stage with the start-up fund would alleviate this problem and lead to more capital

being deployed. The size of fund could be £10 million to £15 million on standard venture capital industry terms.

265. *Specialist Technology Later Stage Fund*. This would be similar in concept to the start-up fund above but investing at a later stage. The size of fund could be £15M to £20M on standard venture capital industry terms.

266. In the case of both of these funds, an independent fund will not invest for any other reason than perceived success. There will be no pressure accepted that the fund has to be deployed and, if the right kind of project is not available, the capital will not be called.

Expansion and Growth Capital Debt Fund

267. Over 2009-2013, Finance Wales has invested some £22m of private equity in expansion and growth opportunities. Expansion and growth capital are at the lowest risk stage than venture capital investments, and a fund would normally make these in companies it had already invested in at earlier stages. Clearly from a portfolio management point of view this makes eminent commercial success and will increase the chances of a successful return for the fund. Expansion and growth investing is, compared to venture capital, relatively low risk "easy pickings". In the organisation of investment outlined by these suggestions, there is no room for low risk fund maximisation. The contracted funds will have a specific stage mandate and, whilst they may want to invest in the much later growth stages of a company, should be encouraged not to.

268. In order to maximise the number of projects of the venture capital funds, the expansion and growth capital would ideally be debt. The suggestion here is that a debt fund be created specifically to provide later, lower-risk debt funding to companies created and maintained by venture capital funds. A second role for this debt fund would be to convert all or part of the equity held by venture capital funds into debt. This would be specifically in the cases of companies that are viable or close to viability, but which are unlikely to grow to a size where a successful venture exit is possible.

269. Even after such a transfer these stable low-growth (SLOG) companies would remain in the portfolio of the venture fund that could continue to manage the project and receive some fees for that management. These companies are likely to be technology companies and are likely to have developed some intellectual property which could be taken as collateral. The exact details and rules for application of this transfer vehicle need to be designed by the appropriate financial experts.

Network of Micro-Venture Capital Funds

270. The proposal will approach existing or potential angel investors and incentivise, develop and support them to become small-scale venture funds. The funds

would be organised on a sectoral and regional basis and the network would need a central coordinator and back office within the DBW which would initially provide some development in initial investment analysis techniques, typical financial and legal vehicles used by venture capital funds and in what is expected in terms of managerial support and mentoring. Once established, the back office would ensure regular reporting and financial management for each individual fund.

271. The stages to be targeted by the network would be start-up and early stage and the target size for each fund would be in the region of £3 million. The individuals appointed would be expected to raise around 25 per cent of the funds (approximately £750,000) themselves. Terms would be standard venture capital fund terms namely 2.5 per cent of the fund (higher than normal due to small size of the funds), or £75,000 per annum for salaries and expenses. These would be 5 to 7 year funds with a return of capital and expenses to the DBW before a 20 per cent carry is applied. Exits for the type of company being invested in may well prove problematic, and as in the case of any start-up stage fund contracted as suggested earlier, it may be necessary to provide a debt for equity transfer that improves the chances of the fund proving successful in terms of capital returns and carry. This is a key component of this suggested scheme and of attracting start-up stage funds and will require solutions designed by appropriate specialists.

272. The network would not be expected to be committing large-scale investments and would concentrate on opportunities leading to viability after around £250,000 to £500,000 had been invested. Projects that might grow past these stages might attract investment from other funds.

273. The main role of the DBW here is as a limited partner investor. For ten funds, the capital requirement over five years would be £22.5 million and the fees over 10 years would be a further £7.5 million. The network could be introduced gradually, with an initial pilot scheme of a minimum of two funds in the key sectors identified by Welsh Government (such as creative industries or environmental firms) and expanded if the evidence supported this.

274. The main conclusions regarding venture capital development for Wales in the future are as follows:

- In order to create high growth firms in Wales, there needs to be a greater focus on venture capital rather than the MBO and expansion capital which has been the focus of public funded equity programmes to date.

- It is sub-optimal to attempt to manage venture capital funds in an organisation such as Finance Wales where the predominant culture is debt allocation and which prohibits the use of best practice financial incentives.

- To be effective venture capital needs to be specialised in terms of stage, and particularly in terms of sector. Risk mitigation requires investing teams to have a 'deep domain' knowledge of their chosen sector. In Finance Wales the opposite seems to be the intention, namely to invest where investment is required rather to invest in projects which are understood and can be fostered.

- Initiatives need to be taken to further and urgently develop a "culture of entrepreneurialism" in Wales.

275. Therefore, venture capital is Wales should be outsourced to a network of specialist funds, particularly in the technology sector. New financial vehicles which balance the (sometimes) conflicting objectives of financial return and employment retention need to be designed and implemented in the terms of any government investment in these funds. In addition, a network of micro-venture capital funds with regional and sector focus should be set up using as one source the angel investment community.

Exporting SMEs

276. The capability and capacity of SMEs to internationalise is a key requisite of a competitive regional economy although according to HMRC data, Wales had as few as 1,711 active exporters in 2014 with only the North East of England and Northern Ireland performing worse.

277. To support exporters, the UK Government provides financial guarantees and credit insurance through its export credit agency UK Export Finance (UKEF). Its role is to help exporters and investors by providing credit insurance policies, political risk insurance on overseas investments and guarantees on bank loans. More specifically, it (a) insures UK exporters against non-payment by their overseas buyers; (b) helps overseas buyers to purchase goods and services from UK exporters by guaranteeing bank loans to finance the purchases; (c) shares credit risks with banks to help exporters raise tender and contract bonds, in accessing pre- and post-shipment working capital finance and in securing confirmations of letters of credit; and (d) insures UK investors in overseas markets against political risks. In 2013-14, it offered guarantees and insurance policies of £2.32 billion to UK exporters, although no separate information on support for Welsh businesses is available.

278. Initially, the main demand for UKEF support was on sharing risk on contract bonds; more recently, working capital guarantees have become of increasing interest, perhaps because exporters are accepting that they may need to offer deferred terms of payment in order to win more business. It appears there is less demand for UKEF's trade credit insurance cover, as the private insurers seem able to accommodate much of the demand under current market conditions.

279. UKEF has one Export Finance Adviser for SMEs in Wales (and shares with the Midlands and the West Country a further Export Finance Adviser focused on larger exporters). This adviser works alongside the Economy, Science and Transport Department's Trade and Inward Investment team in Cardiff, which has two members, with a third member covering North and Mid Wales. It is estimated that the UKEF Export Finance Adviser generates about 40 per cent of the inquiries he receives from his own activities, 40 per cent from banks, and 20 per cent from the Trade and Investment team, with occasional inquiries passed to him by Business Wales.

280. Access to finance is key to many exporters and again the question arises whether the DBW should develop its own capacity to support greater internationalisation by Welsh SMEs or whether it should work alongside existing providers of support to the banks such as UKEF. At this stage of the development of the DBW, it is proposed that the latter approach is adopted. As the Access to Finance review suggests, the DBW should take responsibility for ensuring that the products of UKEF are marketed effectively within Wales in tandem with UKEF and Business Wales so as to drive forward internationalisation in the economy and the benefits of higher efficiency that exporters competing in a wider market can obtain.

Social enterprises

281. Wales has over 33,000 organisations in the social sector, whether charities, charitable companies, community and voluntary organisations, and social enterprises. The sector is facing growing challenges as public sector expenditure is being cut. Organisations may choose to adapt to these new circumstances by finding new ways of raising revenues and/or delivering services to their users.

282. Specialised social purpose banks are working to respond to the difficulties in securing senior-ranking term debt on appropriate terms from the high street banks that are faced particularly by smaller social sector enterprises.

283. Aside from grant funding from trusts and foundations, the scarcest form of finance has been equity and high-risk junior-ranking, mezzanine-type debt. This is provided by a small number of existing alternative providers (such as Big Issue Invest and CAF Venturesome) that are being joined by new debt funds being supported by Big Society Capital.

284. Greater availability of finance in this form should also be encouraged by the introduction of the Social Investment Tax Relief measure announced by HM Treasury. This is designed to stimulate investment by individual investors in equity and certain forms of high-risk debt for charities and social enterprises as a counterpart to the long-established support for investment in private sector firms through the Enterprise Investment Scheme.

285. But it can still be difficult for social sector organisations to work out how best to address the challenges they face or change their business models to meet those challenges, to identify the right forms of finance that would best meet their needs, or to gain access to the new forms of finance becoming available.

286. Given this, there is a clear role for the DBW to give social sector organisations guidance and sign-posting support to providers of advice on how to become 'investment-ready'.

5.2 Existing financial provision

Welsh Government Grants

287. Within the Access to Finance review, it was envisaged that all funding for SMEs currently managed by the Welsh Government should be brought under the auspices of a new DBW. This would include the various grant programmes currently managed in-house by the Department for Economy, Science and Transport. There are three options for the Welsh Government in considering this.

288. The first is to transfer Welsh Government business grant teams into the DBW. This may be difficult in the short term and it is uncertain whether the various grant programmes – such as the Economic Growth Fund – could be transferred to a new independent body given financial and legal restrictions

289. The second is to do nothing and treat grants as separate from the DBW. This could result in continuing confusion over funding given that grants are aimed at specific sectors and lead to SMEs going for the easiest option first (i.e. grant)

290. The third option is retain the grant teams in-house or within WG's delivery contractors but the marketing and promotion of the grant funding is done through the DBW. In addition, a MOU should be set up between the DBW and the Welsh Government grant teams to use the same due diligence process, i.e. one borrowing event, one process.

291. This would be the preferred option in the short term as it is the most effective way of ensuring a consistent brand, getting Welsh Government to work across organisational boundaries and reducing the cost of due diligence.

5.3. Finance and business support

292. With an objective to promote the SME finance market in Wales, the role of the DBW could naturally be expanded to include the delivery of non-financial services such as business development, training and mentoring, investment readiness of the demand side and capacity building on the supply side. In most

cases, the costs of these services are absorbed directly by PDBs and include a wide range of activities to support their own network of private sector firms through which the financial product is delivered to the target market segments of the PDB. The purpose is to help transfer knowledge and best practices to strengthen and build the capacity of the private sector to provide financial services to the target.

293. One of the key recommendations and principles of the Access to Finance review was that business and skills support should be offered alongside financial support to businesses, including voluntary, community and social enterprises in Wales. This follows research that shows those various public organisations involved in supplying financial support to such businesses should also provide various types of business support to their clients.

294. The decision therefore is whether such business support should be integrated into the DBW as a separate function or whether it should essentially be working alongside existing providers to supply these services to businesses as part of an integrated package.

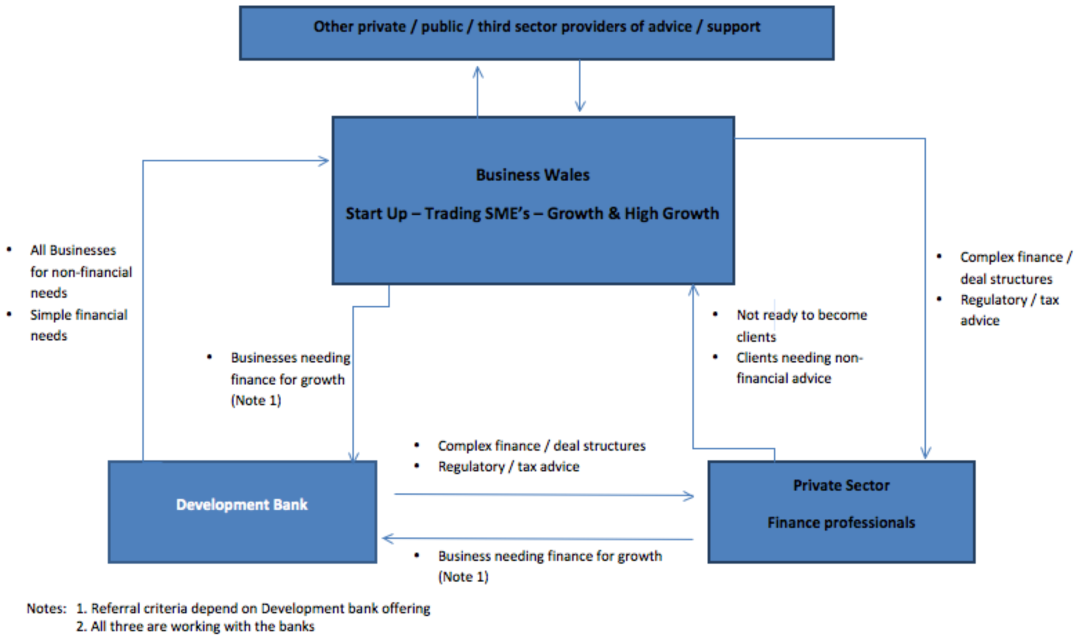
295. The T&F Group received a paper describing the current support structure in Wales for SMEs in the private and public sector. It concludes that the majority of advisory support needed to enable a Development Bank to function effectively, as part of the wider spectrum of finance for business, is already in existence. These recommendations seek to avoid expensive duplication and make what exists function better for the benefit of businesses.

296. Currently business advice (including financial) is provided by the Business Wales service, which is contracted out by the Welsh Government. It is the opinion of the T&F Group that at this stage, the focus of the DBW should be on becoming the primary source of financial support in Wales. There are also issues that may arise which would cause difficulties in the DBW taking on any direct business functions, such as the need to ensure compliance with the requirements of the Financial Conduct Authority. There may also be the temptation to rebuild a wider advisory service to accommodate other business needs, duplicating effort and wasting public funds when the aim of the DBW is to be efficient and effective in providing financial support to businesses.

297. With business support already in place, such a service would duplicate existing services that have made considerable progress in the last few years in raising awareness in the market. There is also a requirement for financial advice not to be isolated from general business advice, especially for many microbusinesses.

298. There would be the danger of introducing further complexity into the government support landscape that, as the 2012 Micro Business Task and Finish Group Report noted, should be avoided. Figure 5 shows a potential structure of business and financial support to Welsh SMEs that encompasses Business Wales, the DBW and the private sector.

Figure 5. Proposed structure for co-operation in business support in Wales



299. The interaction between DBW and the BW programmes should be properly resourced and led by a senior person in each body, so ensuring referrals in both directions. In addition, it would be expected that senior officials within Business Wales would be part of a wider operational group for the DBW so as to ensure that both organisations work closely in delivering the best solutions for Welsh SMEs. In addition, clear responsibility for interaction with private sector financial advisors through the relevant professional bodies such as ICAEW and ACCA should also be part of this remit.

300. Outside general business support, there has been discussion as to whether the DBW should, as part of its remit, supply specific non-financial support to investee companies (i.e. money with management) to enhance the success of the implementation of the investment, improving business performance and ultimately improving the prospects of repayment and realisation of the investment. Whilst this would normally form part of any equity investment (with the venture capitalist providing this service), the same may not be the case in terms of debt finance.

301. But, for example, to help entrepreneurs accelerate growth, improve productivity and build organisational capabilities, the Business Development Bank of Canada (BDC) offers technical assistance to borrowers in the form of management consulting to help strengthen the capacity of its entrepreneurs. As a result, BDC clients who received financing and consulting achieved 60 per cent higher revenue growth, employment growth and survival rates than non-BDC clients.

302. Subsidised consultancy support could be offered to supplement the Business Wales SME and Accelerated Growth programmes, especially to those businesses that have been identified as needing to strengthen their management team if the funding they receive is to be fully maximised for the benefit of the business. In addition to consultancy, such support could also be offered through business advisors or mentors or possibly through part-funding the appointment of non-executive directors. In order to facilitate such a service, the DBW could offer specific grant support that could be added to any financial agreement for funding developed through any of the previous financial products.

5.4 Research and evaluation

303. The Access to Finance review noted that information on funding for SMEs in Wales was very difficult to obtain from financial institutions. This is not an isolated incident - the independent lending review of RBS, chaired by Sir Andrew Large, also emphasised that data gaps in the make-up and performance of SMEs and their financial requirements impede policy-making and credit-decision making in the UK. In addition, the British Business Bank recognised that in order to deliver its objectives there was areal need to strengthen its strategy/policy functions so that it could anticipate and act on any changes in the marketplace or the economy and help develop a strong case for any appropriate interventions for Welsh business.

304. The T&F Group agreed that the DBW should have an independent research department of the highest quality. This would enable information to be collected to inform the strategic direction of the organisation as well as enabling to "own" Welsh SME financial statistics and give the DBW credibility in the market place.

305. Therefore, a key role for any new development bank is to have a research and evaluation function that provides thorough understanding of the SME market in order to develop new products, services and financial platforms. This will enable it to generate new ideas to enrich the knowledge base that supports the policy agenda of the DBW and the Welsh Government. This is currently a function that is largely absent from Finance Wales and the Welsh Government and could provide detailed knowledge of the SME sector in Wales and, at the same time, ensure that there is another independent economic analysis that can help in interpreting economic trends and their impact on businesses. For example, there has been little detailed research undertaken, outside of the Access to Finance review, on the financial needs of SMEs in Wales.

306. This function should also, independently or with external organisations, constantly evaluate the impact of the DBW's various programmes and further

improve their performance. Part of this role would include undertaking market research and evaluation of clients to ensure that the DBW is delivering its products and services efficiently and effectively.

307. It would not operate in isolation but would involve partnerships with a number of leading academic institutions in Wales and further afield (including Cardiff Business School and the banking group at Bangor University) and further afield to provide research capability through direct contracts or seconded staff. There may also be an opportunity to work selectively with the research departments of a small number of global investment banks, as well as co-operating with the BBA and BDRC International on the SME Monitor.

5.5. Outreach programmes

308. Whilst it is not recommended that the DBW should take over the function of Business Wales to provide direct business support to SMEs in Wales, there is an important role for the DBW in promoting best practice amongst financial intermediaries and investors in Wales or coming from elsewhere to invest in Wales as well as amongst businesses themselves.

309. Private sector investors frequently cite the lack of investor readiness, as a major inhibitor to investment and enabling a supply of high quality deal flow is a primary requirement for growing a local investment community and attracting investors to the region. It is proposed that the DBW becomes involved in key investor engagement activities of preparing a particular company to engage with the particular type of funding provider, working closely with the advisers in each Business Wales programme. This assistance should be open to all SMEs at a regional level as necessary and should be put in place before the need for external finance is raised. Companies should potentially be able to seek assistance several times as they grow and the nature of their funding needs change and any programme introduced to support investor readiness should be designed to reflect this.

310. Non-financial support also needs to include the “capacity building” on the supply side. For example, this could include activities to increase the number and quality of angel investor groups as well as increasing the general competency and capability of business angels through the provision of training, master-classes, mentoring and linkages to international best practice. Not all private wealthy individuals can be angels and any programme aiming to create a viable angel community seek not just to increase the amount of cash available for investing, but also seek to encourage “the right type of angel”, i.e. those who are willing and able to be active both in the sourcing and screening of deals and in mentoring the company post investment. There is a steep learning curve required to understand how to source investable businesses, carry out screening and due diligence, and learn the intricacies of valuation

and deal structuring. All of this must then be combined with the skills necessary to support a business post-investment with mentoring and advice over the likely 5 to 10 years it will take to achieve a successful exit.

311. A more radical approach would be to fund parts of the investment chain that currently deter potential investors. It is also proposed that this should be done with angel networks; but it could also be achieved by supporting due diligence providers or opening up access to a credit rating platform for Welsh SMEs. The DBW could also support the development of the financial ecosystem through encouraging the development of SME-focused providers such as start-up consultants, business plan writers, and those firms involved in supplying non-executive directors for growing businesses.

5.6. Stimulating demand in the marketplace

312. There are two aspects to stimulating demand in the marketplace for finance. The first is better promotion of the financial options open to SMEs in Wales. For example, a recent report from BIS shows that SMEs are generally not aware of the existence of government finance schemes and how to access funding. The DBW should take a lead in working with intermediaries, business groups and other organisations in promoting not only the products and services it offers but the range of financial solutions available to SMEs in Wales. In this respect, it could adopt an 'investing in investment' approach where it acts as a clearing house linking supply and demand, signposting sources of finance to business, advising on financial options, referring business to finance providers and championing the use of alternative finance nationally.

313. Secondly, the DBW must play a major role in stimulating interest in new venture creation and business development across Wales. It is noticeable that Finance Wales has not been as prominent in this role as it should have been. This is not only in terms of promoting its own products and services but also in supporting Welsh business more generally, although it has recently become more involved in sponsoring various business awards. It is also surprising that it has failed to properly engage with social media given their growing importance in communications with stakeholders. For example, its Twitter account was set up in October 2009 but only became active five years later. Similarly, its LinkedIn account was only established ten months ago and whilst it has a presence on Facebook, it has made no posts.

314. There clearly needs to be a step up in promoting and stimulating finance for SMEs in Wales and a new DBW would be fully engaged in marketing only itself and its products but the financial sector and business in Wales more generally, especially in terms of investment readiness. A full appraisal of the marketing position to be undertaken by a new DBW needs to be undertaken once the organisation is established. In addition, there needs to be innovation in funds

and also in the promotion and stimulation of demand to get the attention of potential entrepreneurs and the wider public and to attempt to engender a culture of entrepreneurialism quickly. Two ideas have emerged from the group that are radical but could be taken forward by the DBW, as set out below.

315. *The Entrepreneur Lottery* - This suggestion involves the establishment of a national Welsh lottery aimed at identifying and encouraging the demand-side for new ventures in the region. The lottery would be run every two months for a year and the first and only prize would be £50k. The lottery would need to be well publicised and would require participants to complete a simple business plan of one page. Required metrics would be description of product or service to be developed, location, estimate of costs and revenues per annum over the first three years of operation, and potential employment over the first three years. It will be made clear that no assessment will be made of the idea as it is a lottery not a competition or an application for a grant, and there is no judgement involved. All entries would go into a "digital hat" and the winner would receive the £50k over time against the submission of invoiced expenses associated with the start-up. Managerial and sectoral help will then be assigned to the winner from available sources. Applicants or "players" will be asked to tick a box should they be prepared to allow, in the case of not winning, their plan to be passed to other sources of start-up finance in Wales thus generating interest in new businesses. Such an initiative will draw attention to the fact that there are sources of finance available for new ideas and will help to gauge the level of entrepreneurial energy in Wales. It will also show that the Welsh Government is willing to try new ideas itself to encourage greater entrepreneurship. After running the lottery bi-monthly for a year for a cost of £300k plus administrative costs, there would have a clear, bottom-up, market survey of the strength of entrepreneurial zest in Wales.

316. *Televised Crowdfunding* - The television programme Dragons Den will form the basis of this idea but with a significant difference. A high street bank will be approached to be the senior sponsor with some funding from the Welsh Government. The costs will have to be covered but more importantly, a capital fund of approximately £300k. The programme will only be televised once and the entrepreneurs will be interviewed as on the normal show but then, instead of choosing a winner, the viewing Welsh public will be invited to invest in the companies via crowdfunding via telephone. Shares will be priced at £1 and for each share an investor buys they will receive another one, free, paid for by the sponsors. There are significant obstacles to this project (including regulations on investment advice, choosing companies with the possibility of some kind of exit), although it would, along with the lottery, show the Welsh public in a comfortable, non-boring format that enterprise creation is happening in Wales.

5.6 Stakeholder management

317. The new DBW would need to interact regularly with key stakeholders such the Welsh Government, the National Assembly for Wales and the UK Government; the business community and new entrepreneurs; banks, intermediaries and other financial organisations.

318. The Welsh Government will be the sole shareholder of the DBW and it is critical that the DBW is aligned with its priorities going forward. However, evidence to the T&F Group suggested that there had been poor alignment between Finance Wales and the Welsh Government's sector panels and the city region boards.

319. Testimony from the sector panels suggest their companies have different financing and business support needs and the role of the DBW would be to work closely with the panels to ensure that there is access to the most appropriate type of funding required by firms operating in different sectors. For example, whilst venture capital funds may be relevant to digital, life sciences and environmental science firms, the guarantee scheme may be what is appropriate to tourism businesses whilst the enhanced invoice finance proposal could suit larger SME manufacturers. In this respect, part of the research and development function of the DBW would be to maintain intelligence on the financing market (for different segments) and to highlight the development opportunities in finance back to the sector panels.

320. The DBW could actively draw on the sector expertise in the Welsh Government sector teams. This would be done by having senior staff work alongside the respective sector teams and in this way, there is a close relationship between the two as the DBW can act as experts in financial strategies to accomplish the sector panel aims, namely reporting on the current state of the financing market; potentially raising or managing funds; or enabling the sector panels to commission third-party fund-providers and providing oversight.

321. Similarly, there is evidence that a good working relationship with the two new City Region structures could provide opportunities to use existing sub regional networks, thus providing contact interface with targeted SMEs in a cost-effective way and helping to establish a pipeline that effectively identifies opportunities. There would be significant potential and opportunity for the City Region Boards to share their priorities with the DBW and ensure awareness of specific regional activities. The City Region Boards have to evaluate a number of projects against their potential to generate significant regional impact in line with their key aims. This should ensure that resources (including DBW support to SMEs) could be targeted to deliver outcomes that contribute to the city regions' strategic priorities.

322. In addition to working closely with the Welsh Government, there needs to be a better relationship with the National Assembly for Wales. As has been

discussed in terms of the governance of the DBW, the chairman and CEO will appear annually in front of the NAfW's Enterprise Committee to present a report on progress. There will also be regular information provided to Assembly Members on the work of the DBW.

323. Closer relationships need to be established with other providers of finance to SMEs, especially given the proposed hybrid model that has been recommended as the main form of delivery for the organisation. The Access to Finance review has already noted that banks and the Welsh Government should not operate in isolation in terms of the provision of finance to SMEs.

324. Following the first stage review, there have already been negotiations between the Welsh Government and one of the high street banks to develop a referral system for those turned down for bank lending, although closer links between business support and access to finance could also sustain this process. In addition, another bank has stated its intention to work closely in developing the potential of growth businesses in Wales.

325. Regular formal meetings should take place every six months between senior officers at the banks and the DBW to discuss the challenges facing the Welsh economy and the way to address these challenges together. There also needs to be a continuous dialogue not only with other development banks in the UK such as the British Business Bank and the proposed Scottish Development Bank, but also with financial intermediary organisations such as the ICAEW, ACCA and the NACFB.

326. There needs to be better relationship management of external finance. As the Access to Finance review noted, there are various British Business Bank-supported financial initiatives where Welsh businesses have not been as successful as expected. Whilst this is reflective of the wholesale model adopted by the British Business Bank, there can be role for the DBW in encouraging firms to examine Wales as a region for future investment.

327. It was recognised during the review that not only is the development of Welsh entrepreneurs critical to the future of the Welsh economy but that the Welsh Government must look to attract entrepreneurs from outside of Wales to relocate here. In this respect, the DBW has an important role to play, not only in providing the appropriate finance through its vehicles but, more importantly, in acting as a catalyst in doing this. It needs to develop strong relationships with organisations such as the Alacrity Foundation, which develops teams of talented graduates to form new businesses in Wales, and Invest UK that brings together foreign investors and UK investment opportunities.

328. It is not only within Wales that the DBW has to influence financiers as there is a need for Wales to properly relationship manage potential investors and bank lenders in the City of London for investment and profile purposes. This means a continuous programme of engagement beyond seeking direct investment

opportunities. Instead, there needs to be a consistent and constant dialogue on Wales and the investment opportunities. From this foundation, the DBW needs to bring investors to Wales to present them with investment-ready opportunities, and to be taking groups of investment-ready Welsh companies up to London.

6. NEXT STEPS

6.1 Introduction

329. The previous sections have shown that there remains a funding gap for Welsh SMEs that is not being addressed by the public or the private sector. There are significant parts of the SMEs market, especially microbusinesses, which are not being supported despite their capacity to create jobs.

330. To date, the Welsh public sector response has been undertaken in isolation from the private sector and has largely ignored market changes that have, since 2008, limited funding to SMEs. There is also room to improve the utilisation of private sector funding in the form of informal investors and venture capital to boost high growth firms that can have a disproportionate effect on the economy.

331. The creation of one organisation - the DBW - that can work towards closing the funding gap and help deliver funding to Welsh SMEs, including charitable, community and social enterprises, should be the aim of the Welsh Government. It needs to be an organisation that directly addresses the supply and demand dynamics of the Welsh SME finance market, is flexible in developing solutions that address market needs, is able to mobilise Welsh and external financial sources, and is co-operates with business support providers.

332. This will require an organisation that is built around a business model, structure and culture that needs to respond to a very different set of market dynamics when compared to the challenges that were faced by Finance Wales. It will also provide a more holistic approach and thus enhance the capability of the Welsh Government to support SMEs in Wales (Figure 6).

Figure 6. A comparison of the aims of the DBW and Finance Wales.

Aim	DBfW	FW
Public accountability	Governance and public transparency incorporated into remit	Recently improving
Efficiency	Self-financing within 5 years	In receipt of WG subsidy
Focus (customer market)	Wales – focused on government-set sector and regional priorities	Wales + English regions – general micro-medium enterprises
Supply finance	Equity, debt, asset-based, alternative, social, public programmes	Equity, debt, some public programmes
Supply support	Fully integrated/ aligned	Some links
Stimulate demand	Market out-reach, training & education	NA
Market development	Diversification of financing and support business	NA
Links to mainstream finance	Active relationship-building and investment origination	Some fund investors
Understanding market needs	New research function	NA

333. As the previous discussion has shown, it could be possible to merge the functions of Finance Wales into a new DBW as an option going forward. Fortunately, a precedent already exists for this type of organisational restructure following the takeover of Capital for Enterprise Ltd by the British Business Bank. This gives the Welsh Government the opportunity to liaise with British Business Bank officials for advice and guidance as how to best organise such a merger.

6.2. Managing existing funds

334. As table 1 shows, there are a number of debt and equity funds currently being operated by Finance Wales on behalf of the Welsh Government that the new DBW may have to manage going forward.

Table 1 – Live funds currently managed by Finance Wales.

Programme	Eligible Sectors	Fund Size	Minimum Funding	Maximum Funding (in one round)	Anticipated Closure date
Wales SME Investment Fund	All Welsh SMEs (with some exclusions)	£40m	£50,000	£2,000,000	Aug-17
Micro-Business Loan Fund	All Welsh SMEs (with some exclusions)	£6m	£1,000	£50,000	Dec-17
Wales Property Development Fund	Welsh SMEs in property development	£10m	£50,000	£2,000,000	Mar-18
Life Sciences Fund	Life sciences firms based in Wales.	£100m	£250,000	£2,000,000	Feb-18
Wales Technology Seed Fund	Welsh technology start-up companies.	£7.5m	£50,000	£150,000	Jun-19
JEREMIE Fund	All Welsh SMEs (with some exclusions)	£150m	£5,000	£2,000,000	Sep-15
Small Loan Fund	All		£5,000	£2,000,000	Rolling Fund
Rescue and Restructuring	Welsh SMEs classified as a firm in difficulty		No min	£2,000,000	Rolling Fund
Help to Buy Wales	Housing/Mortgage Loans		No min	£60,000	Dec-16
Wales Capital Growth Fund	Welsh SMEs and larger business providing economic benefit	£20m	£50,000	£2,000,000	Rolling Fund

335. If Finance Wales is subsumed into the new DBW, then given the strategic priority of working with the private sector to fill a gap in the market, consideration must be given as to whether these funds continued to be managed by the new institution given the high management costs associated

with this approach as discussed in a detailed paper presented to the T&F Group. For example, in terms of the eighty existing venture capital projects in which Finance Wales has invested, there are three potential outcomes:

- *Residue Fund*: To continue to be managed by Finance Wales or its successor where the number of projects retained would be a number that can be appropriately and properly managed by the existing Finance Wales staff.
- *Secondary Fund*: Seek a secondary transaction to sell a portion of the fund projects to other venture capital funds in the UK or overseas. It is likely that there will be a loss on this transaction.
- *Transferred Fund*: Transfer some of the projects to venture capital funds that have been contracted by a new DBW.

336. As the focus of the new DBW should be on supplying financial support and advice to Welsh SMEs, it is recommended that if the existing funds for Finance Wales were to come under its remit, then the “Help to Buy Wales” should be transferred to another part of the Welsh Government as it does not fit into the core business of the DBW.

337. During the last fourteen years, Finance Wales has built up skills and expertise in managing public sector funding programmes in Wales and it is important that, where possible, these are retained especially in areas such as risk and portfolio management, as well as key administrative functions. However, in order to achieve the aims of the new DBW, it will also be necessary to recruit staff from outside the Welsh Government to ensure that the right skills mix is achieved and the best talent is appointed to manage the DBW.

338. If the Minister approves the establishment of a new DBW, it is proposed that a chief executive and chairman are appointed as soon as possible to head up the interim organisation. They will then form part of a project board that will be responsible for managing the development of the new organisation, including the development of a business plan for the DBW, the appointment of senior management staff either directly or through transfer from Finance Wales, and arrangements for the launch of the DBW. The project board will also consist of Welsh Government officials and externally appointed experts to advise on the creation of the DBW. A full-time project manager will be appointed to oversee the process.

339. This interim board will enable a new structure to be developed for the DBW that is separate to the fund management role of Finance Wales and create a single team that is working together within a new structure. The chairman or senior director of Finance Wales will be invited to sit on the board.

340. It would be expected that new DBW would be housed in the same building in Cardiff as Finance Wales to ensure that transfer of functions is achieved efficiently and effectively.

6.3. Cost of new funds

341. Several new funds have been proposed for the new Development Bank and these will be the subject of negotiations with officials at Welsh Government and the Welsh European Funding Office (the organisation responsible for the management of European Structural Funds) regarding their funding. Various funding routes have been identified to support these funds going forward including European Structural Funding as well as internal WG funds.

342. There are currently plans to have two main funds as financial instruments for the next round of European Structural Funds, namely a £70 million debt fund and a £45m equity fund that would be focused on innovation. Both of these funds could be utilised within the new DBW to fund (a) the microloans funds and (b) the three equity funds proposed. Discussions will need to take place with the Welsh Government over funding arrangements for the 'flexible funding' debt funding which will be either guarantees or subordinated loans and whether these could form part of this funding.

343. This could be feasible for the equity funds as long as the DBW has an input into how these funds are organised as discussed earlier. However, given the structure proposed for both the microbusiness fund and the flexible funding approach, there may be issues with the debt funds if the DBW does not manage these financial solutions in some way. If this proves difficult, then alternative strategies may need to be adopted for EU funds such as limiting these to a number of key sectors or, as discussed earlier, setting up a specific fund for high risk businesses, which would build on the JEREMIE programme.

344. This could result in the DBW having to make a case to the Welsh Government for funding support, potentially via sources such as the Financial Transaction Fund.

6.4. Administrative costs

345. As noted previously, there are savings that can be made in administrative costs if Finance Wales becomes part of the DBW. A detailed business plan will examine what administrative savings can be made as a result of any merger and its potential impact on the operational efficiency of the DBW going forward.

6.5. State Aid

346. Following initial discussions with the British Business Bank, further clarification will be needed as to whether the DBW will have to be EU State Aid-compliant as an organisation to be able to undertake its role as discussed. Currently, all of the funds being managed by Finance Wales are State Aid-compliant and it is unlikely that this status would change going forward. If separate State Aid

approval for the DBW was required, then the organisation would adopt the same approach as the British Business Bank, namely once an interim organisation has been established, to start developing institutional capabilities and marketing the brand to SMEs.

6.6. Timetable

347. The following indicative timetable is proposed for the creation of the new DBW and for transition arrangements with Finance Wales.

Month 1	Minister announces new Development Bank for Wales Regulatory approval application (if needed) Recruitment of interim chairman and chief executive
Month 3	Publishes strategy and objectives of the new DBW Interim organisation established Chairman and chief executive announced Recruitment of interim board and key executive staff
Month 6	Appointment of interim board and key executive staff Development of management arrangements for new funds Agreement with Welsh Government and WEFO over future funding
Month 7	Business plan completed
Month 8	New funds launched
Month 9	Transfer key functions from Finance Wales into DBW
Month 10	Regulatory approval received (if required)
Month 12	Official launch of Development Bank for Wales

Document is Restricted

Collection costs for CT and NDR

The last time tax collection costs were benchmarked were in a 2012 CIPFA Study (doc attached) using data from 2010-11. As demonstrated on page 62, the costs of collection in Wales at £18 per property are significantly lower than costs in England which are around £26 per property. The higher costs in England of contracting the service out is cited as one possible reason for the differential.

Similarly with NDR collection costs on page 74, the costs per hereditament in Wales are £50 compared to £67 in England with contracting out costs again a significant factor.

Collection rates for CT

CT collection rates are published as a statistical release in Wales (http://gov.wales/statistics-and-research/council-tax-collection-rates/?lang=en) and published information exists up to 2013-14. In-year collection rates in Wales rose to 97% which is the highest rate since the introduction of the council tax.

In England (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collection_rate_Statistics_Release_July_2014.pdf) the overall rate is the same but is lower (96.7%) for Unitary Authorities (page 4).

In Scotland (http://www.gov.scot/Publications/2014/06/3066), the in-year provisional collection rate is 95.2%.

CIPFA performance in public services

WLGA • CLILC

WLGA - Collaboration in the Delivery of Council Tax and Non Domestic Rates Services in Wales

Feasibility Study

Contents

1. Executive Summary

Executive Summary

This report sets out the findings of the Chartered Institute of Public Finance and Accountancy's work that analyses the current Council Tax (CT) and Non Domestic Rates (NDR) Services across the 22 local authorities in Wales together with the consideration of the feasibility of collaboration in the delivery of CT and NDR Services in Wales.

The approach to this review has considered a variety of data and information relating to the CT and NDR Services including:-

- An overview of the revenue services in Wales;
- An analysis of the performance of revenue services;
- Identification and analysis of successful revenues collaborations in the UK;
- Opportunities to improve the efficiency and effectiveness of revenues services;
- Potential delivery vehicles for revenues collaboration & collaboration options;
- Opportunities for savings; and
- Cost of implementation of collaborative working and further considerations for collaboration.

The various analyses indicate that there is currently a high level of variation across the operational and financial performance of the services in Wales.

Executive Summary (2)

Within these variations there are examples of good practices and performance, and low cost. There are also examples of current collaborations (particularly among the authorities in North & Mid Wales) that could be extended to other areas in Wales.

We have used the current baseline of performance, costs, headcount, customer service delivery models and ICT infrastructure of the Revenues Services in Wales together with the evidence gathered about current revenues collaborations elsewhere to help inform the future service delivery options for revenues collaboration in Wales.

This review of current Revenues Collaborations has identified that the current collaborations are mainly between District Councils and there is a lack of available evidence around Unitary-Unitary Collaborations. It should also be noted that many of the existing Revenues Collaborations are actually Revenues & Benefits collaborations.

The terms of reference for this review was 'Revenues' only – the current close operational, systems and organisational relationships between CT and Benefits (CTB) has not therefore been explored in this review.

The outputs from this feasibility study have identified potential cost savings and collection performance opportunities and scope for revenues collaboration in Wales.

It should be noted that the CT and NDR potential savings are predicated on an accurate split of costs between the two functions as reflected in the base information used. From experience of other Revenues Service review projects, we are aware that the degree of operational and organisational integration and 'sharing' of resources between these CT and NDR components within a Revenues Service makes the accurate apportionment of costs and headcount difficult to produce. We would expect this to be recognised in the consideration of the current analysis of opportunities for savings and to be addressed in any future more detailed analysis of opportunities for savings in Revenues Services in Wales.

Executive Summary (3)

It should also be noted, that achieving the indicative gross savings requires a change management project/ programme to deliver the savings whilst also maintaining/ improving (collection etc.) performance. This approach will involve costs, examples of which are shown in Section 9 of this report.

We consider the Invest to Save Fund is an option to consider in relation to pump priming CT and NDR collaboration in view of the supporting funding guidance which provides an example of the type of project that the funding would support i.e. '*collaborative projects that deliver gains through the re-engineering of business processes that improve front-line services*'.

This feasibility study has identified two main collaboration models to potentially release these savings and service improvements. These Revenues collaboration models are:-

- **Informal Collaboration** – a cross-Wales managed programme, focused on a 'levelling-up' of the services, to benchmark levels of performance and costs; and
- **Formal Collaboration** – focused on potential shared/ joint service delivery based upon CT and/ or NDR partnership(s) clusters centred on common core ICT systems and EDMS/ DIP systems.

It will be important that planned implementation timescales and resultant potential impacts are evaluated and considered along side key risks, for example changes being introduced by universal credits and localised support for CT and potential changes arising from the Business Rates Wales Review.

A detailed option appraisal of the above options will need to be included as part of any future outline and/ or full business cases.

Introduction

The Chartered Institute of Public Finance & Accountancy (CIPFA) has undertaken a study on behalf of the Society of Welsh Treasurers (SWT) to identify the feasibility of, and the opportunities for, collaboration in service delivery and procurement in the Council Tax (CT) and Non Domestic Rates (NDR) areas of operation.

A crucial element of our work was the analysis of existing data which compares the effectiveness and efficiency of Welsh authorities with revenues services across England.

Our work will form part of the '*Compact for Change*' between Welsh Local Government and the Welsh Government.

The following slides detail the outputs from our feasibility study, which demonstrates a case for collaborative opportunities that will deliver improvements in both costs and performance of the CT and NDR areas of operation.

The next stage for Wales authorities is to undertake outline and full business cases to take forward and realise the opportunities of collaborative working.

2. Overview of Revenue Services (Council Tax & Business Rates) in Wales

Overview of Revenue Services (CT & NDR) in Wales

In order to provide some context to this review we have included information relating to CT and NDR service elements in the following slides, including details on:-

- Current Collaborations;
- Customer Contact;
- Staffing deployment;
- Current ICT systems; and
- Best Practice Benchmarking of procedures & practices.

We have used short name codes for the various authorities and incorporated their Regional Footprint Grouping in the analysis tables (see Appendix A); we have also included the Welsh Index of Multiple Deprivation (Income Related) factor in the tables (see Appendix B).

Current (Wales) Collaborations Analysis

This analysis has been undertaken using the data supplied in response to the CIPFA *Questionnaire 1*, which requested information for CT and NDR relating to the current services including:-

- Current collaborations with Private Sector partners; and
- Current collaborations with other Public Sector (including inter-authority) partners.

The original questionnaire was not prescriptive in its design to enable as wide a scope of partnerships to be reflected in the responses. We have subsequently analysed and grouped the responses according to the types of partnerships (e.g. bailiffs, printing, SPD reviews, training etc.) and these are shown in the tables on the following slides.

The outputs from this analysis will help to inform the consideration of future collaboration and service delivery models later in this report.

Current (Wales) Collaborations Analysis – Public-Private Sector Partnerships (1)

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Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
LA>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
4.1. Current Partnerships with the Private Sector																						
Bailiffs																						
Excel	Y					Y	Y				Y					Y	Y					Y
Rossendales	Y									Y												Y
Jacobs									Y	Y				Y	Y							Y
Sw ift				Y	Y							Y		Y	Y			Y	Y		Y	
Andrew James						Y						Y						Y	Y			
B&S		Y		Y								Y										
Denbighshire/Conw y								Y	Y													
AJ Enforcement																						
Ross & Roberts					Y																	
Bristow & Sutor					Y																	
LoCTA				Y																		
Printing																						
Print Search											Y											Y
MPS																		Y				
FDML									Y													
Kaizen	Y																					
Various							Y															
Tracing																						
Experian	Y		Y	Y							Y	Y		Y	Y		Y					
Rossendales														Y	Y							
SPD Review																						
Northgate																						Y
Payment Cards																						
Co-Op Bank																						Y
Stationery																						
Mail Solutions	Y																					

Current (Wales) Collaborations Analysis – Public-Private Sector Partnerships (2)

From the analysis of the data returned it would appear that the degree of 'joint' collaboration in the matrix of private sector providers with the Welsh revenues services is currently fairly undeveloped; although from our experience elsewhere this would also be a typical scenario amongst other 'neighbouring' Revenues Services who had not yet formally considered whether there are opportunities and benefits to be gained from a more co-ordinated procurement of private sector service partners.

We appreciate that the selection of bailiffs can be a very subjective judgement by authorities/ officers and that authorities tend to not rely solely on one firm of bailiffs for all their general enforcement work to allow for comparisons in performance etc. There does appear to be a wide variety of bailiffs (10 different companies plus Denbighshire/ Conwy) in use across the 20 authorities that returned information and this may provide an opportunity in the future to develop a collaborative service level agreement for bailiff services for potential use across the 22 Welsh Revenue Services.

From our experience elsewhere, it would appear from the data supplied in the returned questionnaires that the level of use of external printing contractors is fairly limited compared with their use at other UK revenue services.

Current (Wales) Collaborations Analysis – Public-Public Sector Partnerships (3)

LA>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
4.2. Current Partnerships with the Public Sector																						
Cash in transit contract																						
Flintshire CC	Y																					
SPD review																						
Gwynedd, Conwy, Denbigh, Flint, Wrexham, Ceredigion & Powys	Y						Y	Y	Y	Y	Y						Y					Y
NVQ IRRV Approved assessment centre																						
North West Wales Training Partnership - Anglesey, Gwynedd & Conwy	Y							Y			Y											
Identify vulnerable older and disabled customers and provide a holistic service covering benefit and non benefit services																						
DWP Visiting and Partnership Referrals with North and Mid Wales Local Pension, Disability and Carers Service (jointly also with Anglesey Adult Services)	Y																					
Prosecute Fraud																						
DWP Solicitors Prosecutions	Y																					
Staff training courses e.g. A-Z etc																						
North Wales Revenues Practictioners	Y							Y	Y	Y	Y											Y
Land Searches																						
Land Registry				Y																		
SPD Review (Joint)																						
Northgate											Y											Y
Shared Management																						
Revenues Manager Powys/Cerdigion							Y										Y					

Current (Wales) Collaborations Analysis – Public-Public Sector Partnerships (4)

From an analysis of the data returned it would appear that inter-authority and other public-public collaborations are somewhat more developed around the North Wales (and to an extent Mid-Wales) groupings of revenue services for example for Single Person Discount Reviews and the North West Wales Training Partnership.

It is unclear whether the experiences of these current collaborations has been shared or explored by the other revenue services in other parts of Wales. These current collaborations and the development of case studies and 'lessons learned' could provide useful inputs (and potential catalysts for further collaboration) for the consideration of future opportunities for collaboration in revenues services across Wales.

We will include the outputs from the analysis of these current public-public and public-private and examples from successful 'external' collaborations around revenues services later in this report.

Customer Contact Analysis

This part of the revenues service analysis has used customer contact metrics data supplied by the Welsh authorities as part of the CIPFA benchmarking exercise, as well as additional data collected specifically for this project as part of CIPFA's *Questionnaire 1* which provides details on the operational model adopted by each authority to handle customer contacts.

This analysis has included:-

- Collating together the customer contacts though the various contact channels including mail, e-mail, phone calls and (personal enquiry) visits by customers;
- Identifying the %age of calls answered and abandoned; and
- Identifying the average contacts per property (partly to identify possible failure demand).

There are varying degrees of completeness in the data provided by the 22 authorities which has made a comprehensive and detailed comparative analysis of the data impossible to undertake. Where there has been sufficient data provided for example on calls offered, answered and abandoned we have included the results of that analysis.

The various analyses of current customer contacts are shown on the following slides.

Customer Contact Analysis – CT (1)

Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW		
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17		
I.T. Systems	NIS	NIS	NIS	CAP	NIS	NIS	CAP	CAP	CAP	CIV	CAP	NIS	NIS	CAP	CAP	NIS	NIS	CAP	NIS	NIS	CAP	NIS		
	ANG	**BG**	**BRI**	**CAE**	**CAR**	**CAM**	**CER**	**CON**	**DEN**	**FLI**	**GWY**	**MT**	**MON**	**NPT**	**NEW**	**PEM**	**POW**	**RCT**	**SWA**	**TOR**	**VOG**	**WRE**	**Total**	**Average**
Customer Contacts																								
Items of Mail	10214	0	33296	79422	225902	57279	0	51565	18211	38126	22538	0	0	0	0	31000	41340	94388	102072	40805	22402	15000	883,560	
No. of Emails received	1392	0	2640	4020	19705	0	0	3071	1733	1708	6282	0	250	0	0	1475	0	4850	5500	3422	3262	2600	61,910	
Phone calls offered	41927	0	58240	0	0	0	0	60214	94960	51082	0	0	0	0	0	34832	0	0	77950	0	53000	48918	521,123	
Visits																								
Total no. Enquiries	0	0	5375	0	4715	11914	0	0	0	932	0	0	0	4016	0	0	0	8944	84866	6143	0	7603	134,508	
referred to back office	0	0	4031	0	0	415	0	0	0	0	0	0	0	4016	0	0	0	0	83483	0	0	3646	95,591	
Total number of CT enquires or calls received directly by CT section	159	0	4031	0	0	0	0	2280	0	0	0	0	45	6752	12500	0	0	0	6916	0	0	50		
Total Contacts - Mail, Phone & Visits	53533	0	99551	83442	250322	69193	0	114850	114904	91848	28820	0	250	4016	0	67307	41340	108182	270388	50370	78664	74121	1,601,101	
Average - Contacts per property	1.57	0.00	1.63	1.08	1.69	0.83	0.00	2.07	2.62	1.41	0.48	0.00	0.01	0.06	0.00	1.15	0.68	1.02	2.49	1.26	1.42	1.27		1.0
Of these phone calls how many were referred to the back office?	0	0	0	0	0	0	0	0	94960	0	0	0	0	0	0	34832	0	0	77950	0	53000	0		
answered	29823	0	56077	144387	0	0	0	58657	32749	49993	0	0	0	0	0	32344	0	0	0	0	41000	48900	493,930	
%age Answered	71%	0%	96%	0%	0%	0%	0%	97%	34%	98%	0%	0%	0%	0%	0%	93%	0%	0%	0%	0%	77%	100%		
abandoned	12104	0	2163	0	0	0	0	8740	62211	928	0	0	0	0	0	2488	0	0	0	0	12000	18	100,652	
%age Abandoned	29%	0%	4%	0%	0%	0%	0%	15%	66%	2%	0%	0%	0%	0%	0%	7%	0%	0%	0%	0%	23%	0%		
What was the average resolution time for phone calls? (seconds)	74		245	103					180							165						120		

Customer Contact Analysis – CT (2)

From the limited analysis that can be undertaken on the customer contacts data supplied for CT Services it would appear that:-

- Average contacts per property (where there is a full set of data for each of the channels) vary between say 1.15 at Pembrokeshire, to 2.62 at Denbighshire; the average for the Wales sample is 1.0 contact per property, although this average is skewed by the 'zero' returns due to the missing data;
- The analysis of the English CIPFA benchmarking equivalent data shows an average of 1.5 contacts per property with a high of 8 contacts per property;
- Calls offered & %age of calls answered – this varies between almost 100% calls answered at Wrexham to 34% calls answered at Denbighshire. This latter figure appears surprising in view of the exceptionally high CT performance (top overall for combined current & previous year collection) that Denbighshire achieved in 2010-11; we would normally expect the high call abandon rates to adversely affect the billing, collection and recovery outcomes of the service.
    - As a comparative indicator the 'commercial' industry standard telephony response targets are:-
        - 95% of calls answered – this is typically within a time threshold of "within 20 seconds" before the caller has a human response.

Customer Contact Analysis – CT (3)

Customer Contacts																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
LA>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
3.1 Council Tax Service Location(s) & Customer Contact handling																						
Where is the back-office Council Tax Service located?			Civic Offices, Bridgend	Penallta House, Ystrad Mynach	City Hall, Cardiff	Ty Elwyn, Llanelli	Canolfan Rheidol					Civic Centre CF47 8AN			The Information Station NP20 4AX		Brecon & Welspool, Plus Homeworkers	Bronwydd, Porth	Civic Centre Swansea	Pontypool (Civic Centre)	Main Council Building (Civic Offices)	Lambpit Street Office, Wrexham
Is there an operational split between customer service and processing staff for the following contact channels?:-																						
Face to face			Yes;up to a point	Yes	Yes	Yes	Yes				Yes				Yes		Yes	Yes		Yes		Yes
Telephone					Yes		Yes				Yes						Yes	Yes	Yes	Yes		Partial
If Yes, does your IT system adequately support the split?			Yes	Yes	Yes	Yes	Yes				Yes				Yes		Yes	Yes	Yes	Yes		Yes
If yes, who handles this contact channel?																						
Face to face			Corp.	Corp.	Service	Corp.	Service				Service				Corp.		Corp.	Corp.	Service	Service		Corp.
Telephone			Service	Service	Corp.	Service	Service				Service						Corp.	Corp.	Service	Serv/Corp		Serv/Corp
If yes, does the scope of handling include:-																						
Billing & Collection			Yes		F2F Yes	Tel Yes	Yes				Yes				Yes		Yes	Yes	Yes	Yes		
Pre-Liability Order					F2F Yes		Yes								Yes		Yes	Yes	Yes	Yes		
Liability Order					F2F Yes		Yes								Yes		Yes	Yes	Yes	Yes		
Post Liability Order					F2F Yes		Yes										Yes	Yes	Yes			

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Customer Contact Analysis – CT (4)

This part of the customer contact analysis has used the data provided in the CIPFA *Questionnaire 1* responses and relates to:-

- how the back-office and front-office elements of CT are configured;
- whether there is an operational split in the delivery of these two elements;
- if there is an operational split, whether the front-office elements are provided by the service or corporately; and
- the scope of service 'layers' (e.g. billing & collection etc.) and any limitations that are handled by the front-office.

We have undertaken this analysis in order to understand the current customer contact delivery models across the various authorities to gain an understanding of whether there are any potential similarities and synergies between authorities.

We will use this 'baseline' information on customer contacts (together with the information supplied and analysed around current CRM systems) later in this report in the consideration of future service delivery options.

Customer Contact Analysis – CT (5)

The above table shows a varied mix of current service delivery options for CT customer contacts including:-

- no operational split between front & back-office processes;
- 11 authorities where face to face customer contacts are managed separately from back-office functions; 4 of these contact channels are managed by the service with 7 managed corporately;
- 8 authorities where telephone contacts are managed separately; 3 of these contact channels are managed by the service, 3 are managed corporately and 2 are shared between service/corporate;
- each of those authorities also considers that their IT systems adequately support this operational splits; and
- For the various contact channels there are varying degrees of scope/responsibly for the CT billing & collection, pre-liability order, liability order & post liability order ‘life-cycle’ of events.

Overall the current customer contact service delivery configurations include varying degrees of maturity, including some services including Ceredigion, Powys, Rhondda Cynon Taf & Swansea appearing to have fairly developed, specialist front-office operational configurations for CT.

Customer Contact Analysis – NDR (1)

Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW		
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17		
I.T. Systems	NIS	NIS	NIS	CAP	NIS	NIS	CAP	CAP	CAP	CIV	CAP	NIS	NIS	CAP	CAP	NIS	NIS	CAP	CAP	NIS	CAP	NIS		
LA>>>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE	Total	Average
Customer Contacts																								
Items of Mail	796	0	8486	2080	4353	2374	0	5299	1939	7192	2637	0	0	492	0	0	5945	10266	19638	2551	1825	280	76153	
No. of Emails received	108	0	2244	1034	2054	1332	0	1778	849	828	833	0	50	1964	0	0	0	2288	1412	214	750	400	18138	
Phone calls offered	3268	0	0	0	14000	0	0	7994	9098	4767	0	0	0	0	0	23266	5611	3163	13600	0	8200	0	92967	
Total no. Enquiries	0	0	50	0	70	356	0	0	0	28	0	0	0	79	0	0	0	285	357	110	0	40	1375	
referred to back office	0	0	1	0	30	356	0	0	0	0	0	0	0	79	0	0	0	0	357	0	0	10	833	
Total number of NNDR enquires or calls received directly by NNDRsection	12	0	50	0	20	0	0	0	0	0	0	0	10	0	0	0	0	0	357	0	0	12	461	
Visits																								
Total no. Enquiries	0	0	50	0	70	356	0	0	0	28	0	0	0	79	0	0	0	285	357	110	0	40	1375	
referred to back office	0	0	1	0	30	356	0	0	0	0	0	0	0	79	0	0	0	0	357	0	0	10	833	
Total number of NNDR enquires or calls received directly by NNDRsection	12	0	50	0	20	0	0	0	0	0	0	0	10	0	0	0	0	0	357	0	0	12	461	
Total Contacts - Mail, Phone & Visits	4196	0	10932	3114	20647	5130	0	15071	11886	12843	3470	0	70	2772	0	23266	11556	16287	36792	2985	10775	804	192596	
Average - Contacts per property	1.6	0.0	2.7	0.7	1.8	0.8	0.0	3.1	3.0	2.6	0.5	0.0	0.0	0.7	0.0	3.7	1.8	2.5	5.1	1.2	3.2	0.2		1.6
Of these (phone calls)how many were referred to the back office?																23266			13600					
answered	2325	0	0	7321	13300	0	0	7654	4700	4650	0	0	0	0	0	18224	4831	3043	0	0	8000	4800		
%age Answered	71%	#DIV/0!	####	#DIV/0!	95%	####	####	96%	52%	98%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	78%	86%	96%	0%	#DIV/0!	98%	#DIV/0!		
abandoned	943	0	0	0	700	0	0	310	4398	107	0	0	0	0	0	5042	780	119	0	0	200	80		
%age Abandoned	29%	#DIV/0!	####	#DIV/0!	5%	####	####	4%	48%	2%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	22%	14%	4%	0%	#DIV/0!	2%	#DIV/0!		
What was the average resolution time? (seconds)	74	na	na	103	300	na	na	25	180	na	N/A	na	na	na	na	138	0	na	n/a	n/a	600	120		

Customer Contact Analysis – NDR (2)

From the limited analysis that can be undertaken on the customer contacts data supplied for NDR services it would appear that:-

- Average contacts per property (where there is a full set of data for each of the channels) vary between say 1.6 at Angelsey to 5.1 at Swansea; the average for the Wales sample is 1.6 contact per property, although this average is skewed by the ‘zero’ returns due to the missing data;
- The analysis of the English CIPFA benchmarking equivalent data shows an average of 2.1 contacts per property with a high of 11.5 contacts per property; and
- Calls offered & %age of calls answered – this varies between 98% of calls answered at Vale of Glamorgan to 52% of calls answered at Denbighshire. This latter figure appears surprising in view of the comparatively high NDR performance (joint 3rd on in-year collection) that Denbighshire achieved in 2010-11; we would normally expect the high call abandon rates to adversely affect the billing, collection and recovery outcomes of the service.

Customer Contact Analysis – NDR (3)

Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
I.T. Systems	NIS	NIS	NIS	CAP	NIS	NIS	CAP	CAP	CAP	CIV	CAP	NIS	NIS	CAP	CAP	NIS	NIS	CAP	NIS	NIS	CAP	NIS
	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
3.2 Business Rates Service Location(s) & Customer Contact handling																						
Where is the back-office Business Rates Service located?			Civic Offices, Bridgend	Penallta House, Ystrad Mynach	City Hall, Cardiff	Spilman Street, Carmarthen	Canolfan Rheidol	Bodlondeb, Conwy	Russell House, Rhyl	COUNTY HALL, MOLD		Civic Centre CF47 8AN			The Information Station NP20 4AX		Llandrindod Wells Plus home workers	Bronwydd, Porth	Civic Centre Swansea	Pontypool (Civic Centre)	Main Council Building (Civic Offices)	Lambpit Street Office, Wrexham
Is there an operational split between customer service and processing staff for the following contact channels?:-																						
Face to face							Yes										Yes	Yes		Yes		Yes
Telephone							Yes										Yes	Yes		Yes		Partial
If Yes, does your IT system adequately support the split?							Yes										Yes	Yes		Yes		Yes
If yes, who handles this contact channel?																						
Face to face							Service										Corp.	Corp.		Service		Corp.
Telephone							Service										Corp.	Corp.		Serv/Corp		Corp.
If yes, does the scope of handling include:-																						
Billing & Collection							Yes										Yes	Yes		Yes		
Pre-Liability Order							Yes										Yes	Yes		Yes		
Liability Order							Yes										Yes	Yes		Yes		
Post Liability Order							Yes										Yes	Yes				

Customer Contact Analysis – NDR (4)

This part of the customer contact analysis has used the data provided in the CIPFA *Questionnaire 1* responses and relates to:-

- how the back-office and front-office elements of NDR are configured;
- whether there is an operational split in the delivery of these two elements;
- if there is an operational split, whether the front-office elements are provided by the service or corporately; and
- the scope of service 'layers' (e.g. billing & collection etc.) and any limitations that are handled by the front-office.

We have undertaken this analysis in order to understand the current customer contact delivery models across the various authorities to gain an understanding of whether there are any potential similarities and synergies between authorities.

We will use this 'baseline' information on customer contacts (together with the information supplied and analysed around current CRM systems) later in this report in the consideration of future service delivery options.

Customer Contact Analysis – NDR (5)

The above table shows a varied mix of current service delivery options for NDR customer contacts including:-

- A high degree of no operational split between front and back-office processes;
- 5 authorities where face to face customer contacts are managed separately from back-office functions; 2 of these contact channels are managed by the service with 3 managed corporately;
- 5 authorities where telephone contacts are managed separately; 1 of these contact channels are managed by the service, 3 are managed corporately and 1 are shared between service/corporate;
- each of those authorities also considers that their IT systems adequately support this operational splits; and
- For the various contact channels there are varying degrees of scope/responsibly for the CT billing and collection, pre-liability order, liability order & post liability order 'life-cycle' of events.

Overall the current customer contact service delivery configurations include varying degrees of maturity, including some services including Ceredigion, Powys, & Rhondda Cynon Taf appearing to have fairly developed, specialist front-office operational configurations for NDR.

Current Staffing Analysis

This analysis has been undertaken using the data supplied in response to the CIPFA *Questionnaire 1*, which requested information for CT and NDR relating to the current services including:-

- The Single Status agreement implementation status;
- Whether the councils offer flexitime, job-sharing, home-working etc;
- Whether councils have generic working as part of their operational model; and
- Whether councils operate performance management

The analysis of this data will help us to establish some of the organisational aspects of the current CT and NDR services.

The summarised analysis of this information is shown in the following slides; in an attempt to improve the presentational format of the data we have only included data in the tables where the response was other than “no” or “not applicable”.

The outputs from this analysis will be used later in the report to help to inform the consideration of future operating models for Revenue Services.

Current Staffing Analysis – CT (1)

Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
Authority>>>	**ANG**	**BG**	**BRI**	**CAE**	**CAR**	**CAM**	**CER**	**CON**	**DEN**	**FLI**	**GWY**	**MT**	**MON**	**NPT**	**NEW**	**PEM**	**POW**	**RCT**	**SWA**	**TOR**	**VOG**	**WRE**
Has the Council completed the Single Status Process?	No	Yes	Yes	Yes	Yes	Yes		Yes	Yes		Yes	Yes						Yes		Yes	Yes	Yes
If Yes, when?		01/04/12	Mar-12	01/04/09	01/04/12	01/09/11		01/04/09	01/04/09		2011-12	01/04/10						Jun-11		Apr-08	01/03/12	01/09/10
If No, is it planned?	Don't know						Jun-12			Autumn 2012							Summer 2012		Imminent			
Do you offer any of the following:-																						
Council Tax																						
Flexitime	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			Yes		Yes	Yes	Yes	Yes	Yes	Yes
If yes - No. of Staff involved	20		all	All	77.5	All		19.6	All	All	All	19			18.5		3	All	38.5	15	17	All
Job-sharing	Yes	Yes	Yes	Yes	Yes	Yes	Yes			Yes		Yes			Yes			Yes	Yes	Yes	Yes	Yes
If yes - No. of Staff involved	0		8	1	13	2				0		2			0			1	16.5	0	2	0
Home working	Yes	Yes	Yes		Yes		Yes	Yes		Yes		Yes					Yes	Yes		Yes	Yes	
If yes - No. of Staff involved	1		8		15		1	2		7		1					6	4		10	2	
Mobile working	Yes	Yes			Yes			Yes	Yes	Yes					Yes			Yes		Yes	Yes	
If yes - No. of Staff involved	0				6			1.5	2	2					5			0		2	1	
Condensed Hours	Yes	Yes			Yes		Yes			Yes								Yes		Yes		Yes
If yes - No. of Staff involved	0				3		1			0								0		0		0
Reduced Hours	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes				Yes		Yes	Yes	Yes	Yes	Yes	Yes
If yes - No. of Staff involved	0		10	1	7	3	2	1	3	4	1				0		5*	0		0	1	3
Term-time only	Yes	Yes			Yes		Yes			Yes								Yes				Yes
If yes - No. of Staff involved	0				6					0								0				0
Annual Hours	Yes	Yes								Yes								Yes				Yes
If yes - No. of Staff involved	0									0								0				0
Employment Break		Yes	Yes	Yes	Yes		Yes		Yes											Yes	Yes	Yes
If yes - No. of Staff involved			0	0	2				0											0	1	0
Other									Yes													
If yes - No. of Staff involved									0													
If Yes to Home Working																						
Do you have appropriate IT arrangements in place to support home working?	Yes	Yes	Yes	Yes	yes		Yes	yes		yes		yes					Yes	Yes		Yes	Yes	
Do you have formal policies & procedures (e.g. health & safety, IT, monitoring arrangements) in place to support this operating model?	Yes	Yes	Yes	Yes	yes		Yes	yes		yes		yes					Yes	Yes		Yes	Yes	

Current Staffing Analysis – CT (2)

	Yes
Has the Council completed the Single Status Process?	13
If Yes, when?	
If No, is it planned?	
Do you offer any of the following:-	
Council Tax	
Flexitime	17
If yes - No. of Staff involved	
Job-sharing	13
If yes - No. of Staff involved	
Home working	10
If yes - No. of Staff involved	
Mobile working	8
If yes - No. of Staff involved	
Condensed Hours	6
If yes - No. of Staff involved	
Reduced Hours	16
If yes - No. of Staff involved	
Term-time only	5
If yes - No. of Staff involved	
Annual Hours	3
If yes - No. of Staff involved	
Employment Break	8
If yes - No. of Staff involved	
Other	1
If yes - No. of Staff involved	
If Yes to Home Working	
Do you have appropriate IT arrangements in place to support home working?	14
Do you have formal policies & procedures (e.g. health & safety, IT, monitoring arrangements) in place to support this operating model?	14

Current Staffing Analysis – CT (3)

This analysis for CT services shows that from the responses returned that:-

- Single status has currently been implemented by 12 authorities with a further 4 planning to implement the agreement in the current year;
- Home-working has been adopted by 10 authorities and 14 authorities have appropriate IT arrangements & policies that support home-working; and
- Mobile working has been adopted by 8 authorities.

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Current Staffing Analysis – NDR (1)

Current Staffing																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
	ANG	**BG**	**BRI**	**CAE**	**CAR**	**CAM**	**CER**	**CON**	**DEN**	**FLI**	**GWY**	**MT**	**MON**	**NPT**	**NEW**	**PEM**	**POW**	**RCT**	**SWA**	**TOR**	**VOG**	**WRE**
Business Rates																						
Flexitime	Yes	Yes	yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
If yes - No. of Staff involved	20		all	All		4		3.6	All		All	1			2.5	6	2	All	6	2	2.5	0
Job-sharing	Yes	Yes	yes	Yes		Yes	Yes			Yes					Yes			Yes	Yes	Yes		Yes
If yes - No. of Staff involved	0			1		2									0			0	2	0		0
Home working	Yes	Yes	yes				Yes			Yes								Yes		Yes	Yes	
If yes - No. of Staff involved	1																	0		1	1	
Mobile working	Yes	Yes						Yes	Yes	Yes								Yes		Yes		
If yes - No. of Staff involved	0							0.5	2									0		0		
Condensed Hours	Yes	Yes					Yes			Yes								Yes		Yes		Yes
If yes - No. of Staff involved	0																	0		0		0
Reduced Hours	Yes	Yes	yes	Yes			Yes	Yes	Yes	Yes					Yes			Yes		Yes		Yes
If yes - No. of Staff involved	0							1	0						0			0		0		0
Term-time only	Yes	Yes					Yes			Yes								Yes				Yes
If yes - No. of Staff involved	0																	0				1
Annual Hours	Yes	Yes								Yes								Yes				Yes
If yes - No. of Staff involved	0																	0				0
Employment Break	No	Yes	yes	Yes			Yes		Yes											Yes		Yes
If yes - No. of Staff involved				0					0											0		0
Other		Yes							Yes													
If yes - No. of Staff involved									0													
If Yes to Home Working																						
Do you have appropriate IT arrangements in place to support home working?	Yes	Yes	Yes	Yes			Yes			yes							Yes	Yes		Yes	Yes	
Do you have formal policies & procedures (e.g. health & safety, IT, monitoring arrangements) in place to support this operating model?	Yes	Yes	Yes	Yes			Yes			yes							Yes	Yes		Yes	Yes	

Current Staffing Analysis – NDR (2)

	Yes
Business Rates	
Flexitime	17
If yes - No. of Staff involved	
Job-sharing	10
If yes - No. of Staff involved	
Home working	6
If yes - No. of Staff involved	
Mobile working	5
If yes - No. of Staff involved	
Condensed Hours	5
If yes - No. of Staff involved	
Reduced Hours	10
If yes - No. of Staff involved	
Term-time only	4
If yes - No. of Staff involved	
Annual Hours	3
If yes - No. of Staff involved	
Employment Break	6
If yes - No. of Staff involved	
Other	1
If yes - No. of Staff involved	
If Yes to Home Working	
Do you have appropriate IT arrangements in place to support home working?	10
Do you have formal policies & procedures (e.g. health & safety, IT, monitoring arrangements) in place to support this operating model?	10

Current Staffing Analysis – NDR (3)

This analysis for NDR services shows that from the responses returned that:-

- Home-working has been adopted by 6 authorities and 10 authorities have appropriate IT arrangements & policies that support home-working; and
- Mobile working has been adopted by 5 authorities.

Current Staffing Analysis – Generic Working (1)

Current Staffing																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
Do you have Generic work teams																						
Council Tax/NNDR	Yes	Yes	Partial	Partial	Partial		Yes		Yes	Partial	Yes					Partial		Partial		Yes	Yes	Partial
Council Tax/Benefits									Partial							Partial						
Benefits/NNDR																						
Other		Yes							Yes													
If Council Tax/NNDR generic work teams does their scope include Recovery?	Yes	Yes	Yes	Partial	Yes		Yes		Yes	Yes						Partial		Yes		Yes	Yes	
Do you have Generic workers																						
Council Tax/NNDR	Yes	Yes	Partial	Partial	Partial	Partial	Yes		Yes	Yes	Partial	Partial			Partial	Partial		Partial		Yes	Yes	
Council Tax/Benefits									Partial							Partial					Yes	
Benefits/NNDR																					Yes	
Other		Yes																				
If Council Tax/NNDR generic workers does their scope include Recovery?	Yes	Yes	Yes	Partial	Yes	Partial	Yes		Yes	Yes						Partial		Yes		Yes	Yes	

Current Staffing Analysis – Generic Working (2)

	Yes	Partial
Do you have Generic work teams		
Council Tax/NNDR	4	7
Council Tax/Benefits	0	2
Benefits/NNDR	0	0
Other	0	0
If Council Tax/NNDR generic work teams does their scope include Recovery?	6	2
Do you have Generic workers		0
Council Tax/NNDR	4	9
Council Tax/Benefits	1	2
Benefits/NNDR	1	0
Other		0
If Council Tax/NNDR generic workers does their scope include Recovery?	7	3

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Current Staffing Analysis – Generic Working (3)

This analysis shows that:-

- Generic work teams covering CT and NDR have been implemented either wholly (4) or partially (7) at 11 of the local authorities;
- Of these teams 8 of them have a scope of responsibility that includes recovery tasks;
- Generic workers covering CT and NDR are in place either wholly (4) or partially (9) at 13 local authorities; and
- Of these generic workers 10 have a scope of responsibility that includes recovery.

Current Staffing Analysis – Performance Management (1)

Current Staffing																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
Performance Management																						
Do you operate a formal Performance Management Infrastructure(PMI) to measure & monitor staff performance against targets on a daily/weekly/monthly basis?		Yes	Yes		yes			Yes		Yes						Yes		Yes	Yes	Yes		Yes
If Yes, frequency of monitoring		Collection performance reported quarterly to scrutiny committee.	monthly		monthly			Monthly		Monthly						Weekly, monthly		Daily, weekly, monthly	Monthly	Monthly		Monthly monitoring; Quarterly reports to Council
If yes, do you use a Performance Management software package to monitor performance?		Yes																Yes		Yes		Yes

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Current Staffing Analysis – Performance Management (2)

Performance Management		
Do you operate a formal Performance Management Infrastructure(PMI) to measure & monitor staff performance against targets on a daily/weekly/monthly basis?	10	
If Yes, frequency of monitoring		
If yes, do you use a Performance Management software package to monitor performance?	4	

Current Staffing Analysis – Performance Management (3)

This analysis shows that 10 local authorities operate a formal performance management infrastructure to (proactively) measure staff performance against targets.

Of those, 4 use a performance management software package to monitor performance.

These findings relating to current performance management practices would appear to show that, from our experience of other revenue service operations elsewhere in the UK, there is less focus on performance management amongst a number of these Welsh revenue services than we have encountered elsewhere.

Current ICT Analysis

This analysis has been undertaken using the data supplied in response to the CIPFA *Questionnaire 1*, which requested information for CT and NDR relating to the current ICT infrastructure including:-

- Current suppliers of core IT systems for CT & NDR;
- Current suppliers (if any) of DIP, workflow, cash receipting, CRM & financial management systems; and
- E-services adoption.

We have used the following abbreviated I.T. supplier names in this and other analysis tables:-

- NIS = Northgate/SX3;
- CAP = Capita/Academy; and
- CIV = Civica/OPENRevenues.

We have also incorporated the regional footprint groupings in this analysis.

The summarised analysis of this data relating to the current ICT infrastructure at the various CT and NDR services is shown in the following slides. ***NB rather than replicate the analysis tables for NDR systems, only Swansea currently has a different NDR system supplier (Capita) to their CT system supplier (Northgate).***

The outputs from this analysis will be used later in the report to help to inform the consideration of future operating models for revenue services, and whether any current ICT investments and synergies can form the basis for potential future collaborations.

Current ICT Analysis - Current ICT Systems

ICT Systems																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
Local Authority>>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
Main System Suppliers																						
Council Tax	NIS	NIS	NIS	CAP	NIS	NIS	CAP	CAP	CAP	CIV	CAP	NIS	NIS	CAP	CAP	NIS	NIS	CAP	NIS	NIS	CAP	NIS
Recent Change?																						
Future Change?												Yes					?					
I.T Provision	Central	Own	Central	Central	Central	Central	Central	Outsourced	Central	Own	Own	Own	Local	Own	Central	Central	Own	Own	Outsourced	Own	Own	Own
Business Rates	NIS	NIS	NIS	CAP	NIS	NIS	CAP	CAP	CAP	CIV	CAP	NIS	NIS	CAP	CAP	NIS	NIS	CAP	CAP	NIS	CAP	NIS
Recent Change?																						
Future Change?																	?		Yes			
I.T Provision	Central	Central	Central	Own	Own	Central	Central	Own	Central	Own	Own	Own	Central	Own	Central	Central	Own	Central	Outsourced	Own	Own	Central
DIP	n/a	CIV	Anite	IDOX	CIV	NIS	CIV	NIS	CIV	CIV	Open Text	Anite			NIS	NIS	CIV	Anite	CIV	NIS	Open Text	CIV
Recent Change?																						
Future Change?																						
Workflow	n/a	CIV	Anite	IDOX	CIV		CIV	NIS	CIV	CIV	Open Text				NIS	NIS	CIV	Anite	CIV	NIS	Open Text	CIV
Recent Change?																						
Future Change?																						
Cash Receipting	CAP	CAP		Unit 4	CAP	CIV	CAP	In house	CAP	CIV	CAP	CAP			CAP	NIS	CAP	CIV	CIV	CIV	NIS	CIV
Recent Change?																						Yes - hosted
Future Change?					Yes	Possibly						Yes					?				Possibly	
CRM	n/a	Mittel		NIS		In-house				In House	Siebel				Oracle	Belfast		Lagan	Cardiff		Oracle	Belfast
Recent Change?																						
Future Change?												Yes										Yes
Financial Management	NIS	CIV		COA	SAP	Agresso	CIV	Masterpiece	NIS	Masterpiece	COA	Agresso			Oracle	IN4	Efinancials	CIV	Oracle	CIV	Oracle	Masterpiece
Recent Change?																						
Future Change?	Yes				Yes																	

CIPFA performance in public services

cipfa.org.uk

Current ICT Analysis – CT & NDR ICT Suppliers

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ICT Suppliers Sorted By LA

LA	C Tax I.T. Supplier	Regional Footprint
Anglesey	NIS	NW
Blaenau Gwent	NIS	GWT
Bridgend	NIS	WBAY
Caerphilly	CAP	GWT
Cardiff	NIS	C&V
Carmarthenshire	NIS	M&W
Ceredigion	CAP	M&W
Conwy	CAP	NW
Denbighshire	CAP	NW
Flintshire	CIV	NW
Gwynedd	CAP	NW
Merthyr Tydfil	NIS	CTAF
Monmouthshire	NIS	GWT
Neath Port Talbot	CAP	WBAY
Newport	CAP	GWT
Pembrokeshire	NIS	M&W
Powys	NIS	M&W
Rhondda Cynon Taf	CAP	CTAF
Swansea	NIS	WBAY
Torfaen	NIS	GWT
Vale of Glamorgan	CAP	C&V
Wrexham	NIS	NW

ICT Suppliers Sorted By Suppliers

LA	C Tax I.T. Supplier	Regional Footprint
Vale of Glamorgan	CAP	C&V
Rhondda Cynon Taf	CAP	CTAF
Caerphilly	CAP	GWT
Newport	CAP	GWT
Ceredigion	CAP	M&W
Conwy	CAP	NW
Denbighshire	CAP	NW
Gwynedd	CAP	NW
Neath Port Talbot	CAP	WBAY
Flintshire	CIV	NW
Cardiff	NIS	C&V
Merthyr Tydfil	NIS	CTAF
Blaenau Gwent	NIS	GWT
Monmouthshire	NIS	GWT
Torfaen	NIS	GWT
Carmarthenshire	NIS	M&W
Pembrokeshire	NIS	M&W
Powys	NIS	M&W
Anglesey	NIS	NW
Wrexham	NIS	NW
Bridgend	NIS	WBAY
Swansea	NIS	WBAY

Current ICT Analysis – CT & NDR ICT Suppliers sorted by Regional Footprint

LA	C Tax I.T. Supplier	Regional Footprint
Vale of Glamorgan	CAP	C&V
Cardiff	NIS	C&V
Rhondda Cynon Taf	CAP	CTAF
Merthyr Tydfil	NIS	CTAF
Caerphilly	CAP	GWT
Newport	CAP	GWT
Blaenau Gwent	NIS	GWT
Monmouthshire	NIS	GWT
Torfaen	NIS	GWT
Ceredigion	CAP	M&W
Carmarthenshire	NIS	M&W
Pembrokeshire	NIS	M&W
Powys	NIS	M&W
Conwy	CAP	NW
Denbighshire	CAP	NW
Gwynedd	CAP	NW
Flintshire	CIV	NW
Anglesey	NIS	NW
Wrexham	NIS	NW
Neath Port Talbot	CAP	WBAY
Bridgend	NIS	WBAY
Swansea	NIS	WBAY

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Current ICT Analysis - Current ICT Systems (1)

In this part of the overall analysis of your current ICT infrastructure across the 22 revenue services, we have been identifying the common suppliers for your various core and support ICT systems and colour coding these for ease of visual analysis.

The **core CT and NDR system suppliers** are composed of:-

- Northgate – 12 sites;
- Capita – 9 sites; and
- Civica – 1 site.

The Civica site is Flintshire in the North Wales Regional Footprint (RF) Group, with no RF Group area showing any total dominance by either Northgate or Capita. The questionnaire responses also seemed to indicate that there are no imminent plans (other than Merthyr Tydfil) to change suppliers.

This analysis also indicates a mixture of ICT revenues systems delivery being undertaken at both local and central level, with Swansea having an IT outsourcing contract for both CT and NDR systems and Conway having outsourced their CT system delivery.

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Current ICT Analysis - Current ICT Systems (2)

We also note that the cost analysis (see Section 3) does not appear to show any particular correlation between CT/ NDR system usage and gross cost of service/ property or hereditament.

The combined (current + previous years) collection performance analysis (Section 3) for CT does appear to show a cluster of bottom quartile (albeit some with high levels of deprivation) authorities that use the Northgate system.

We have been analysing the public domain CT/ NDR collection performance data (from the ODPM/ CLG) for some time and have been applying the system supplier details alongside the ranked performance and it does not appear to show any particular correlation, with each of the suppliers Northgate, Capita & Civica represented in the top ten CT collection performers in England for 2010-11.

We will consider current ICT systems synergies and the potential opportunities for any future collaborations later in the service options section of this report and also identify any common ICT usage in the evaluation of current (external) revenues partnerships.

Current ICT Analysis - Current ICT Systems (3)

The next layer of ICT systems that we have analysed are the DIP & workflow systems. These systems are composed of :-

Supplier	DIP	Workflow	Users
Civica	8	8	BG,CAR,CER,DEN,FLI,POW,SWA,WRE
IDOX	1	0	CAE
Northgate	5	3 (CAM DIP Only)	CAM,CON,NEW,TOR,PEM
Open Text	2	2	GWY,VOG
Anite	3	2 (MT DIP only)	MT, BRI & RCT

We will consider the use of DIP and workflow technologies as key enablers for ‘virtual’ shared services/ collaborative processing in the service options part of this report and also discuss market trends involving DIP/ workflow later in this report.

Current ICT Analysis - Current level of e-Services (1)

ICT Systems																						
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17
Local Authority>>>>	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE
e-Services																						
Do you provide Internet access to the public for any of the following:-																						
On-line Application Forms					Yes	Yes	Yes	Yes	Yes	Yes	Yes				Yes	Yes	Yes	Yes	Yes	Yes		
Change of Circumstances Forms					Yes			Yes	Yes	Yes	Yes	Yes			Yes		Yes	Yes	Yes	Yes		
Accessing claims details						Yes	Yes			Yes										Yes	Yes	
Downloading Leaflets		Yes			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes				Yes	Yes	Yes	Yes	Yes		Yes
Notification Forms		Yes				Yes		Yes		Yes	Yes	Yes				Yes	Yes	Yes	Yes	Yes		
Change of Address Forms		Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Account details		Yes					Yes			Yes							due May 12			Yes	Yes	
Downloading Leaflets		Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes				Yes	Yes	Yes	Yes	Yes		Yes
Making payments	Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Have you introduced e-billing?																						
Council Tax								Yes	Yes		Yes										Yes	
%age take-up								3.30%	0.01%												Minimal	
Business Rates											Yes										Yes	
%age take-up																					Minimal	

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Current ICT Analysis - Current level of e-Services (2)

This aspect of the ICT analysis has looked at the responses provided in the CIPFA *Questionnaire 1* around the provision of e-services for revenue services customers.

The responses show that there is already a fairly widespread provision of various levels of e-service provision for revenues services customers across the Welsh authorities.

Whilst it has not been a comprehensive 'survey' we have also looked at a number of the council web-sites to understand the degree of maturity of the current e-services for revenues services and note a range of formats from Microsoft Word & PDF documents that need to be completed, printed & returned through to comprehensive e-forms (e.g. Cardiff & Rhondda Cynon Taf).

We will discuss the use of e-services and e-forms and some emerging solutions for the automated validation and processing of these forms/data in the 'innovations' and latest trends in revenue services part of this report.

Best Practice Self-Assessment

This analysis has used the Greater Manchester (GM) Best Practice questionnaires format for CT and NDR services. The questionnaires were originally developed by the GM group of local authorities to compile a range of considered best practice questions for revenues services to be used a self-assessment checklist to assess practices and procedures in CT and NDR.

This GM Best Practice benchmarking methodology is similar in concept to the former DWP performance assessment used to 'score' housing benefit services under the Comprehensive Performance Assessment (CPA) regime.

The GM Best Practice questionnaires for CT and NDR contain over 200 detailed questions under a range of service topics such as:-

- Valuation;
- Billing; and
- Payment Methods through to recovery and also covering ICT, quality , e-government & data protection.

We have used this analysis to augment the other data-focused analyses and to provide us with an insight into the current best practice compliance of the various CT and NDR services. From experience of previous revenues service reviews, the best practice self-assessment can also be useful for subsequent inter-authority use in identifying potential exemplar 'best practice' examples as part of any 'learning from others' plans; we have highlighted the 'high' scoring service elements in the following tables.

The summarised best practice scorecards for CT and NDR services are shown in the following slides.

Best Practice self-assessment – CT (1)

Questionnaire 2 Council Tax Best Practice All Authority Summarised Score																									
Topic/Business Area	Summarised Score																								
	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE	Average	High	Low
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW			
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17			
Compilation /Maintenance of the Valuation List.	63%	73%	97%	87%	60%	80%	80%	80%	83%	87%	80%	70%			63%		70%	87%	100%	97%	80%	77%	80%	100%	60%
Billing	57%	63%	59%	61%	61%	65%	83%	83%	70%	78%	65%	80%			52%		52%	67%	83%	74%	74%	57%	68%	83%	52%
Payment Methods	81%	81%	90%	84%	97%	84%	84%	74%	81%	87%	61%	90%			94%		90%	87%	87%	71%	90%	94%	85%	97%	61%
Maintenance of Accounts	64%	100%	100%	73%	91%	100%	73%	77%	100%	100%	100%	91%			100%		73%	100%	100%	100%	100%	73%	90%	100%	64%
Reductions, Reliefs, Exemptions	50%	100%	93%	86%	71%	93%	64%	100%	100%	100%	100%	64%			57%		86%	93%	100%	93%	79%	71%	84%	100%	50%
Benefit System Links	43%	71%	50%	64%	43%	64%	57%	100%	100%	50%	79%	57%			79%		71%	79%	57%	93%	64%	57%	67%	100%	43%
Anti-poverty	25%	92%	50%	50%	75%	58%	0%	83%	92%	100%	83%	50%			75%		67%	75%	83%	50%	33%	33%	62%	100%	0%
Pre Liability Order Recovery	10%	60%	75%	70%	63%	85%	28%	35%	85%	75%	70%	40%			40%		45%	100%	85%	58%	55%	70%	60%	100%	10%
Post Liability Order Recovery	42%	58%	75%	67%	75%	67%	42%	58%	83%	67%	67%	58%			67%		67%	67%	67%	67%	50%	67%	64%	83%	42%
Bailiff and External Agency Recovery (unless stated refers to both internal and external bailiffs)	49%	57%	81%	79%	79%	83%	29%	65%	86%	83%	94%	53%			56%		83%	92%	83%	60%	51%	72%	70%	94%	29%
Committals	0%	69%	81%	69%	92%	0%	15%	73%	92%	77%	77%	69%			62%		81%	96%	92%	81%	73%	58%	66%	96%	0%
Write Offs	43%	57%	79%	100%	100%	86%	86%	100%	100%	79%	100%	86%			43%		71%	93%	100%	43%	86%	93%	81%	100%	43%
Customer Care	25%	48%	62%	72%	61%	65%	32%	48%	74%	65%	55%	41%			47%		47%	76%	75%	85%	34%	61%	57%	85%	25%
Inspections	43%	77%	77%	73%	57%	63%	53%	87%	93%	77%	80%	55%			67%		62%	87%	80%	87%	50%	53%	69%	93%	43%
Staff	54%	84%	82%	66%	75%	82%	34%	75%	91%	68%	68%	64%			68%		79%	86%	100%	86%	75%	86%	75%	100%	34%
Quality	25%	55%	50%	35%	50%	50%	40%	45%	65%	40%	30%	40%			20%		50%	50%	60%	30%	30%	95%	45%	95%	20%
Appeals (Under Section 16)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%			100%		100%	100%	100%	100%	100%	100%	100%	100%	100%
Systems	75%	79%	90%	90%	94%	83%	90%	87%	92%	100%	100%	96%			73%		83%	94%	100%	92%	77%	90%	89%	100%	73%
e-Government	50%	57%	68%	53%	64%	75%	64%	68%	64%	67%	50%	50%			50%		50%	57%	57%	57%	79%	46%	59%	79%	46%
Data Protection	100%	67%	67%	100%	100%	100%	33%	67%	100%	100%	100%	100%			100%		67%	100%	100%	100%	100%	100%	89%	100%	33%
TOTAL	46%	68%	76%	74%	74%	71%	53%	72%	84%	77%	74%	66%			62%		68%	84%	83%	74%	66%	70%	71%	84%	46%

Best Practice self-assessment – CT (2) ranked summary score

Local Authority	%age Score	Regional Footprint Group
DEN	84.1%	NW
RCT	83.9%	CTAF
SWA	82.7%	WBAY
FLI	77.3%	NW
BRI	76.0%	WBAY
CAE	74.2%	GWT
TOR	74.2%	GWT
CAR	74.1%	C&V
GWY	73.6%	NW
CON	71.7%	NW
CAM	71.2%	M&W
WRE	70.5%	NW
BG	68.4%	GWT
PEM	68.4%	M&W
POW	67.6%	M&W
VOG	66.3%	C&V
MT	65.9%	CTAF
NEW	61.6%	GWT
CER	53.4%	M&W
ANG	46.1%	NW
MON	0.0%	GWT
NPT	0.0%	WBAY

Best Practice self-assessment – CT (3)

Like many best practice ‘checklists’ this best practice self-assessment is reflecting a measure of compliance to ‘good’ practices and procedures around business processes and business rules.

In an attempt to check the effectiveness of the key service deliverable of collection performance against ranked best practice scores, we have also undertaken an analysis of the potential effectiveness (“achieving desired results”) of these processes and practices by including the CT collection performance (and later the NDR analysis) outcomes to test any correlation between the two measures.

This combined analysis is shown in the tables in the following slides.

One observation from the analysis is that Denbighshire appears to be undertaking the CT service in both a compliant and (collection) effective manner.

Best Practice self-assessment – CT (4) Best Practice Compliance vs. Effectiveness in Collection

Local Authority	%age Score	Regional Footprint Group	In-year Collection	BP Rank	Ct in-year Colln. Rank	Ct Combined Colln. Rank
DEN	84.1%	NW	98.2%	1	1	1
RCT	83.9%	CTAF	96.9%	2	10	6
SWA	82.7%	WBAY	96.0%	3	17	20
FLI	77.3%	NW	97.5%	4	4	2
BRI	76.0%	WBAY	96.5%	5	15	18
CAE	74.2%	GWT	95.8%	6	18	14
TOR	74.2%	GWT	97.1%	6	7	9
CAR	74.1%	C&V	94.5%	8	22	11
GWY	73.6%	NW	96.7%	9	14	5
CON	71.7%	NW	96.9%	10	10	8
CAM	71.2%	M&W	97.6%	11	2	19
WRE	70.5%	NW	96.9%	12	10	16
BG	68.4%	GWT	95.4%	13	20	22
PEM	68.4%	M&W	97.6%	13	2	4
POW	67.6%	M&W	97.3%	15	5	7
VOG	66.3%	C&V	97.1%	16	7	3
MT	65.9%	CTAF	95.3%	17	21	13
NEW	61.6%	GWT	95.7%	18	19	9
CER	53.4%	M&W	96.8%	19	13	15
ANG	46.1%	NW	96.4%	20	16	17
MON	0.0%	GWT	97.0%		9	21
NPT	0.0%	WBAY	97.2%		6	12

Best Practice self-assessment – NDR (1)

Questionnaire 3 NDR Best Practice All LAs Summarised Score																									
Area	Summarised Score																								
Regional Footprint Group	NW	GWT	WBAY	GWT	C&V	M&W	M&W	NW	NW	NW	NW	CTAF	GWT	WBAY	GWT	M&W	M&W	CTAF	WBAY	GWT	C&V	NW			
Welsh Index of Multiple Deprivation Index - Income Related	14	1	12	5	9	11	20	13	10	19	16	2	22	3	6	15	21	4	7	8	18	17			
	ANG	BG	BRI	CAE	CAR	CAM	CER	CON	DEN	FLI	GWY	MT	MON	NPT	NEW	PEM	POW	RCT	SWA	TOR	VOG	WRE	Average	High	Low
Compilation /Maintenance of the Valuation List.	81%	100%	100%	94%	88%	100%	63%	100%	100%	100%	100%	100%			81%	75%	88%	100%	100%	94%	100%	100%	93%	100%	63%
Billing	70%	75%	70%	60%	85%	55%	80%	70%	75%	90%	90%	90%			60%	85%	65%	90%	60%	85%	70%	75%	75%	90%	55%
Maintenance of Accounts	67%	92%	92%	75%	67%	100%	58%	67%	100%	100%	100%	100%			83%	100%	75%	100%	100%	83%	67%	100%	86%	100%	58%
Reductions, Reliefs, Exemptions	50%	100%	83%	50%	50%	67%	33%	67%	100%	83%	100%	100%			100%	83%	50%	100%	67%	67%	67%	100%	76%	100%	33%
Refunds/Interest	40%	80%	80%	70%	70%	100%	90%	80%	100%	100%	100%	90%			60%	100%	60%	90%	100%	70%	100%	80%	83%	100%	40%
Pre Liability Order Recovery	59%	68%	82%	68%	86%	91%	50%	36%	91%	91%	82%	64%			45%	68%	82%	91%	91%	55%	59%	68%	71%	91%	36%
Post Liability Order Recovery	25%	92%	83%	83%	58%	83%	50%	58%	83%	100%	100%	100%			100%	75%	75%	83%	100%	83%	100%	75%	80%	100%	25%
Bailiff and External Agency Recovery	58%	77%	81%	85%	96%	77%	62%	65%	88%	100%	100%	69%			62%	73%	81%	65%	85%	73%	77%	77%	78%	100%	58%
Committals	0%	71%	62%	100%	100%	12%	6%	85%	88%	85%	76%	59%			59%	74%	85%	76%	100%	79%	94%	74%	69%	100%	0%
Write Offs	60%	80%	70%	84%	100%	100%	80%	90%	100%	100%	100%	100%			40%	70%	100%	100%	100%	80%	100%	80%	87%	100%	40%
Customer Care	21%	66%	66%	72%	61%	76%	29%	42%	76%	82%	63%	50%			32%	71%	50%	95%	74%	89%	26%	84%	61%	95%	21%
Inspections.	63%	97%	78%	69%	72%	91%	72%	91%	97%	78%	81%	41%			75%	41%	59%	81%	88%	75%	69%	81%	75%	97%	41%
Staff	75%	94%	75%	89%	69%	75%	63%	88%	81%	81%	63%	63%			75%	100%	75%	88%	100%	81%	88%	81%	80%	100%	63%
Information Technology	65%	83%	87%	100%	89%	72%	80%	78%	89%	96%	85%	87%			70%	70%	74%	89%	89%	91%	74%	81%	83%	100%	65%
Data Protection	100%	100%	50%	25%	100%	100%	50%	50%	100%	100%	100%	50%			100%	100%	100%	100%	100%	100%	100%	100%	86%	100%	25%
Anti-poverty	17%	83%	33%	100%	75%	50%	0%	83%	100%	100%	67%	58%			67%	33%	50%	58%	83%	50%	33%	33%	59%	100%	0%
Quality	17%	83%	50%	25%	33%	33%	25%	33%	75%	67%	17%	50%			0%	50%	33%	50%	50%	17%	0%	50%	38%	83%	0%
Management Information	100%	100%	100%	80%	100%	100%	100%	100%	100%	100%	100%	100%			100%	100%	100%	100%	100%	100%	100%	100%	99%	100%	80%
TOTAL	**49%**	**82%**	**78%**	**80%**	**80%**	**82%**	**62%**	**71%**	**94%**	**91%**	**82%**	**72%**			**63%**	**72%**	**71%**	**87%**	**89%**	**78%**	**72%**	**79%**	**77%**	**94%**	**49%**

Best Practice self-assessment – NDR (2) ranked summary score

Local Authority	%age Score	Regional Footprint Group	In-year Collection	BP Ranking
DEN	93.8%	NW	98.7	1
FLI	90.8%	NW	98.94	2
SWA	89.1%	WBAY	96.58	3
RCT	87.0%	CTAF	97.08	4
CAM	82.3%	M&W	96.37	5
BG	82.1%	GWT	98.39	6
GWY	82.1%	NW	97.46	6
CAE	80.3%	GWT	96.1	8
CAR	79.8%	C&V	96.37	9
WRE	78.9%	NW	95.82	10
BRI	78.4%	WBAY	96.7	11
TOR	78.3%	GWT		12
VOG	72.1%	C&V	98.6	13
MT	71.7%	CTAF	98.2	14
PEM	71.7%	M&W	98.1	14
CON	71.1%	NW	98.67	16
POW	70.8%	M&W	98.1	17
NEW	63.0%	GWT	98.76	18
CER	61.6%	M&W	96.14	19
ANG	48.8%	NW	97.7	20
MON	0.0%	GWT	97.7	
NPT	0.0%	WBAY	98.2	

Best Practice self-assessment – NDR (3) Best Practice Compliance vs. Effectiveness in Collection

In an attempt to check the effectiveness of the key service deliverable of collection performance against ranked best practice scores we have also undertaken an analysis of the potential effectiveness ("achieving desired results") of these processes and practices by including the NDR collection performance outcomes to test any correlation between the two measures.

This combined analysis is shown in the table in the following slide.

One observation from this analysis is that Denbighshire and Flintshire both appear to be undertaking the NDR services in both a compliant and (collection) effective manner.

Best Practice self-assessment – NDR (4) Best Practice Compliance vs. Effectiveness in Collection

Local Authority	%age Score	Regional Footprint Group	In-year Collection	BP Ranking	Colln. Ranking
DEN	93.8%	NW	98.7	1	3
FLI	90.8%	NW	98.94	2	1
SWA	89.1%	WBAY	96.58	3	16
RCT	87.0%	CTAF	97.08	4	14
CAM	82.3%	M&W	96.37	5	17
BG	82.1%	GWT	98.39	6	6
GWY	82.1%	NW	97.46	6	13
CAE	80.3%	GWT	96.1	8	20
CAR	79.8%	C&V	96.37	9	18
WRE	78.9%	NW	95.82	10	21
BRI	78.4%	WBAY	96.7	11	15
TOR	78.3%	GWT		12	
VOG	72.1%	C&V	98.6	13	5
MT	71.7%	CTAF	98.2	14	7
PEM	71.7%	M&W	98.1	14	10
CON	71.1%	NW	98.67	16	4
POW	70.8%	M&W	98.1	17	9
NEW	63.0%	GWT	98.76	18	2
CER	61.6%	M&W	96.14	19	19
ANG	48.8%	NW	97.7	20	11
NPT	0.0%	WBAY	98.2		8
MON	0.0%	GWT	97.7		12

3. Performance of Revenues Services in Wales

Performance of Revenue Service in Wales (1)

This section of the report sets out an analysis of the comparative operational and financial performance of the 22 authorities in Wales that participated in the surveys.

This analysis covers both the CT and NDR functions:-

- Costs;
- Collection rates*;
- Customer Services; and
- Headcount.

The authority names have been anonymised to protect their identity (a key to identify the authorities is available).

The analysis also includes comparisons with the Wales average and England average (where known and if relevant).

The results of these comparisons are set out on the following slides.

* The Welsh Government headline data for the 2011/12 CT collection rates have been used in addition to the 2010/11 collection rates.

http://wales.gov.uk/topics/statistics/headlines/localgov2012/120613/?lang=en

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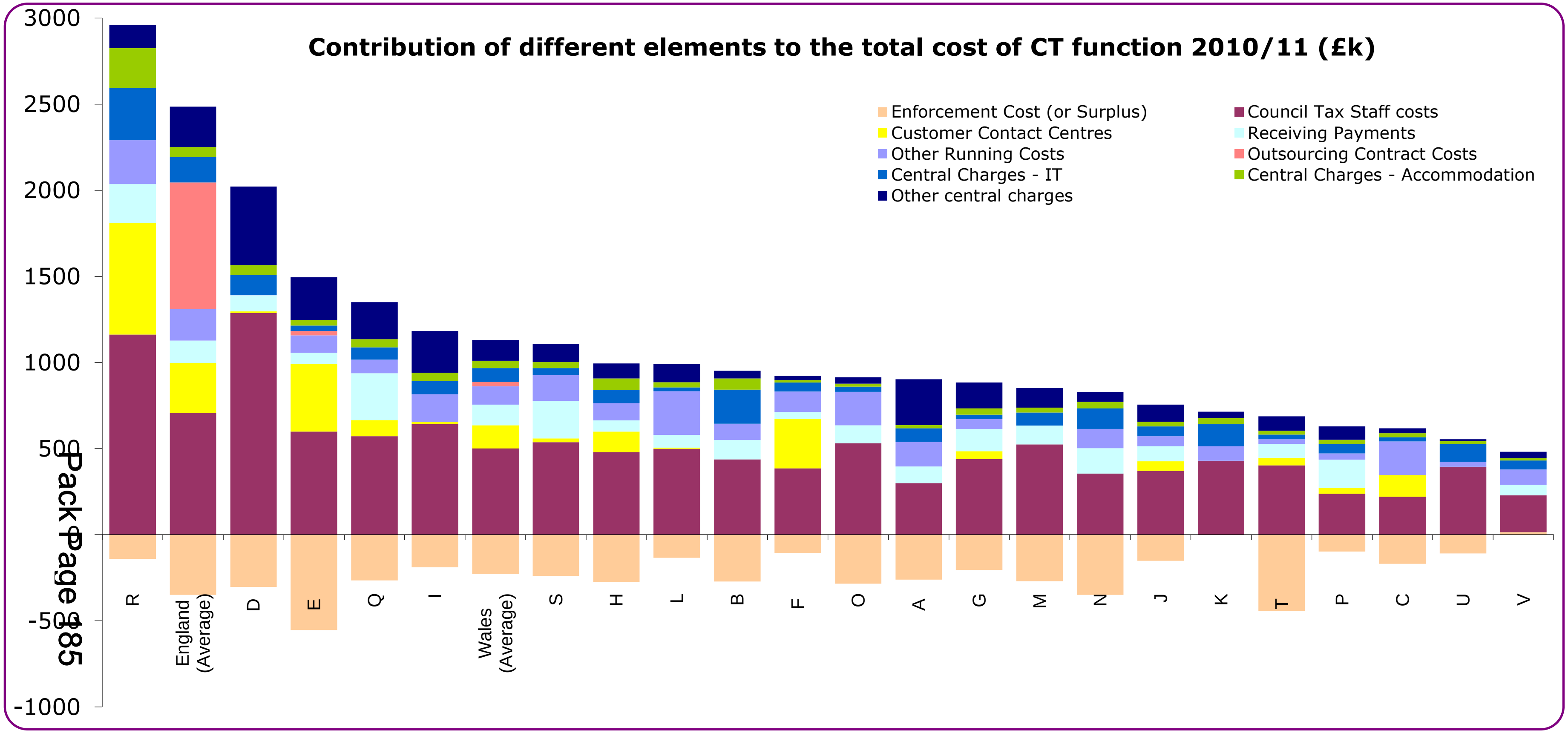
Performance of Revenue Service in Wales (2)

For the analysis of the CT collection performance we have undertaken a number of analyses including:-

- The analysis of the Wales in-year CT Collection performance (comparison of 2010-11 to 2011-12) includes the incorporation of WIMD rankings; this analysis provides an intra-Welsh authority comparative view of collection performance. We have used the data from the CIPFA benchmarking exercise as the basis for this analysis; and

- For the analysis of Wales in-year CT collection performance compared to the average collection performance from English local authorities with equivalent (UK - ONS) Deprivation Index (DI) rankings – we undertook this by ranking the highest to lowest DI ranked local authorities into 22 sub-groups to mirror the Welsh groupings; this analysis provides an analysis of collection performance within a wider 'UK' context.

As a result of feedback from the Project Group to the draft report we have also undertaken a subsequent 'off-line' analysis to identify if there is any correlation between the 4 LAs that have implemented Performance Management (PM) systems and exemplar performance (and costs). We have not included this analysis in this report, as the analysis does not identify a direct correlation across <u>all four</u> LAs and exemplar performance (and costs). From our experience elsewhere PM systems also require the adoption of a PM culture throughout the operation(s) to deliver the required outcomes.



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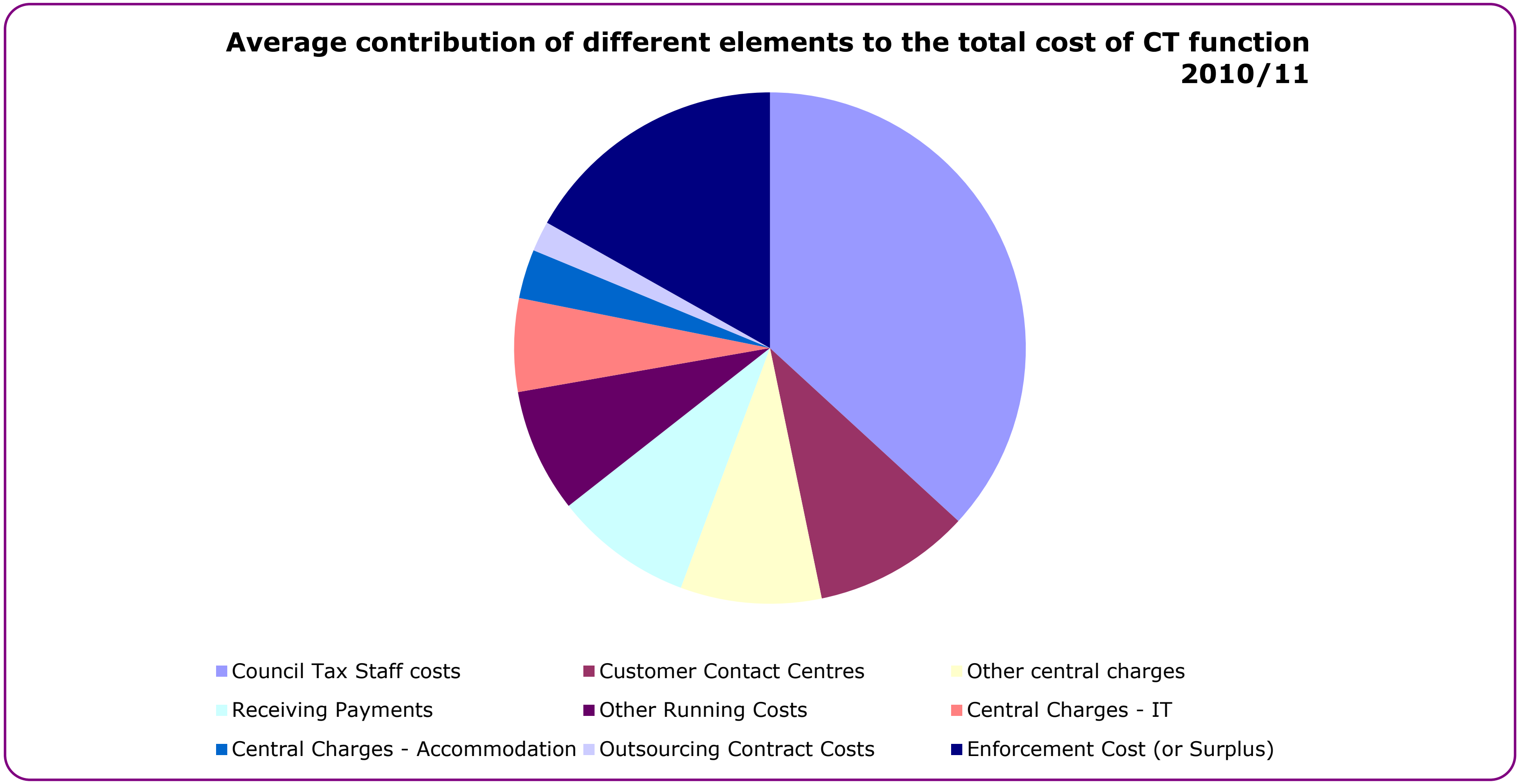
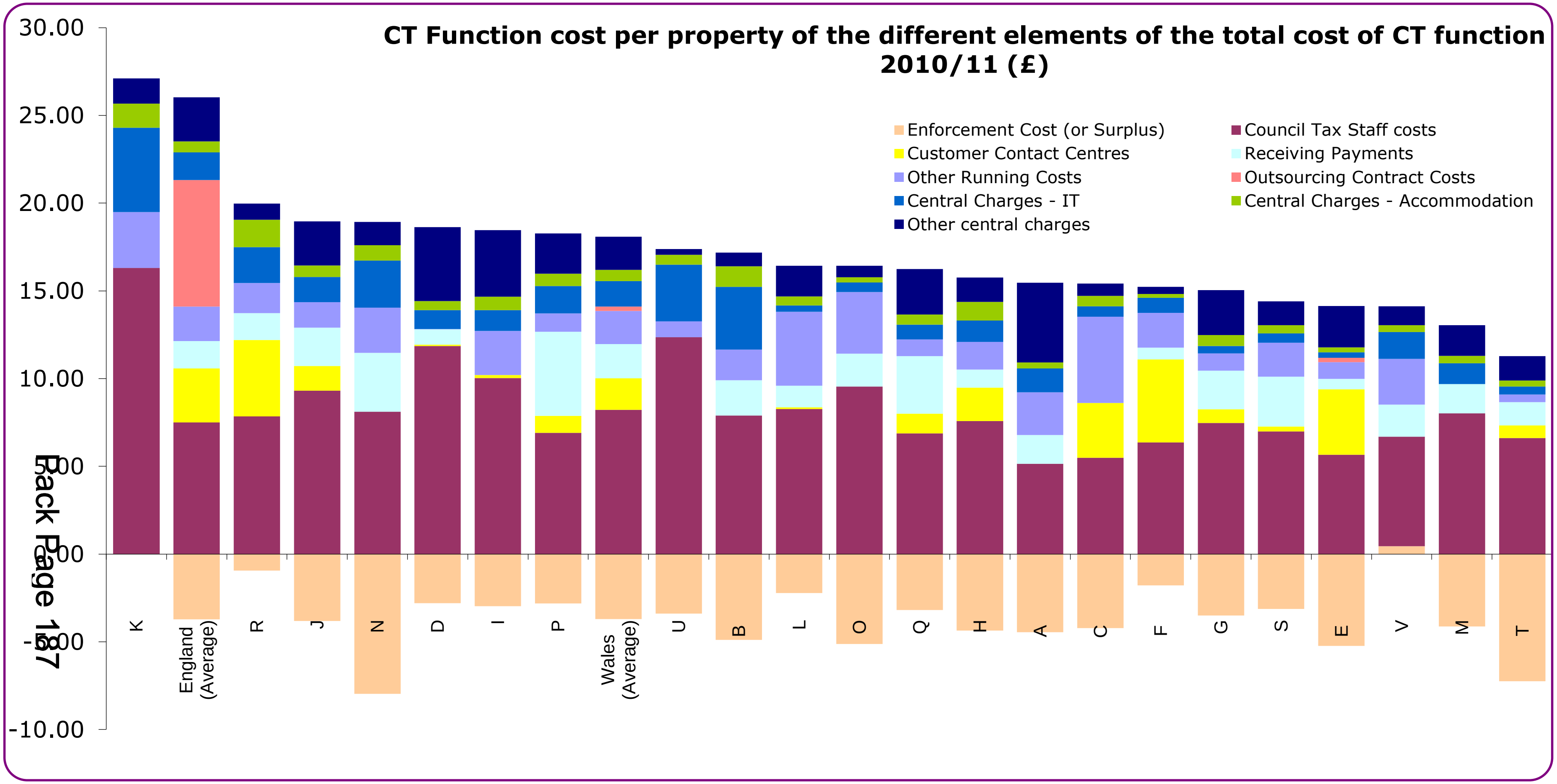
This graph illustrates the breakdown of the different elements of the cost of the CT function for the Wales authorities, together with the Wales and England averages. As would be expected, staff costs are the most significant element of the cost of the CT function for every authority. Wales authorities have minimal costs associated with outsourcing compared to a significant proportion of costs in England. Authority R has the highest total cost (£2,961k) compared to the lowest authority V (£466k).



CT staff costs are, as would be expected, the most significant element of the average cost of the CT function.



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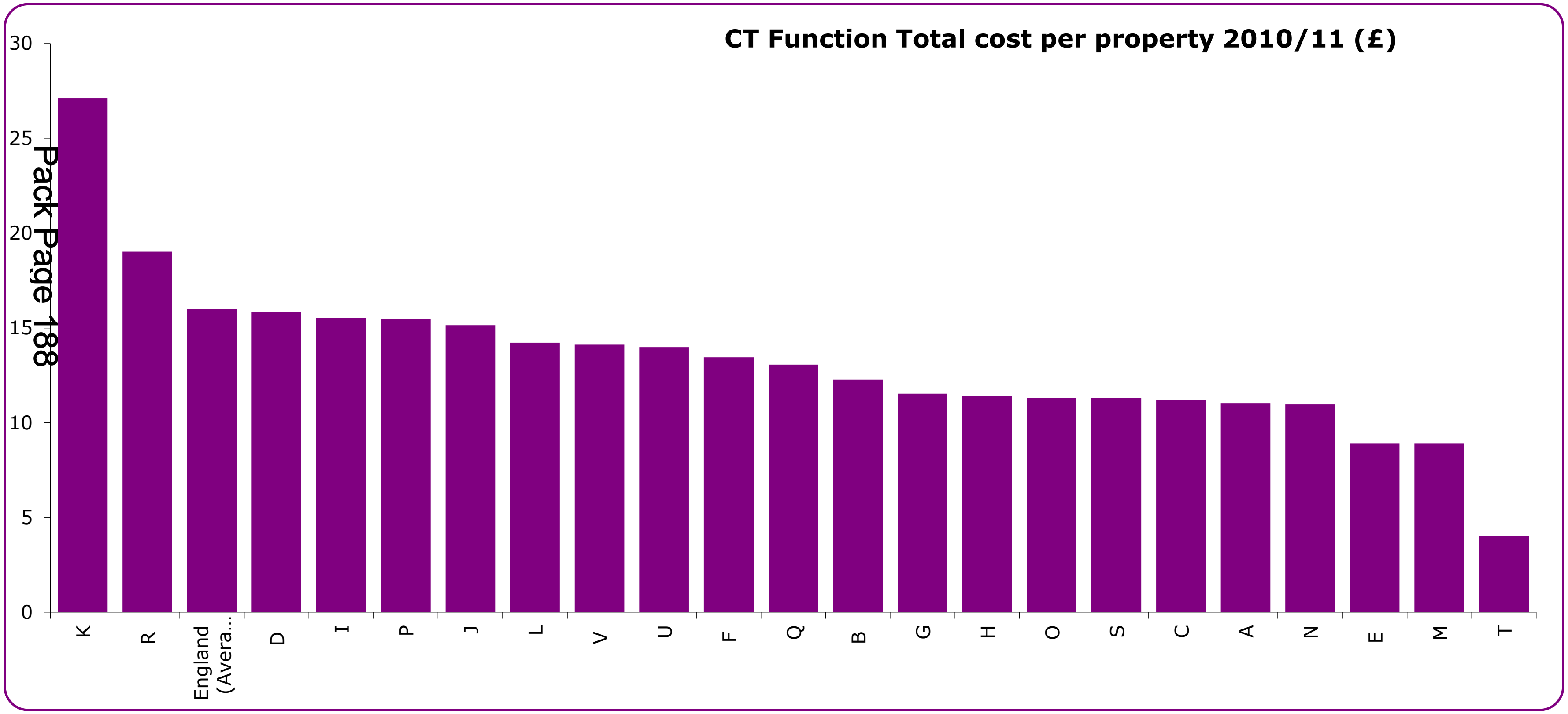
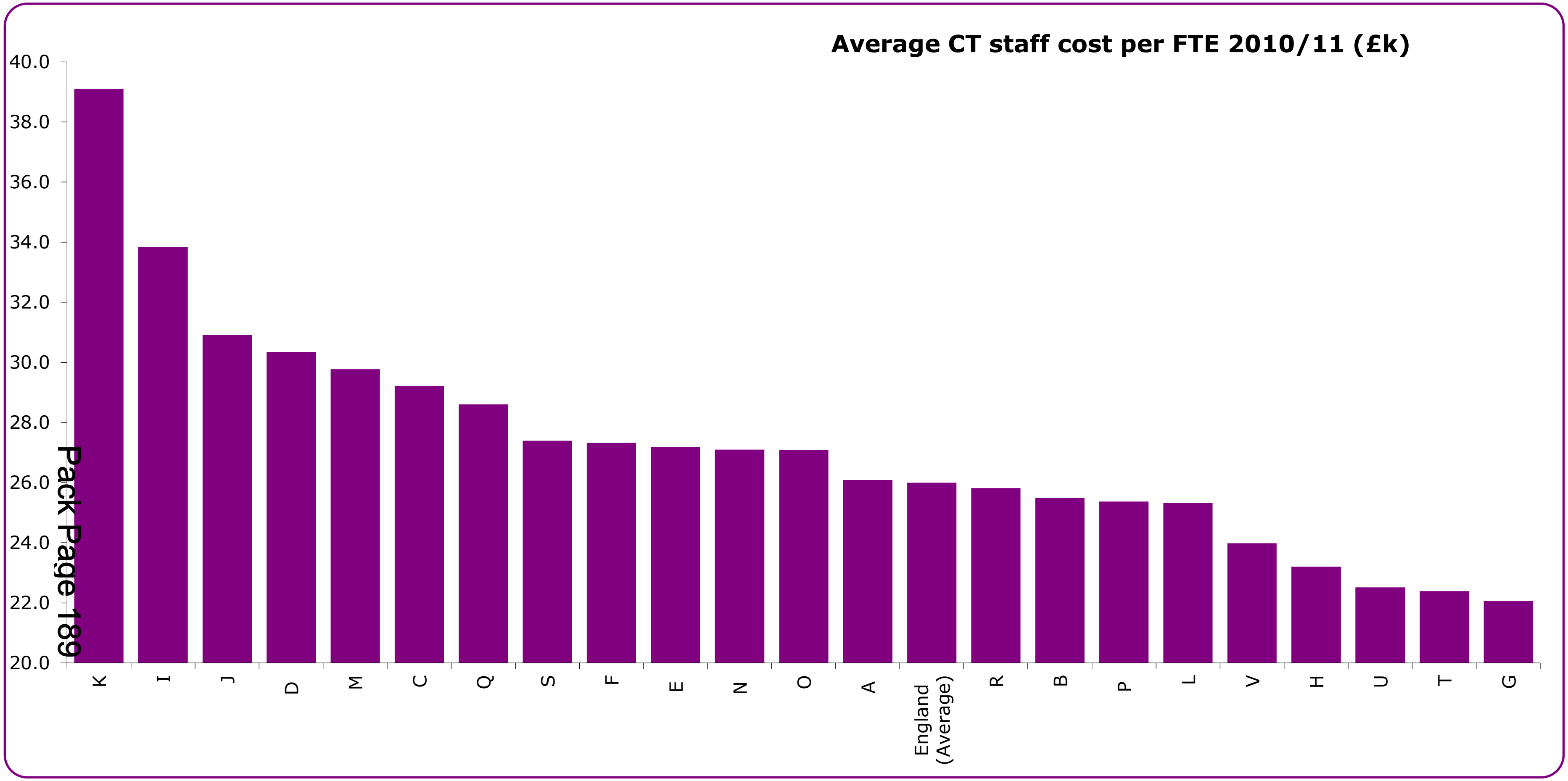
This graph illustrates the breakdown of the different elements of the cost of the CT function per property for the Wales authorities, together with the Wales and England averages.

cipfa.org.uk



Authority K has the highest CT function cost per property at £27, with authority T being the lowest at £4. Wales authorities compare favourably with the England average of £16 per property.



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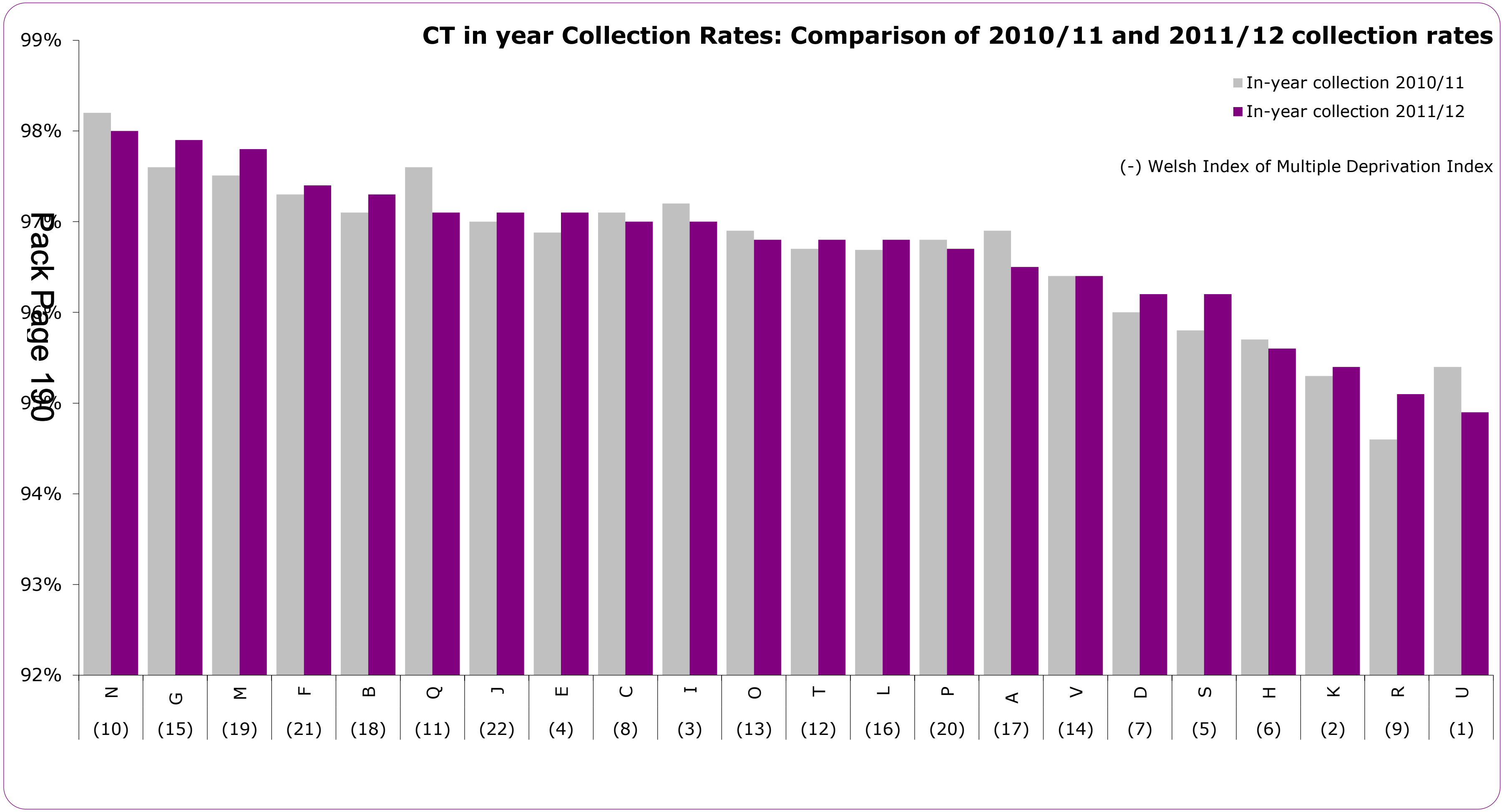
Authority K has the highest CT staff cost per FTE at £39.1k, with authority G being the lowest at £22.1k
Thirteen out of the twenty two Wales authorities have a higher cost than the England average of £26k.



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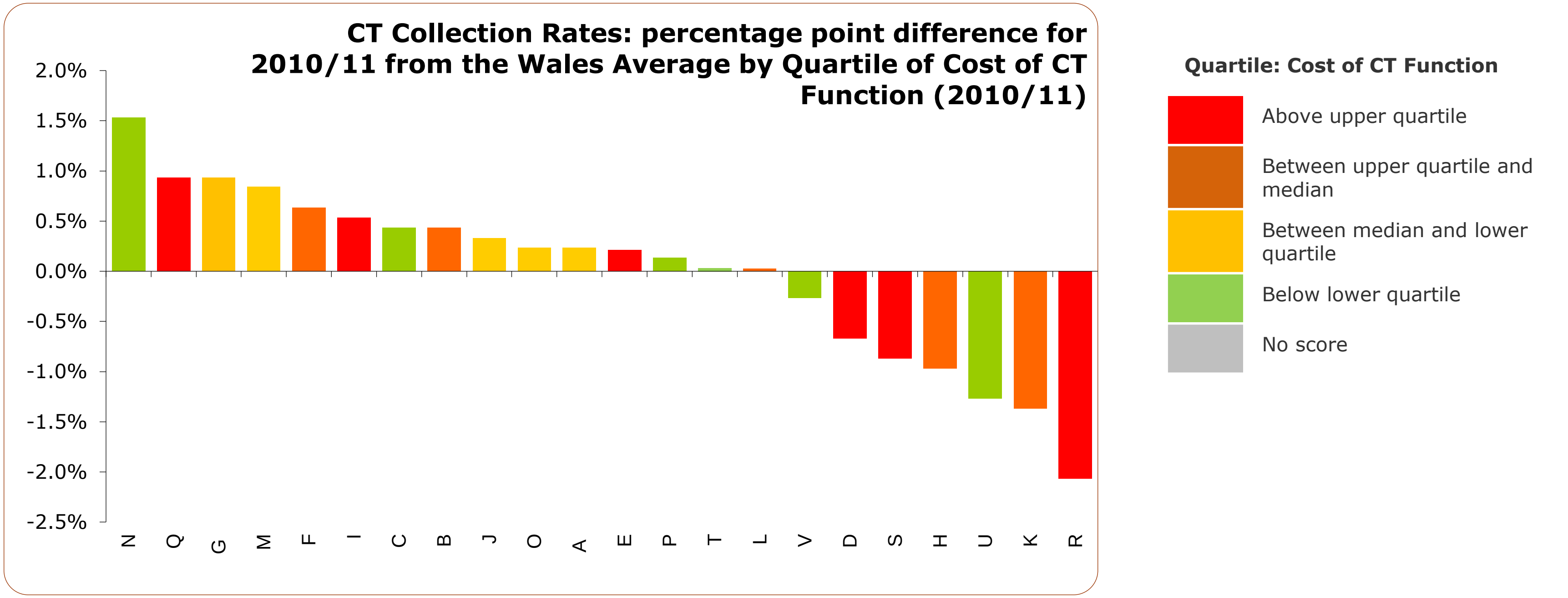
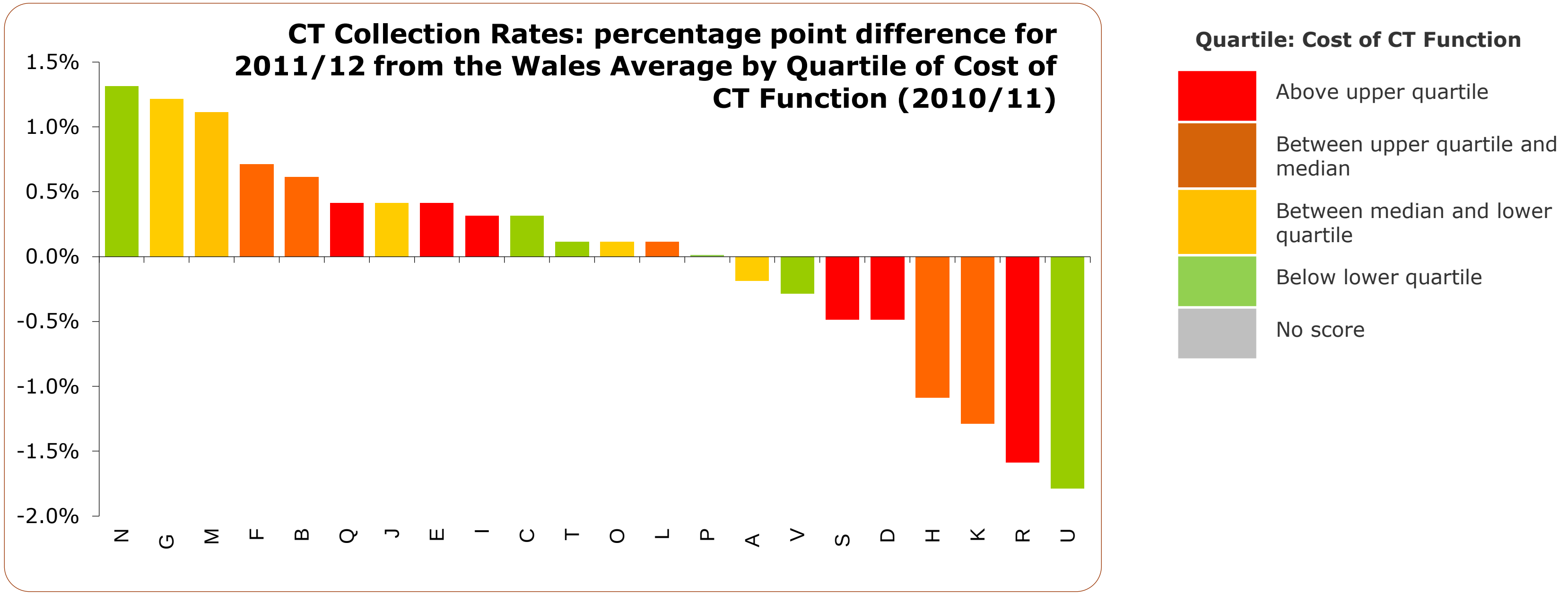
This analysis indicates amongst other things that some authorities such as authority E and authority I despite having relatively high levels of deprivation are able to achieve good collection performance



There is some indication that those authorities who have a higher in year collection rate compared to the Wales average have a lower CT function cost.

Authority N has the highest in year collection rate with authority R the lowest.

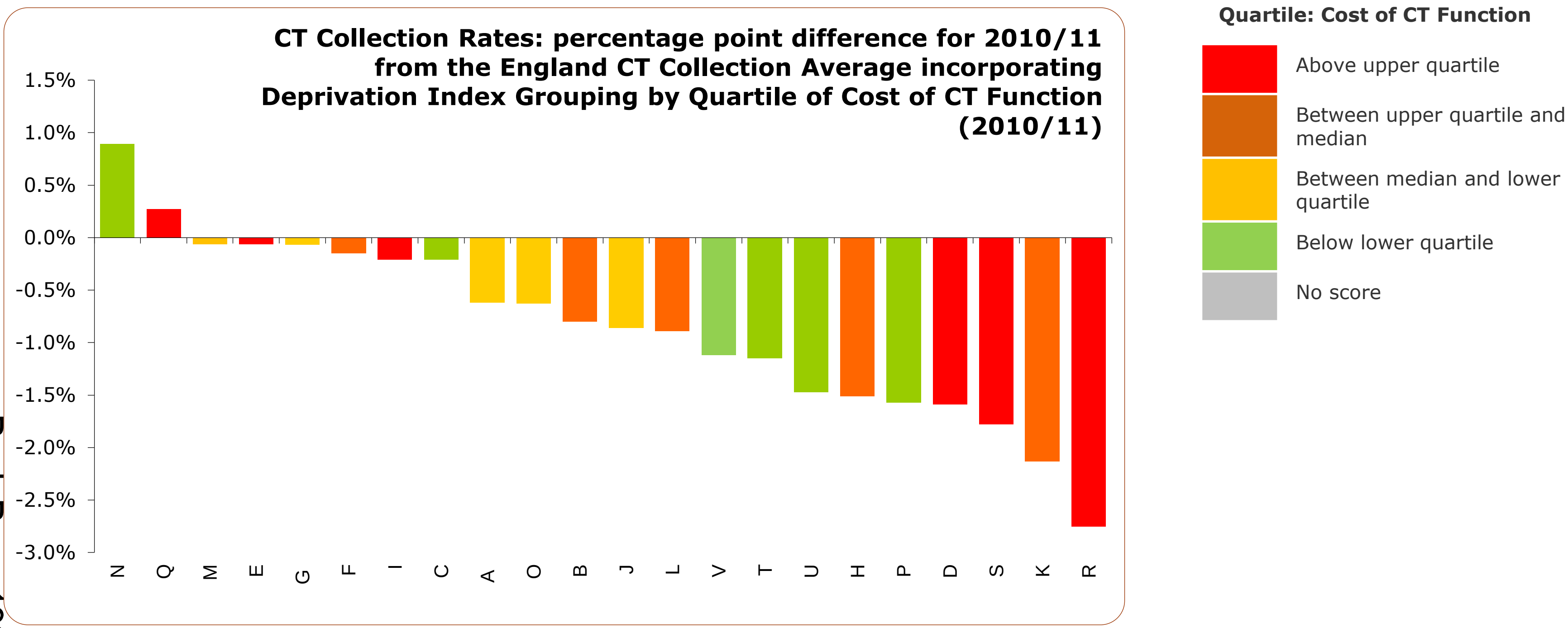
This analysis appears to suggest that an authority can have both lower costs of collection and good collection performance.



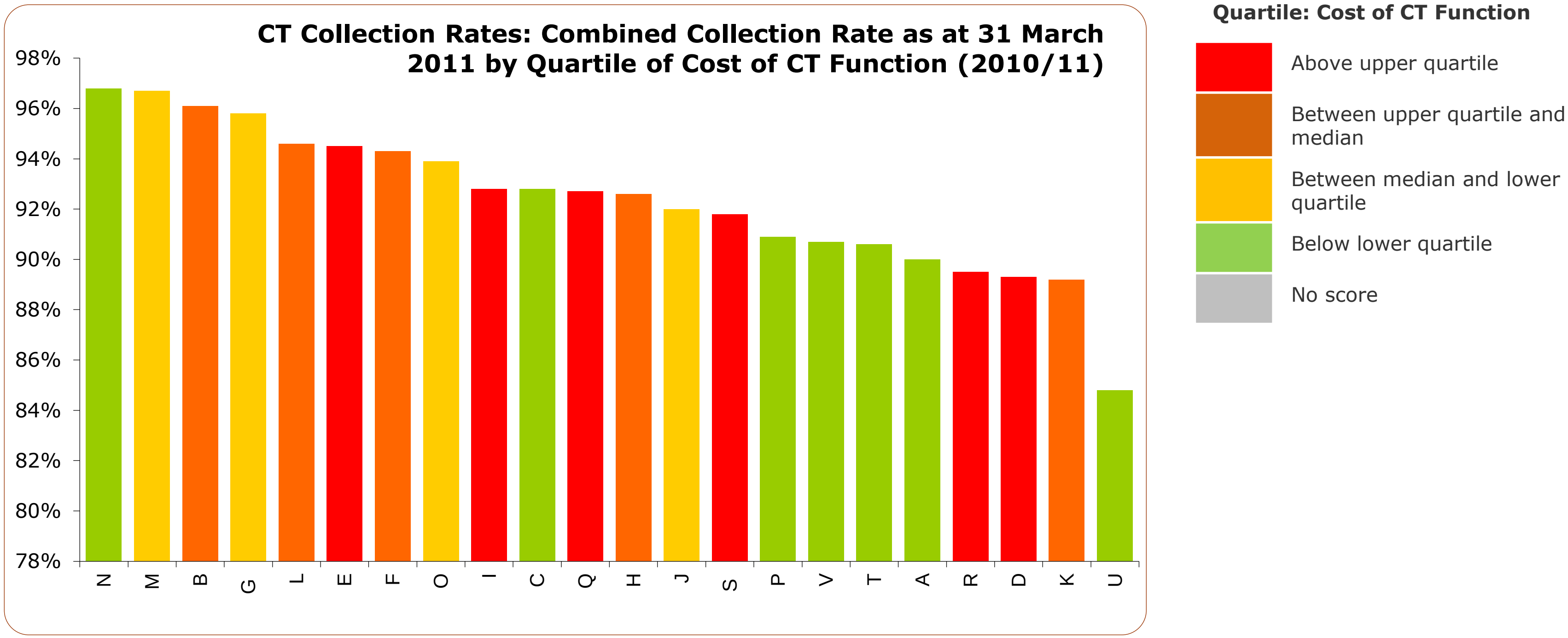
There is some indication (in line with the previous graph) that those authorities who have a higher in year collection rate compared to the Wales average have a lower CT function cost.

Authority N has the highest in year collection rate (as in 2010/11), with authority U the lowest (although this authority has a low CT function cost).

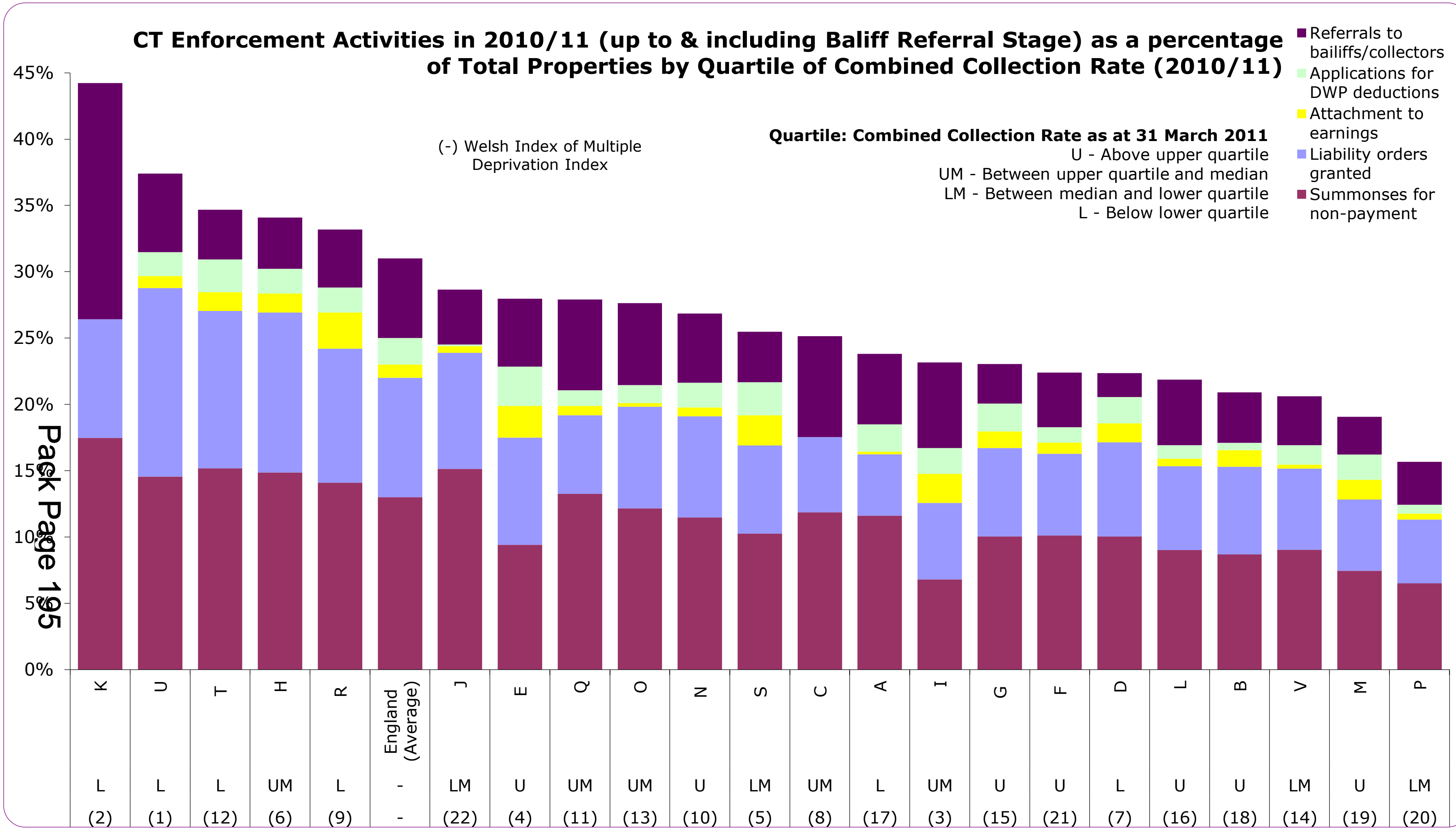
This analysis appears to suggest that an authority can have both lower costs of collection and good collection performance.



When the Wales in year collection rates are compared with their 'Deprivation Index' equivalent peer groups average collection performance in England, with the exception of authority N and authority Q the Wales authorities have a lower in year collection rate.



Authority N as the highest combined (current + previous years) collection rate with authority U the lowest. It is interesting to note that there is no obvious link between the combined collection rate performance and the cost of the CT function, which is in contrast to the in year collection (see previous slides).



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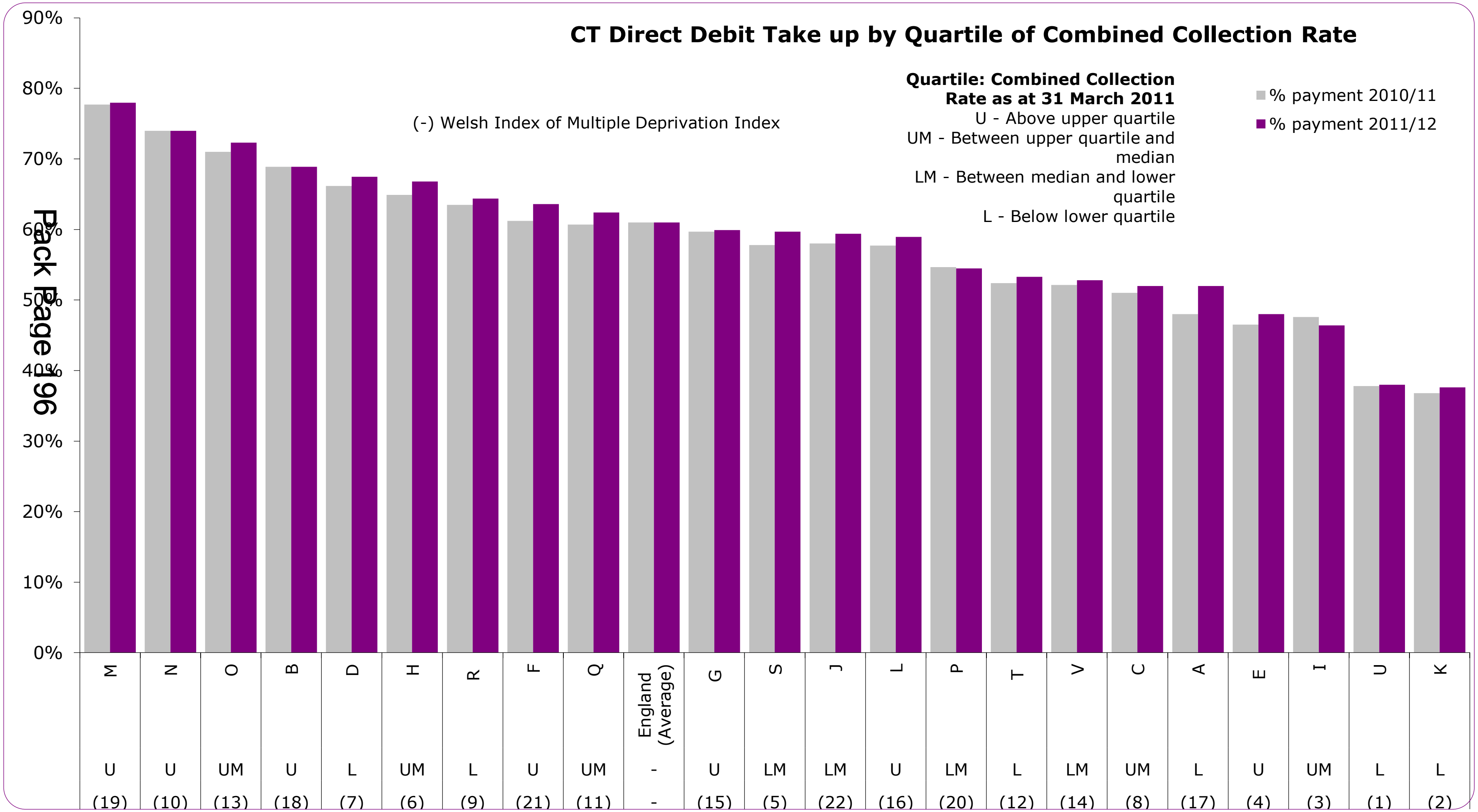
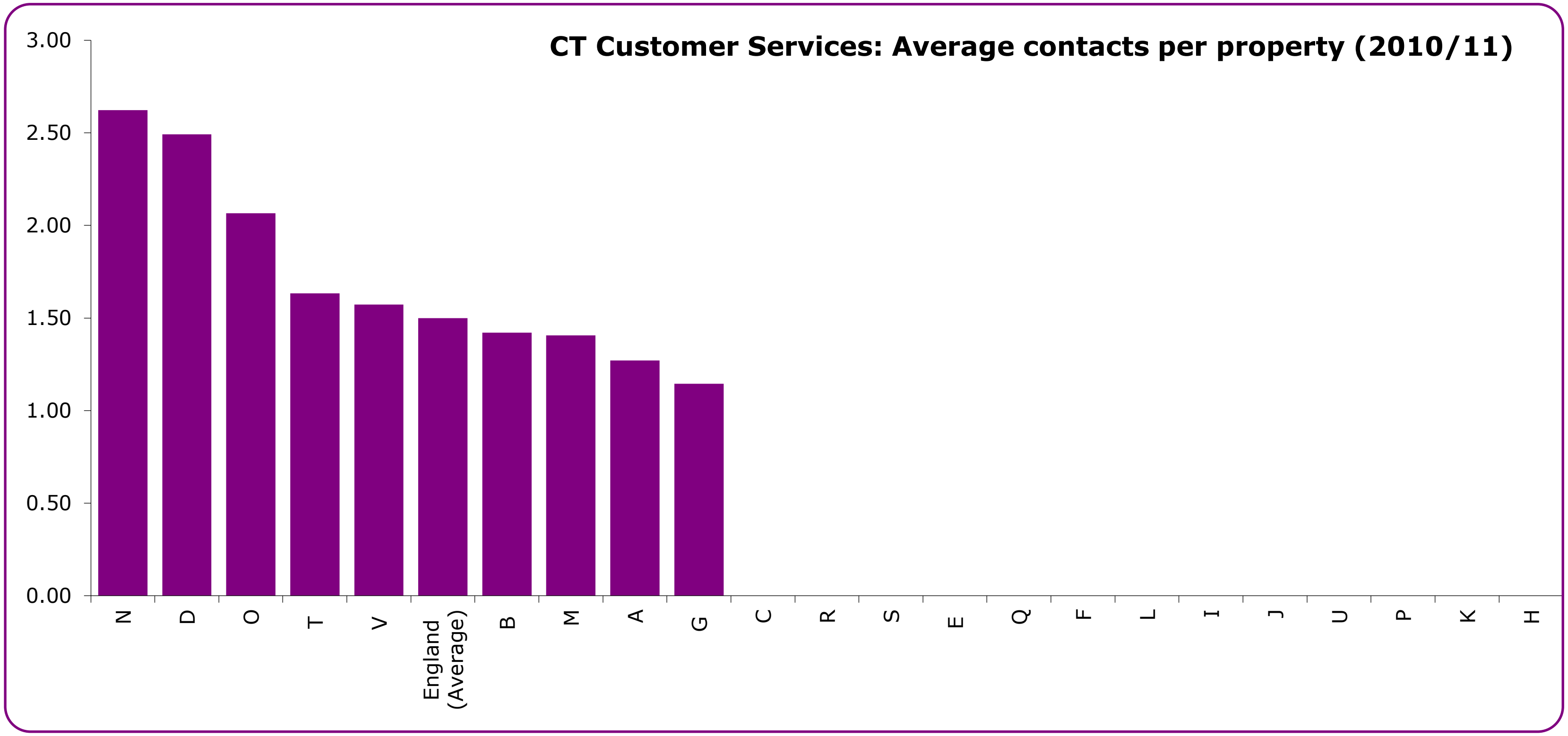
The is little evidence of a link between the enforcement activities and the combined collection rate. This may confirm our experience from other revenues services reviews where more detailed analyses have indicated that recovery is as much an art as a science.



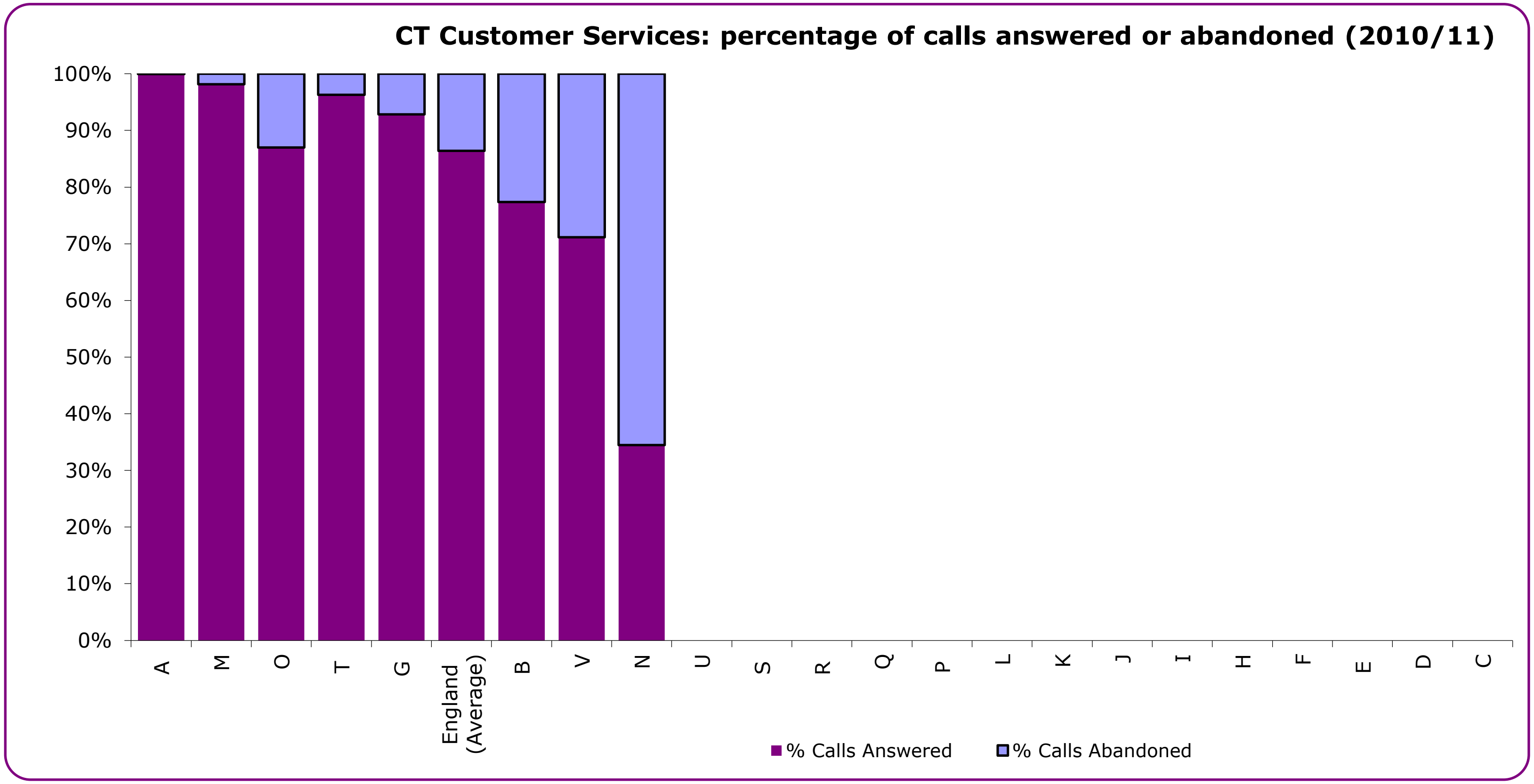
For the majority of authorities the percentage of payments by direct debit has increased in 2011-12. Payments by direct debit compare favourably with the England average (61%), with authority M being the highest at 78%. Authority D appears to be achieving higher levels of DD take-up than any deprivation index (7th worst) factors may have suggested.



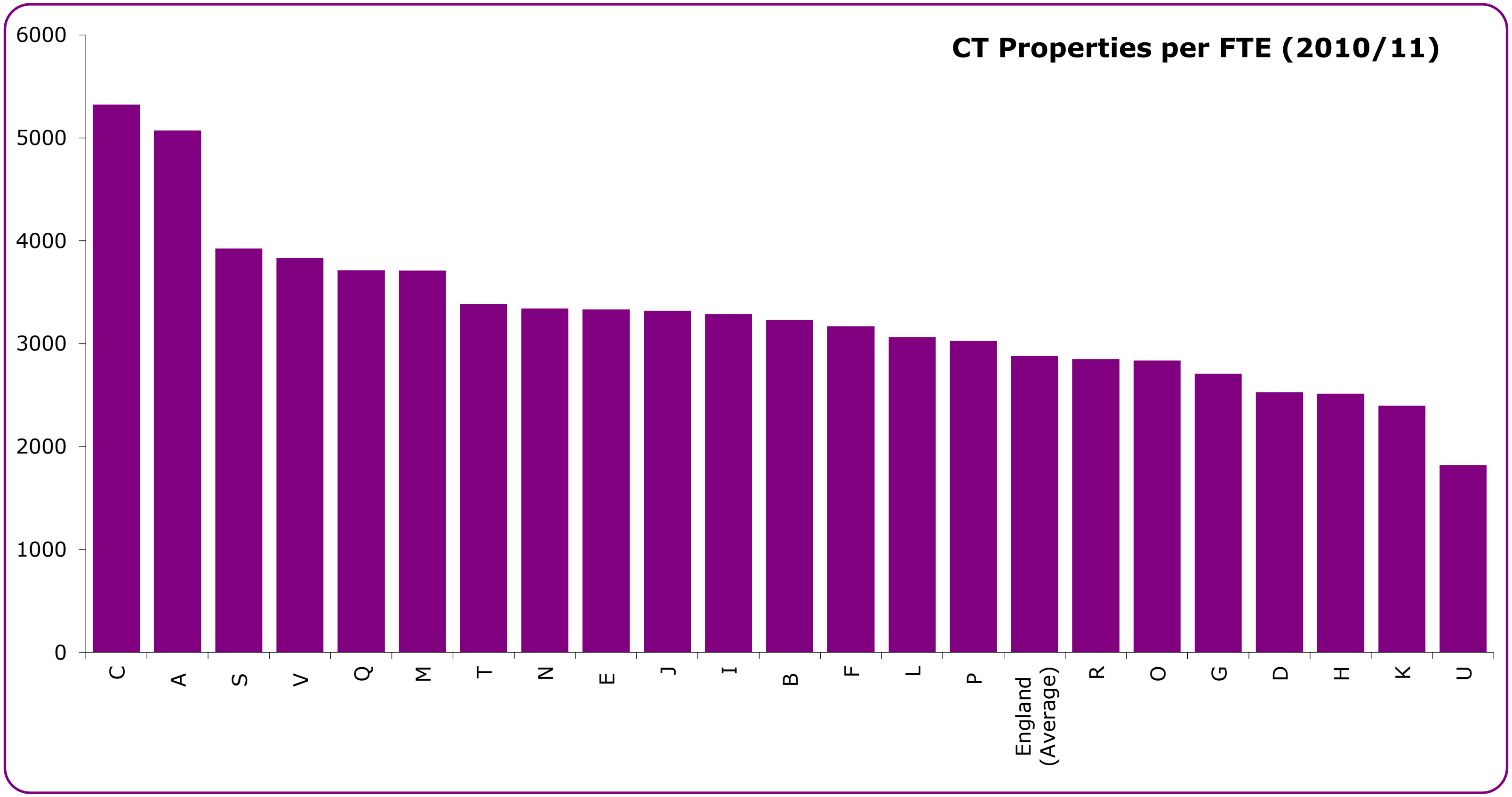
Average contacts per property (where there is a full set of data for each of the channels) vary between 1.15 at authority G to 2.62 at authority N.

The analysis of the English CIPFA benchmarking equivalent data shows an average of 1.5 contacts per property with a high of 8 contacts per property.

Whilst there has been no detailed analysis of any link with these Welsh authorities, high levels of customer contact can indicate failure demand and avoidable contacts in the operational system.

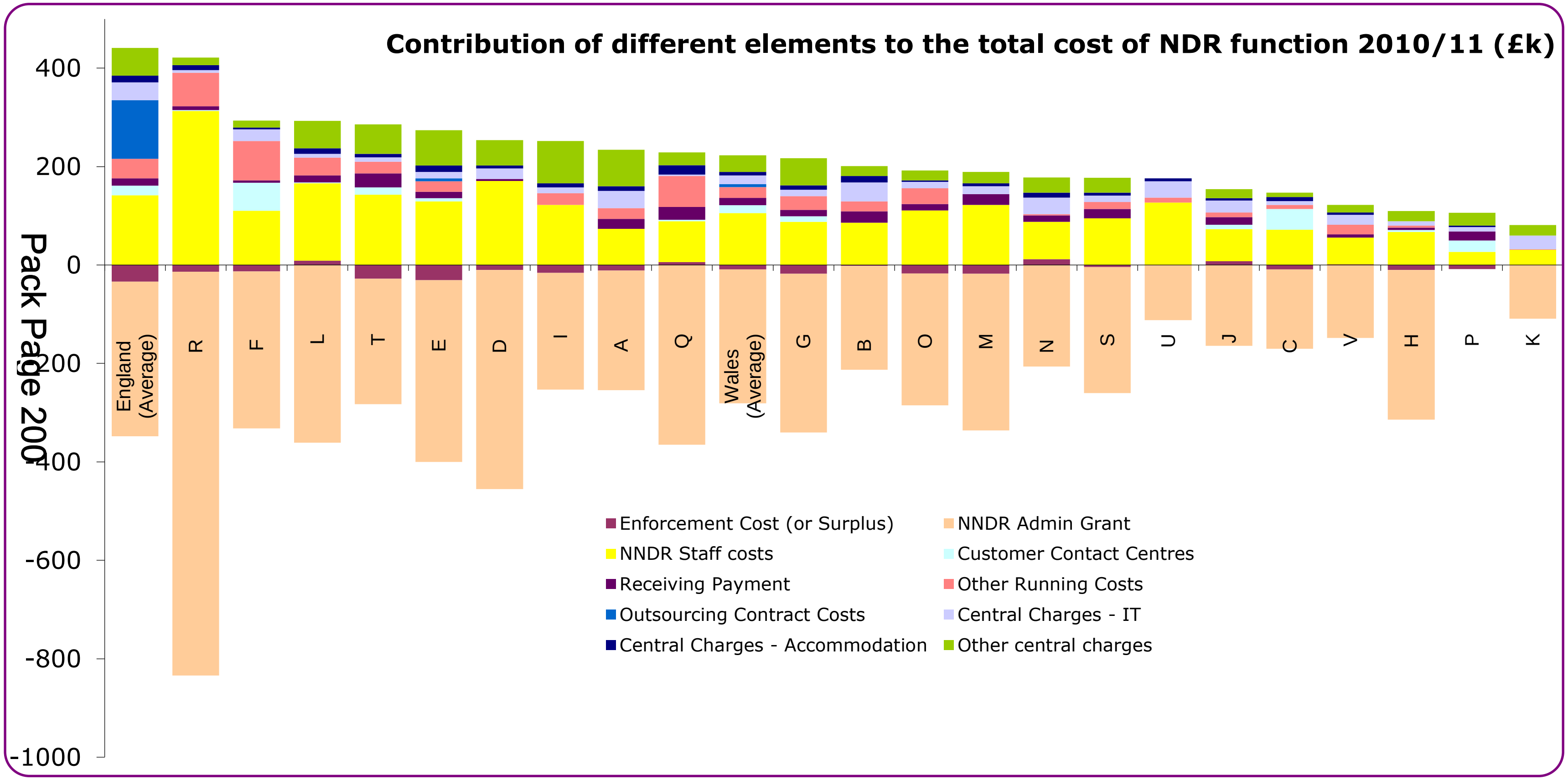


Calls offered & %age of calls answered – this varies between almost 100% calls answered at authority A to 34% calls answered authority N. This latter figure appears surprising in view of authority A's exceptionally high CT performance i.e. top overall for 2010/11 combined current & previous year collection, and 2010-11 & 2011-12 in year collection; we would normally expect the high call abandon rates to adversely affect the billing, collection and recovery outcomes of the service.



A recognised measure of efficiency of the CT function is CT properties per FTE. Authority A is the highest (5,324) with authority U the lowest (1,822). The majority of Wales authorities compare favourably to the England average of 2,979 properties per FTE.

In section 8 of this report these measures have been compared against the 'Barony' and 'Greater Manchester' benchmarks to quantify potential staff savings.



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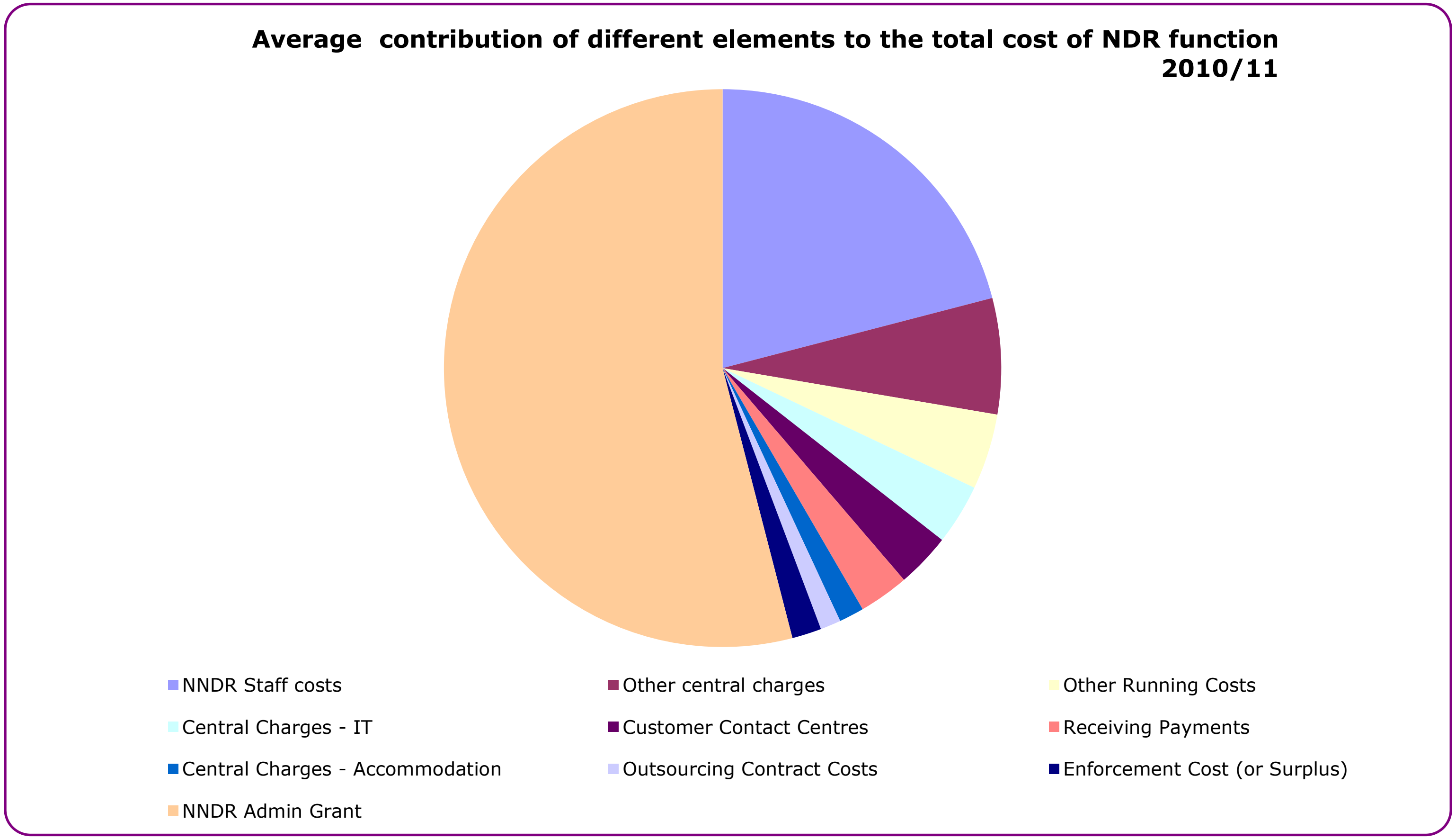
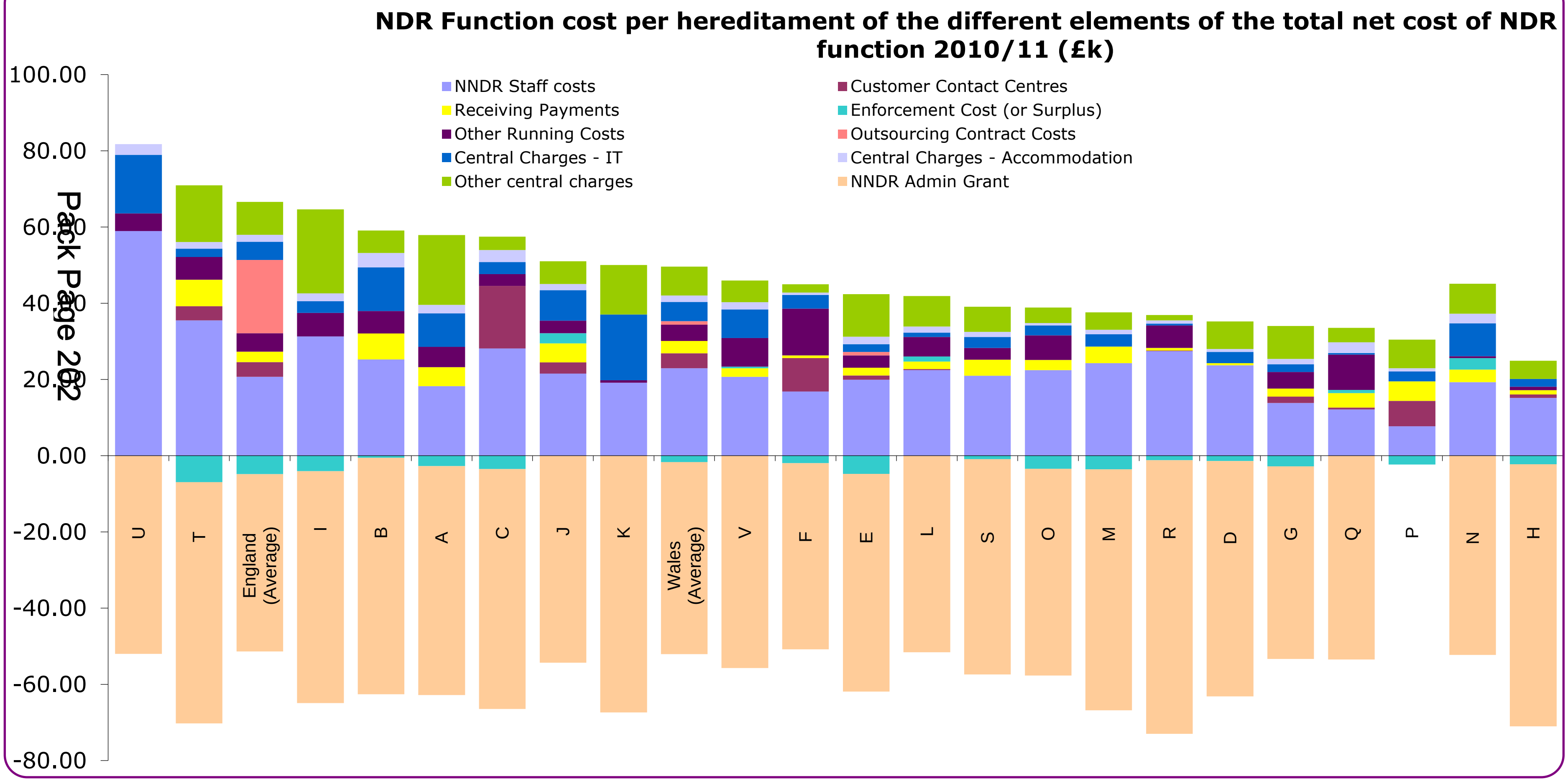
This graph illustrates the breakdown of the different elements of the cost of the NDR function (including NDR admin grant) for the Wales authorities, together with the Wales and England averages. As would be expected, (with the exception of NDR admin grant) staff costs are the most significant element of the cost of the NDR function for every authority. Wales authorities have minimal costs associated with outsourcing compared to a significant proportion of costs in England. Authority R has the highest gross total cost (£407.8k) compared to the lowest authority K (£81k).



NDR admin grant is the most significant 'cost' element of the NDR function. NDR staff costs are, as would be expected, the most significant element of the average gross cost of the NDR function.



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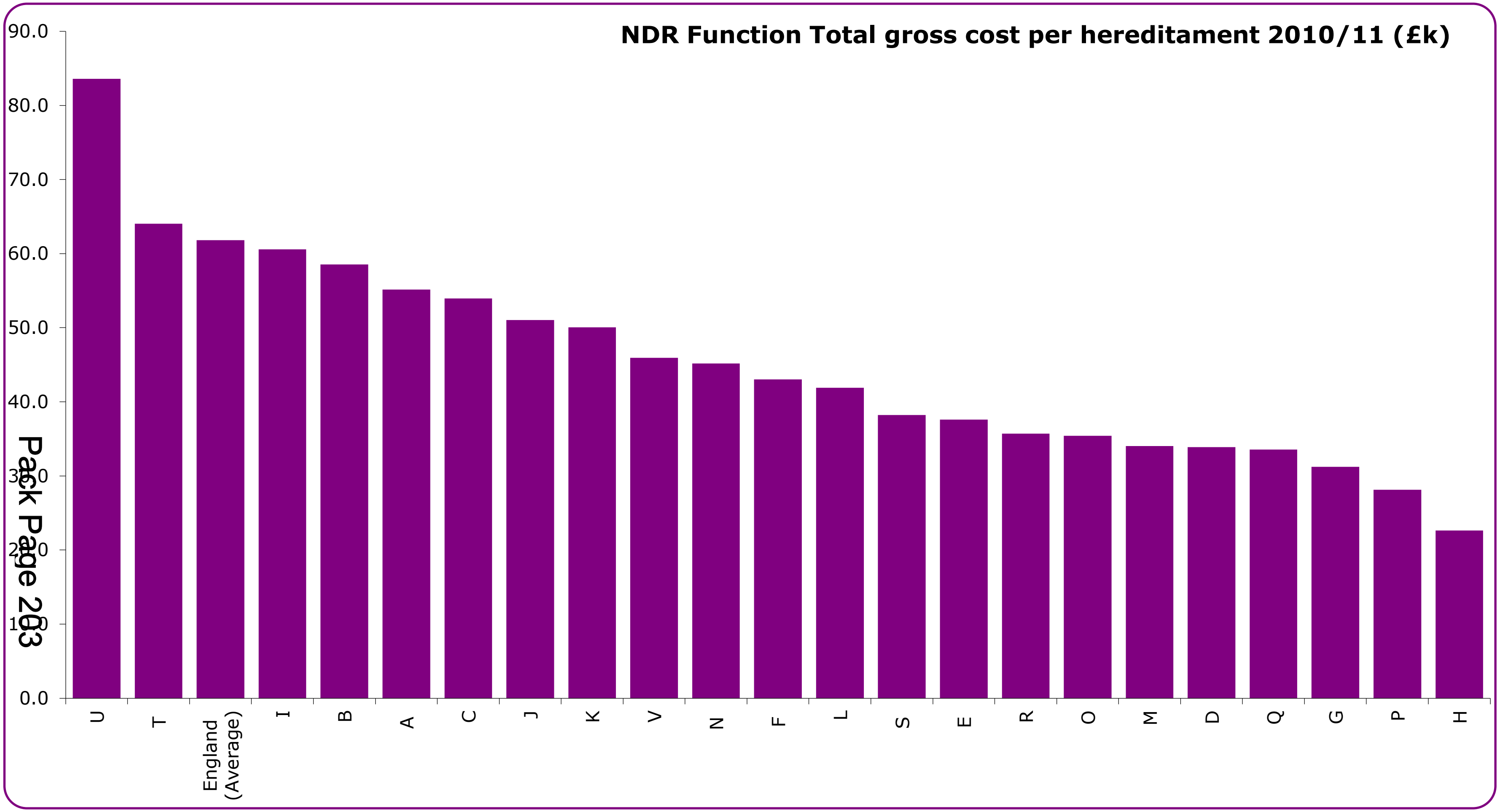
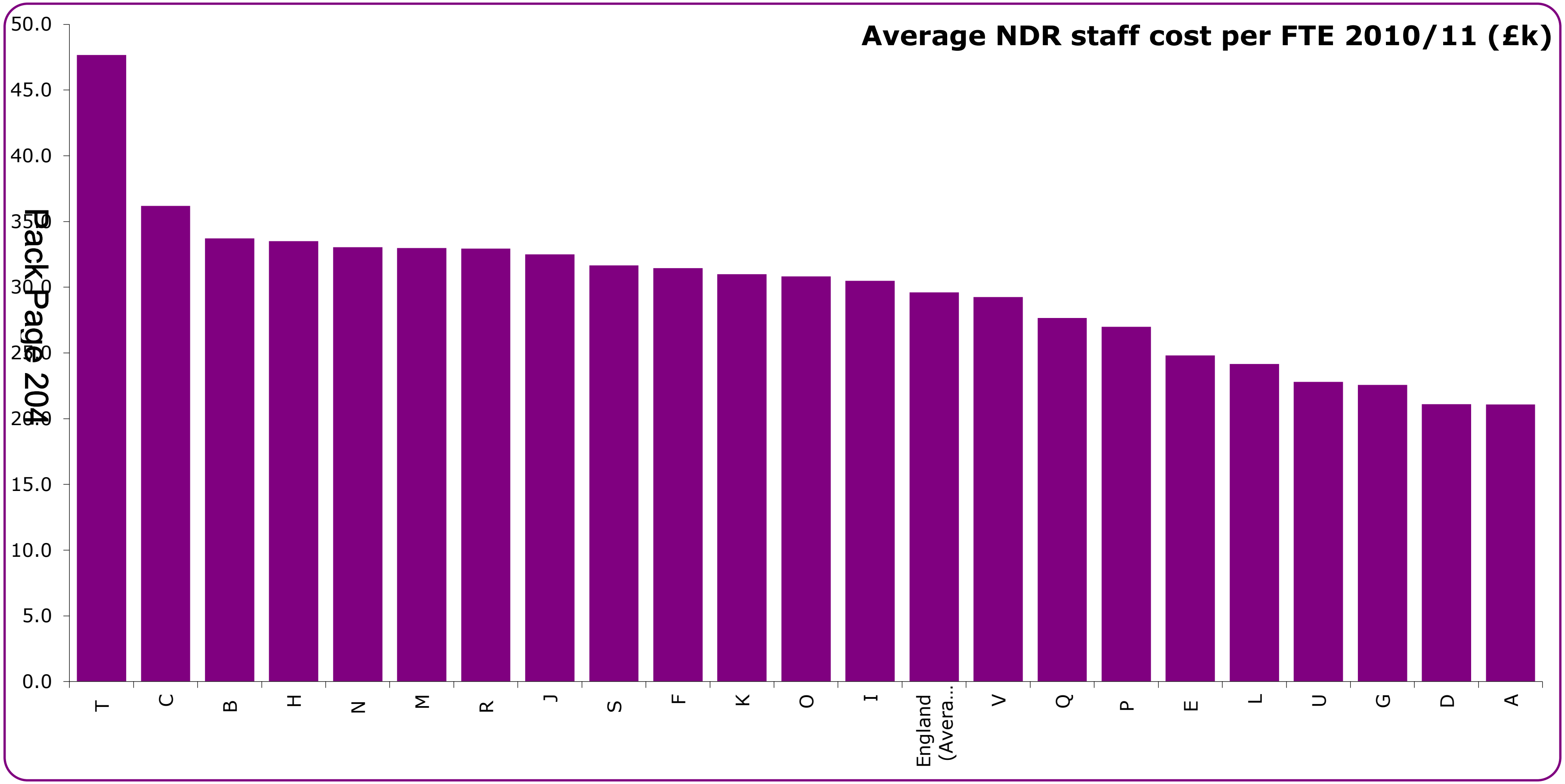
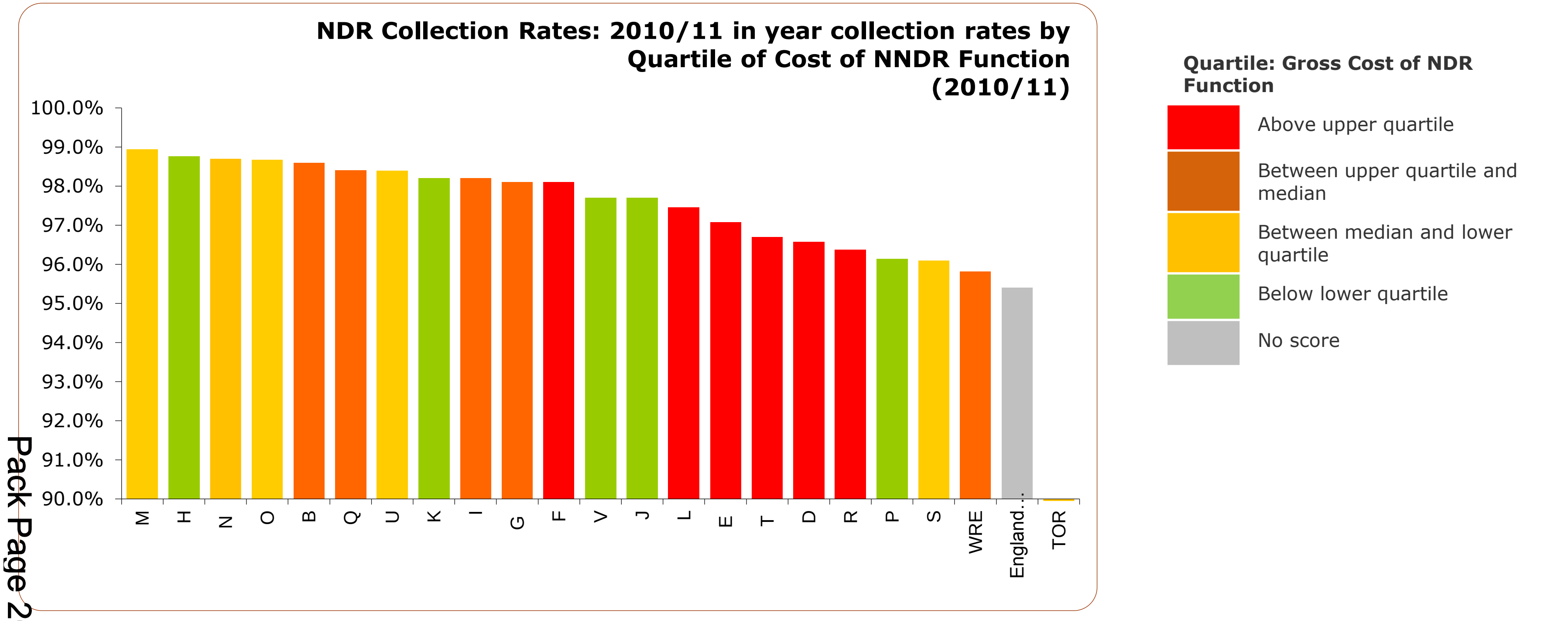
This graph illustrates the breakdown of the different elements of the cost of the NDR function per hereditament for the Wales authorities, together with the Wales and England averages.



Authority U has the highest NDR function gross cost per hereditament at £83.6, with authority H being the lowest at £22.6. Wales authorities compare favourably with the England average of £61.8 per hereditament.



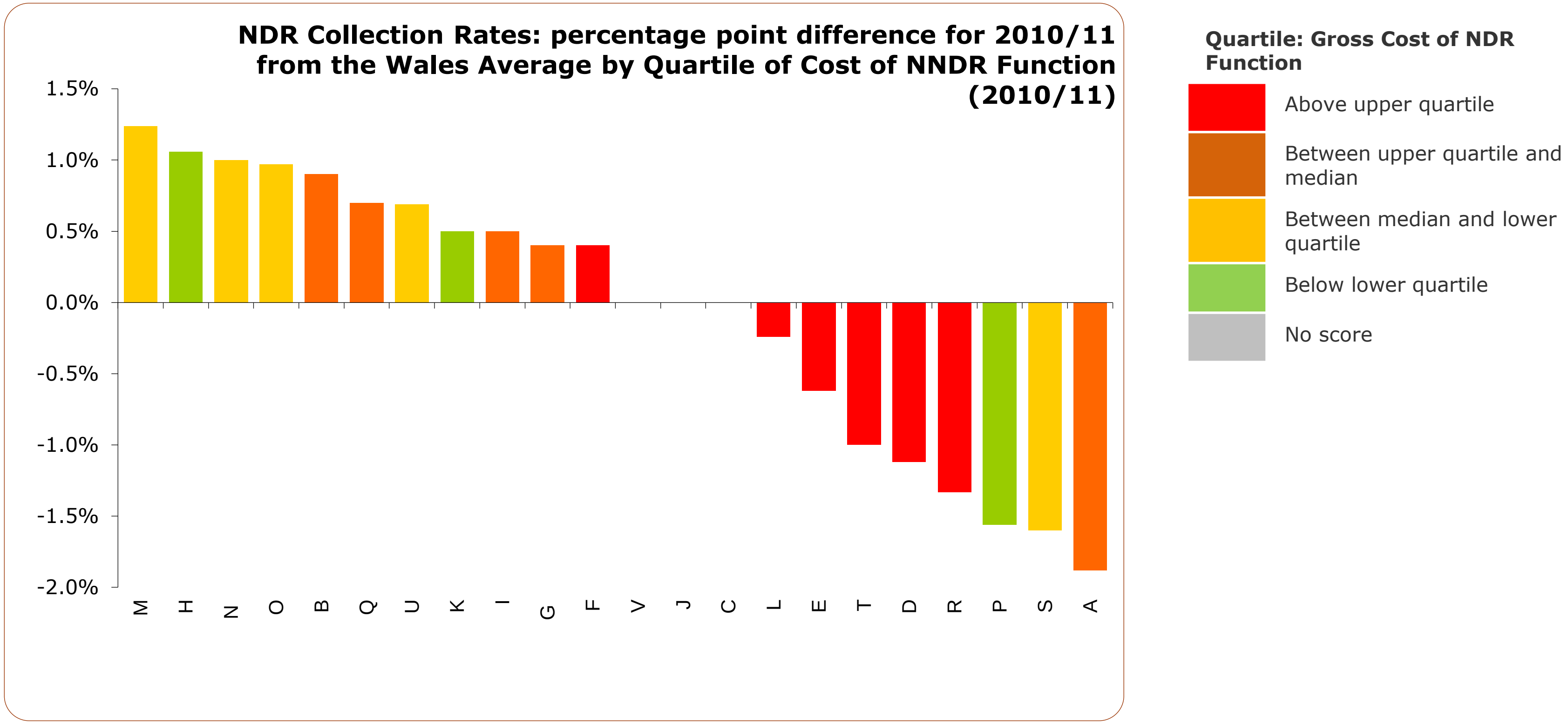
Authority T has the highest NDR staff cost per FTE at £47.7k, with authority A being the lowest at £21.1k. Thirteen out of the twenty two Wales authorities have a higher cost then the England average of £29.6k.



The comparison of NDR collection rates is an indication of the efficiency and quality of the NDR function. However, other factors do have a bearing on the collection rate for example the deprivation of the area, and systems/ processes/ practices used.

There is some indication in the graph above that those authorities who have a high in year collection rate have a low NDR function cost.

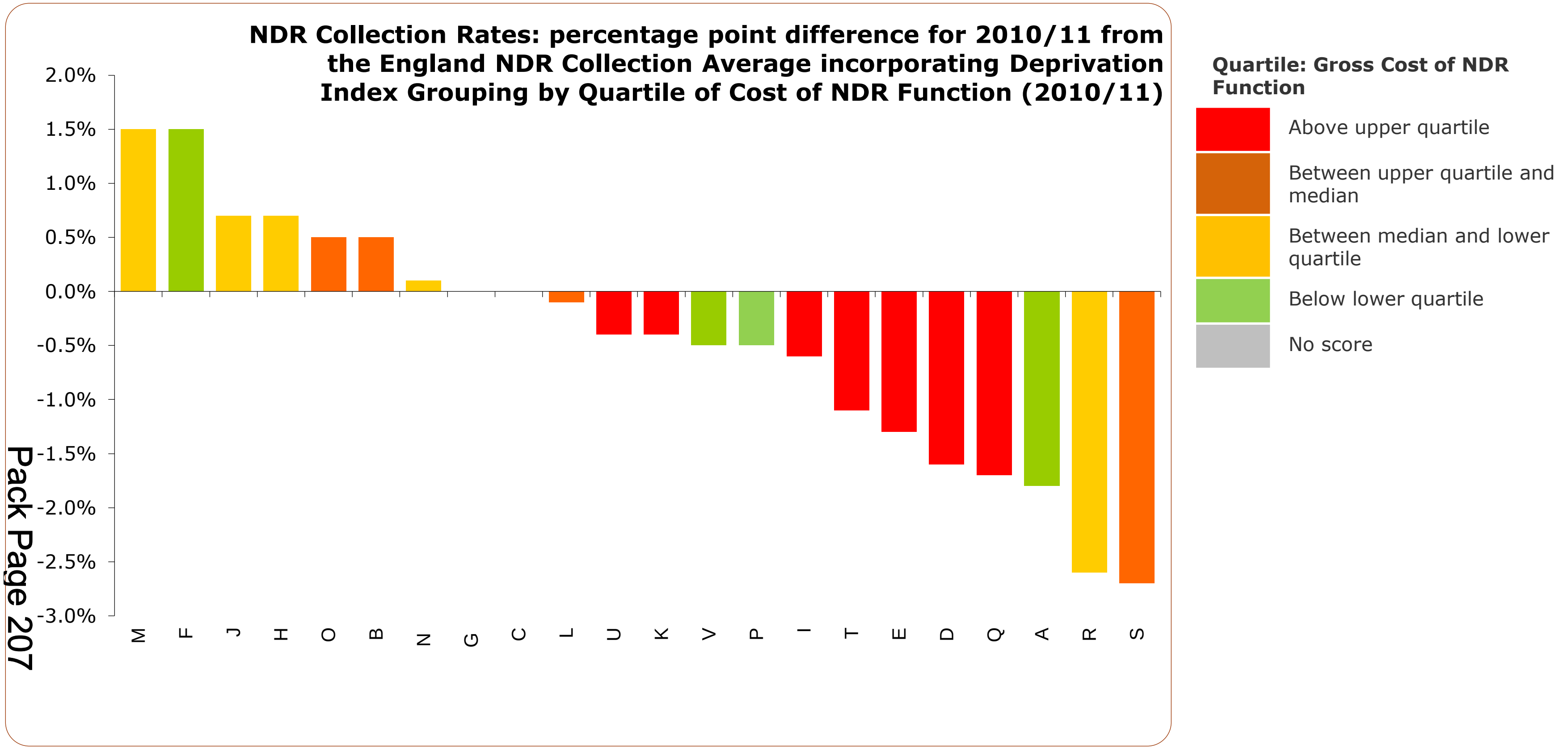
This analysis appears to suggest that an authority can have both lower costs of collection and good collection performance.



There is some indication (in line with the previous graph) that those authorities who have a higher in year collection rate compared to the Wales average have a lower NDR function cost.

Flintshire has the highest in year collection rate with Wrexham the lowest.

This analysis appears to suggest that an authority can have both lower costs of collection and good collection performance.



When the Wales in year collection rates are compared with their 'Deprivation Index' equivalent peer groups average collection performance in England, thirteen of the twenty two Wales authorities have a lower in year collection rate.

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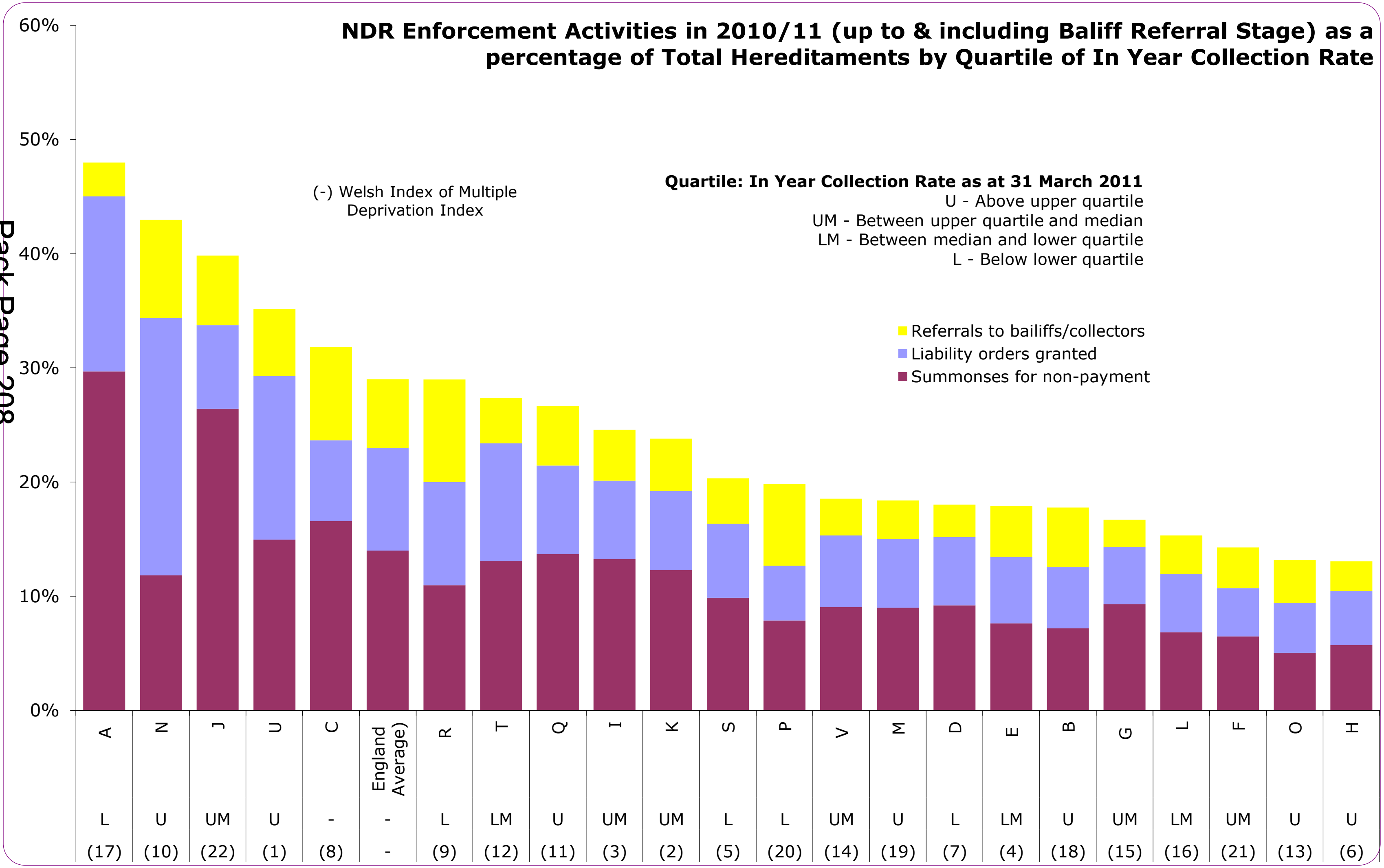

It appears that this analysis is reflecting the differing degrees of payer resistance that is being encountered by the different NDR services in collecting & recovering NDR in their area.

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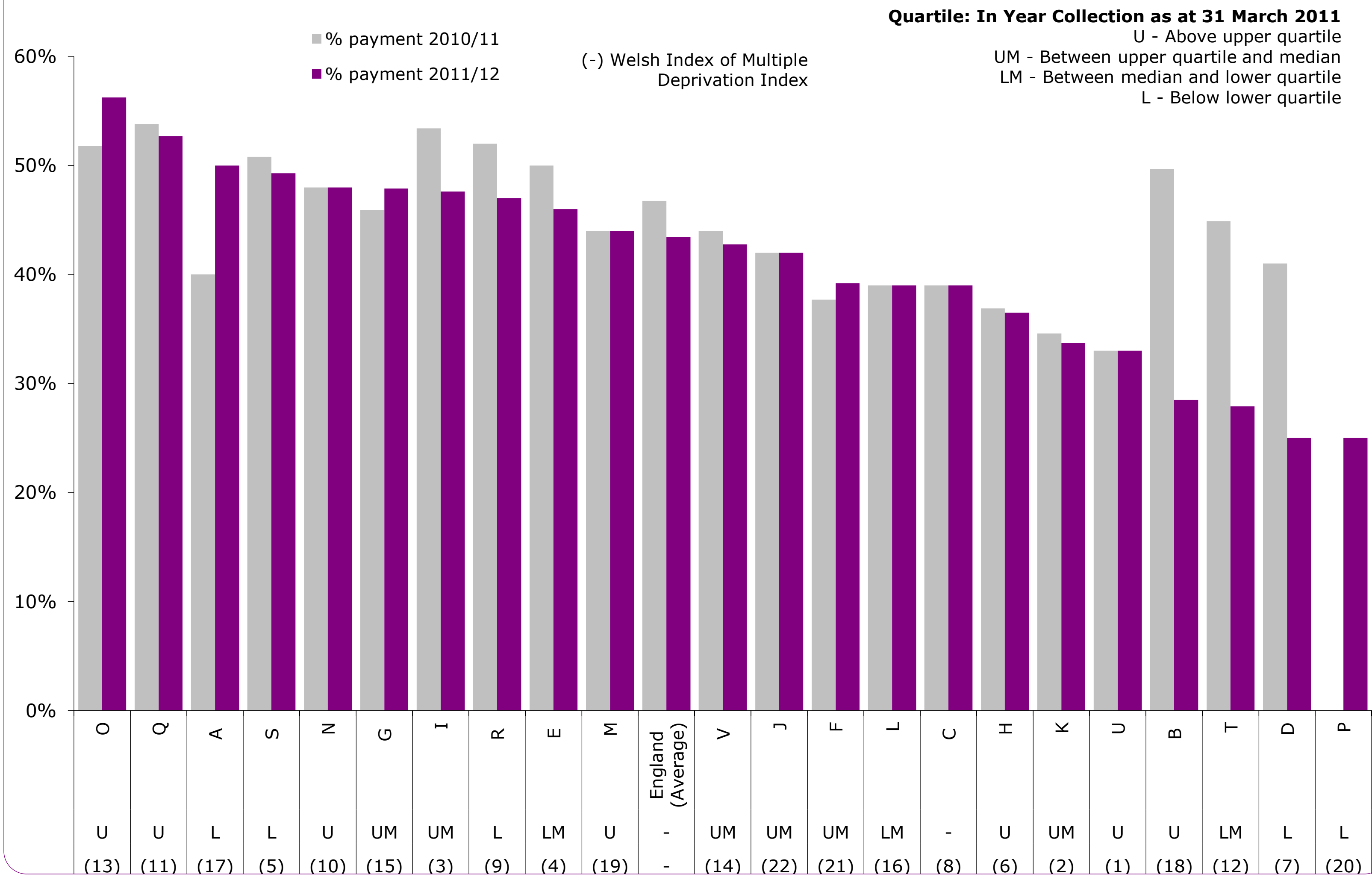
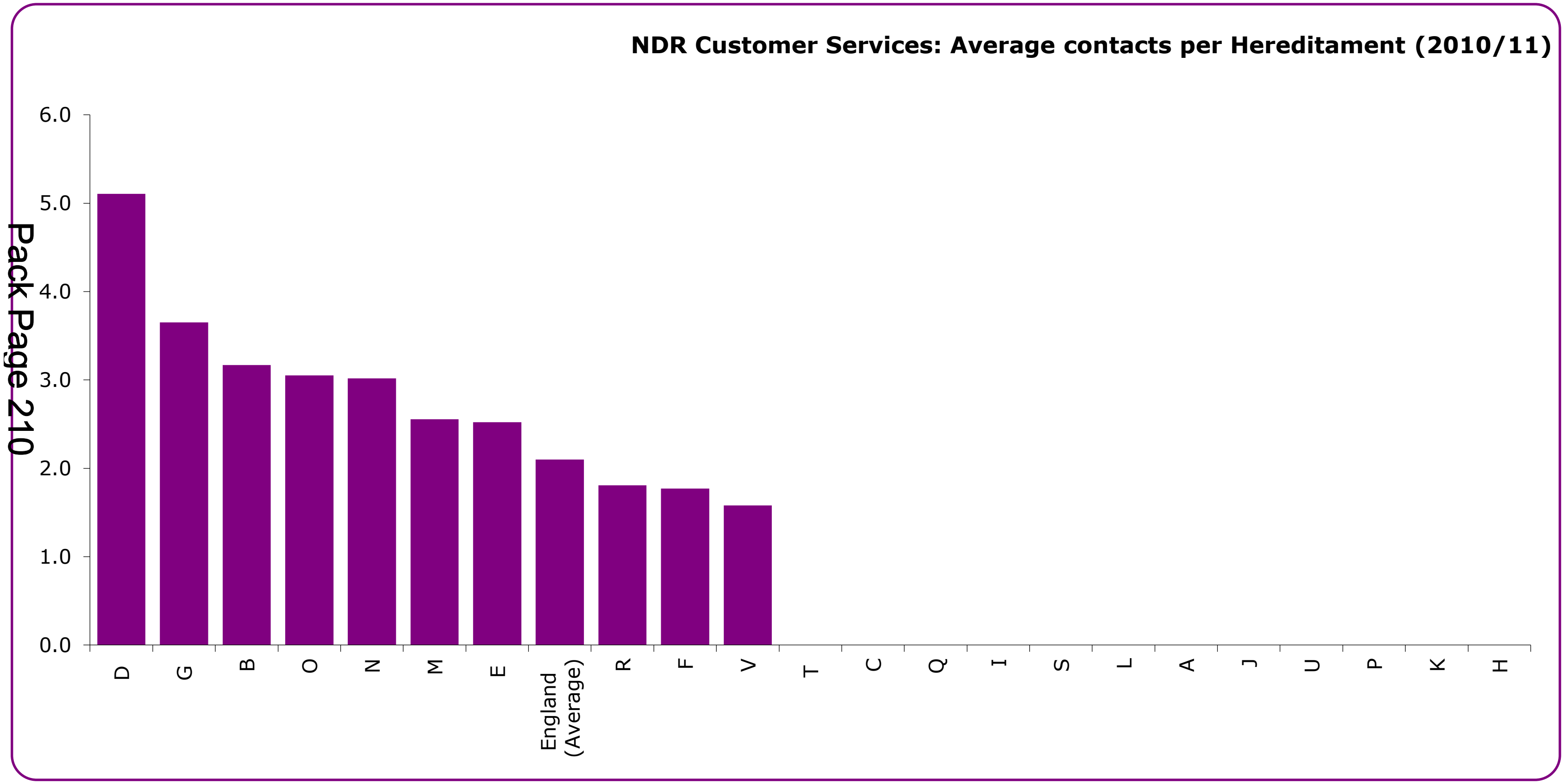
NDR Direct Debit Take up by Quartile of In Year Collection Rate

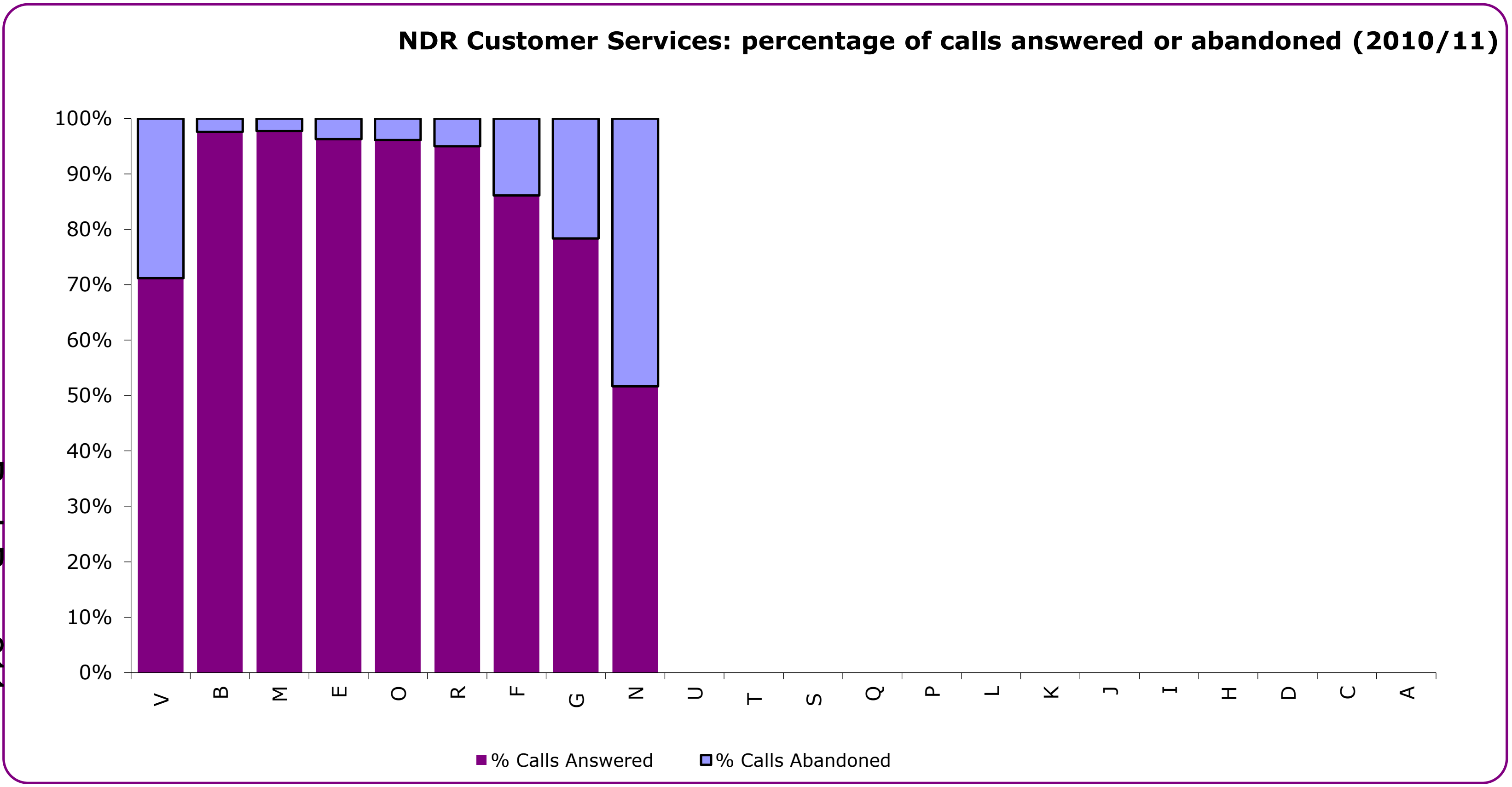


In some cases the payments by direct debit has decreased in 2011/12. Ten authority's payments by direct debit compare favourably with the England average (43%), with authority O being the highest at 56%.

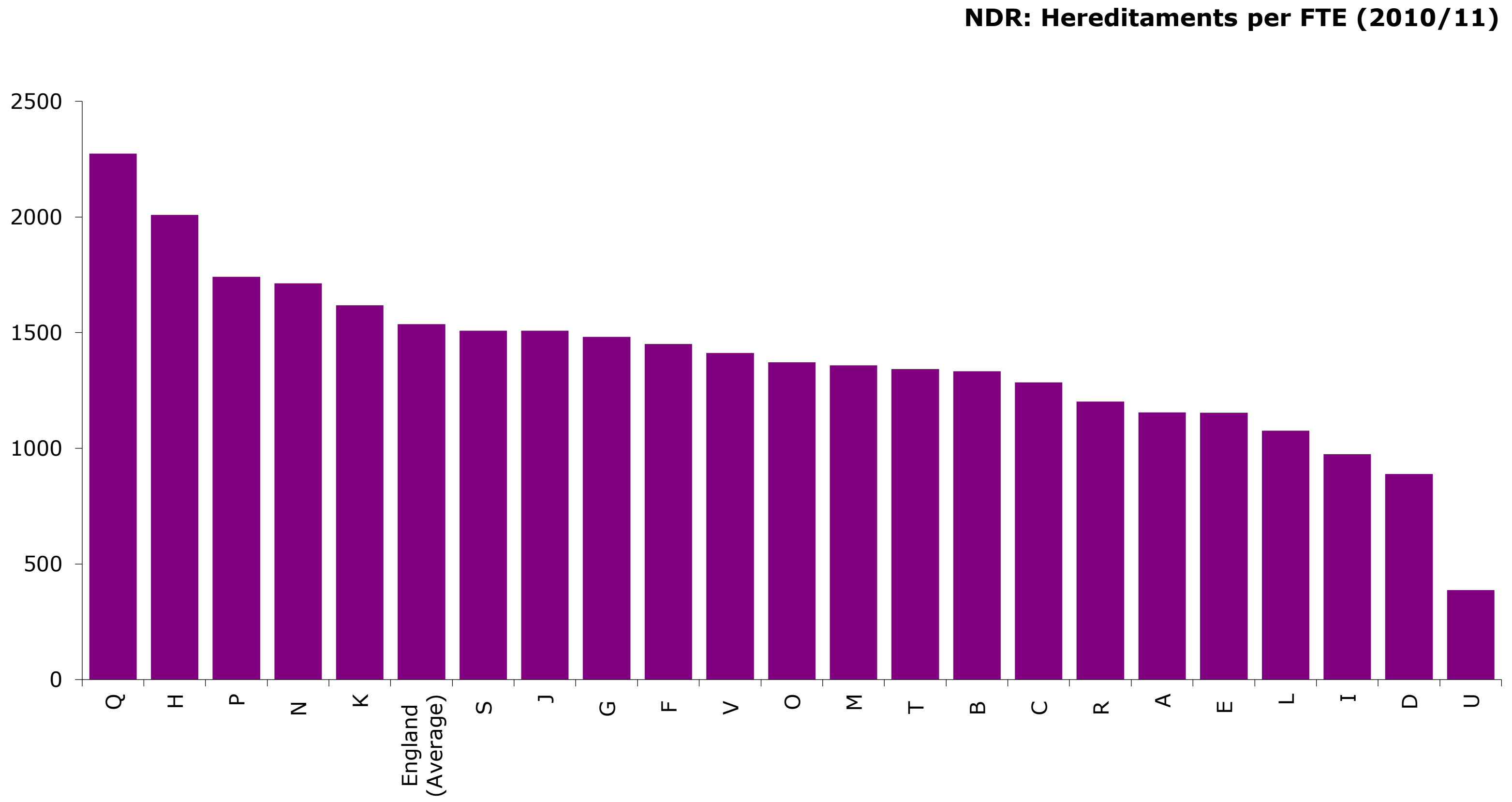


Average contacts per hereditament (where there is a full set of data for each of the channels) vary between 1.6 at authority V to 5.1 at authority D.

The analysis of the English CIPFA benchmarking equivalent data shows an average of 2.1 contacts per hereditament with a high of 11.5 contacts per hereditament.



Calls offered & %age of calls answered – this varies between 98% of calls answered at authority B and authority M to 52% of calls answered at authority N. This latter figure appears surprising in view of the comparatively high NDR performance (joint 3rd on in-year collection) that authority N achieved in 2010-11; we would normally expect the high call abandon rates to adversely affect the billing, collection and recovery outcomes of the service.



A recognised measure of efficiency of the NDR function is NDR hereditaments per FTE. Authority Q is the highest (2,274) with authority U the lowest (384). The majority of Wales authorities compare favourably to the England average of 1,537 properties per FTE.

In section 8 of this report these measures have been compared against the 'Barony' and 'Greater Manchester' benchmarks to quantify potential staff cost savings.

4. Identification & Analysis of Successful Collaborations that Include Revenue Services

Identification & analysis of successful collaborations (1)

CIPFA has undertaken this part of the review by researching the market for current revenues service collaborations. Our original plans were to gather this information by a questionnaire targeted at these existing revenues partnerships, unfortunately the response was very poor & we have therefore used alternative sources for this analysis.

The level of granularity of this research has not included the 'softer' collaborations such as joint training, single person discount joint reviews etc.

This research has identified that:-

- these collaborations are varied in their scope and objectives;
- these collaborations are varied in their maturity; as well as those that are at 'Operational' status and there are also a number of potential collaborations at various stages of formation;
- most of the established collaborations involving Revenues also include benefit services as part of their overall scope – from our experience of performance management of revenues and benefits services, including those in a contractually outsourced environment, this is usually due to the risk and lack of resilience involved in the formal performance management of say a (collaborative or otherwise) CT service that is heavily reliant on the parallel performance of an (out of scope) benefit service;

Identification & analysis of successful collaborations (2)

- many of the revenues service collaborations are part of a wider corporate collaboration between local authorities covering other transactional services, ICT, HR, legal services, procurement etc;
- a number of the collaborations that have matured into full operational partnerships often initially began as softer alliances; and
- most of the collaborations are inter-authority, although there are some that also include a private sector partner as either a junior or senior formal stakeholder in the collaboration

We have included details of the fuller range of collaborations involving revenue services and where relevant have included details of the wider context (e.g. part of a wider service collaboration etc.) within which they operate.

Whilst we have not included details in this analysis, it is also worth reflecting that there have been a number of embryonic collaborations incorporating revenues services that have failed to reach 'go live' operational status. Our research also identifies that some of the original prospective partnering councils have opted to detach from the collaborations before they have reached operational status.

Our analysis of these current collaborations with a revenues services component is shown in the following slides:-

Identification & analysis of successful collaborations (3)

Partnership Name	Organisations involved	Key Characteristics	ICT Supplier for Partners
Anglia Revenues Partnership (ARP)	Breckland District Council, East Cambridgeshire District Council, Forest Heath District Council. & St Edmundsbury Borough Council	The ARP is a group of three Local Authorities working together to provide **a shared Revenues & Benefits service** originally to the residents of Breckland Council, East Cambridgeshire District Council & Forest Heath District Council and has been in existence since 2003; **St.Edmundsbury Borough Council joined the Partnership more recently. ARP also have a separate trading arm ARP(Trading) Ltd** which is used for the delivery of chargeable services to other councils.	Capita-Capita-Capita-Capita
CenSus Partnership	Horsham, Mid Sussex and Adur District Councils.	Began with **a shared approach to Revenues and Benefits between two of the districts, which has now been expanded to the CenSus Partnership involving the 3 authorities and the delivery of ICT.**	Capita-Capita-Capita
Christchurch and East Dorset Partnership	Christchurch Borough Council; East Dorset District Council; North Dorset Council	**Strategic Alliance between the councils with a single management structure** to deliver a range of services including Revenues & Benefits services.	Capita-Capita-Capita

Identification & analysis of successful collaborations (4)

Partnership Name	Organisations involved	Key Characteristics	ICT Supplier for Partners
Compass Point	South Holland District Council & East Lindsey District Council	**Compass Point is a shared company established by the 2 district councils to consider and deliver shared services including Revenues & Benefits**; the primary focus has been to re-design business processes and standardisation of ICT systems.	Capita-Capita
Cotswold & West Oxfordshire Shared Services	Cotswold DC & West Oxfordshire DC	A **shared Chief Executive & shared management** in Revenues & Benefits services	Northgate-Northgate
East Kent Authorities Shared Services Partnership	Canterbury City Council, Dover District Council, Thanet District Council	The **shared service partnership with the shared service staff hosted by Thanet District Council**. Services include ICT, face to face and contact centre customer services, Revenues and benefits, residual housing services and building control.	Northgate-Civica-Civica
Eden & South Lakeland	Eden DC & South Lakeland DC	**Shared Management team** for Revenues & Benefits	Civica-Civica
Fylde Borough Council and Blackpool Council: Shared Revenues and Benefits	Fylde Borough Council; Blackpool Council	**5 Year Shared Services Agreement** for Revenues & Benefits Services	Capita-Capita

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Identification & analysis of successful collaborations (5)

Partnership Name	Organisations involved	Key Characteristics	ICT Supplier for Partners
Lancashire (sic) Shared Revenues & Benefits	Allerdale Borough Council; Carlisle City Council and Copeland Borough Council	**A merger of the Revenues and benefits service** between Allerdale, Carlisle and Copeland Councils.	Capita-Capita-Capita
Leicestershire Revenues and Benefits Partnership	Hinckley and Bosworth Borough Council, North West Leicestershire and Harborough District Councils	**Shared Revenues and benefits service** involving 3 districts centralised at Hinckley's offices.	Capita-Capita-Capita
LGSS	Cambridgeshire County Council, & Northamptonshire County Council - Norwich City Council	The **LGSS Shared Service set up by Cambridgeshire & Northamptonshire County Councils** also now includes (from April 2012) the provision of **Revenues & Benefits Services to Norwich City Council**	Civica
Lincolnshire Shared Revenues and Benefits	North Kesteven and West Lindsey District Councils, and Lincoln City Council	A **shared service** was formed in June 2011 for **Revenues and Benefits Services** between City of Lincoln Council and North Kesteven District Council, to deliver improvements for customers and value for money. **The shared service is hosted by City of Lincoln Council** and Revenues and Benefits work for the two partner authorities will be carried out by staff employed by City of Lincoln.	Northgate-Northgate-Northgate
Mid Kent Improvement Partnership	Swale and Ashford and Tunbridge Wells Borough Council Councils, and Maidstone District Council	There are **a suite of shared services projects** currently underway, including Human Resources, Legal, Internal Audit, **and Revenue and Benefits services. Swale does not participate in the R&B sharing.**	Capita-Northgate-Northgate-Northgate

Identification & analysis of successful collaborations (6)

Partnership Name	Organisations involved	Key Characteristics	ICT Supplier for Partners
Revenues & Benefits Partnership	Stevenage BC & East Hertfordshire DC	**Shared Revenues & Benefits Service** - staff restructure & working arrangements, single IT solution, harmonising business processes & agreed governance arrangements	Capita-Capita
Revenues & Benefits Shared Service	Preston City Council, Lancaster City Council	**Preston City Council host authority for the provision of Revenues & Benefits Services for both councils**; savings generated through a rationalisation of posts prior to shared services commencing.	Capita-Capita
Shared Revenues Partnership	Babergh District Council; Mid-Suffolk District Council; Ipswich Borough Council	**Joint Revenues & Benefits Service** with all staff transferred to Ipswich under TUPE regulations; single office location and single ICT platform (with Mid-Suffolk migrating from Civica to Northgate).	Northgate-Northgate-Northgate
South West Devon Districts	South Hams DC & West Devon DC	**Shared Revenues & Benefit Services** as part of a wider shared services and shared management agreement.	Northgate-Capita
South Oxfordshire and Vale of White Horse Shared Management	South Oxfordshire and Vale of White Horse District Councils	Joint Chief Executive and management structure including a **joint revenue and benefits contract with Capita** in place before shared management arrangements became operational. **The Revenues & Benefits contracts are managed by a single Client Unit.**	Capita-Capita

Identification & analysis of successful collaborations (7)

Partnership Name	Organisations involved	Key Characteristics	ICT Supplier for Partners
South Worcestershire Revenues and Benefits	Malvern Hills District Council; Wychavon District Council & Worcester City Council;	**The project involved the migration from three diverse Revenue and Benefits operations to one organisation**, combining people, processes and technology.	Capita-Capita-Capita
Stafford & Cannock Shared Services	Stafford BC & Cannock Chase DC	Sharing a range of back office services including Revenues & Benefits; using the lead authority model with Cannock Chase the lead authority.	Northgate-Northgate
Stour Valley Revenues & Benefits Partnership	Christchurch Borough Council; East Dorset District Council; North Dorset District Council	**Shared Revenue and benefits service operated from a single location.**	Capita-Capita-Capita
Three Rivers & Watford Shared Services	Watford Borough Council; Three Rivers District Council	**Shared Service Delivery of Revenues & Benefits Services.**	Capita-Capita
Wellingborough and Northampton Business Rates Consortium	Wellingborough and Northampton Borough Councils with private sector partner.	**A Business Rates consortium** hosted by Northampton Borough Council with Capita as private sector partner.	Capita-Capita
Western Dorset Revenues and Benefits Cluster	Purbeck District Council; West Dorset District Council; Weymouth and Portland Borough Council	**Running a joint Revenues & Benefits service.**	Capita-Capita-Capita

Identification & analysis of successful collaborations (8)

From the analysis of the currently established revenues collaborations it is noticeable that with the exception of the Fylde & Blackpool (District-Unitary) and LGSS Cambridgeshire, Northamptonshire & Norwich City (County-County-District) Partnerships all the remaining examples are composed of District-District collaborations/ partnerships.

From our research, we understand that a couple of other emerging potential Collaborations involve Unitary level local authorities. These are:-

- Bristol City & Bath & North East Somerset councils – NDR Shared Service; and
- North Lincolnshire – North East Lincolnshire Shared Revenues & Benefits.

Whilst there are some examples of mixed revenues application based partnerships, the majority are based around common software suppliers for the partnership members.

Identification & analysis of successful collaborations – Critical Success Factors (1)

Our research has identified a range of critical success Factors (CSFs) being reported for the formation, implementation, transition and transformation and operational stages of these existing Collaborations.
These include:-

- "Project manage the initiative using recognised project management tools and methods";
- "Develop a clearly articulated vision and outcomes shared by the participating authorities at councillor and senior officer level";
- "Develop a detailed baseline of the in-scope services and ensure a thorough understanding of the differences between the councils in softer aspects also (culture, people-related policies, delegation levels)";
- "A "partnership of the willing" is more likely to succeed";
- "Undertake a thorough options appraisal, including market testing, to ensure the preferred option represents value for money and best meets organisational objectives";
- "Prepare to be flexible, to compromise and if required make tough decisions to make progress, whilst keeping sight of the end goal"; and
- "Recognise the significance of change required for shared services and allow sufficient time to get consensus and agreement on the detail";

Identification & analysis of successful collaborations – Critical Success Factors (2)

- "Ensuring that there is a robust and resilient business case for the proposed collaboration";
- "Demonstrable commitment and leadership from senior management at all participating councils";
- "Communicating and consulting consistently throughout the organisations and at all times";
- "A good ICT infrastructure is critical to the successful delivery of the business objectives";
- "Harmonisation of business processes including through lean systems Thinking reviews are critical to successful operations";
- "Ensuring that there is equity in funding & service delivery";
- "Developing robust yet streamlined governance arrangements backed by a joint working protocol"; and
- "Effective performance management and reporting systems are essential for management and control of the operational services".

5. Opportunities to Improve Efficiency & Effectiveness of Revenues Services

Opportunities to improve efficiency and effectiveness in revenues collection (1)

In recent years there has been a noticeable and understandable (due to Council budget pressures and the added focus on income maximisation and the effectiveness and efficiency of revenue services) change in focus and priorities away from benefits service improvements towards improvements in revenue services.

This review has identified a number of innovations that are focused on the improvement of a range of service components including those that could be categorised as focused on:-

- Processes;
- Performance;
- Collection;
- Improving the customer experience; and
- Part-sourcing/ managed service offerings.

Opportunities to improve efficiency and effectiveness in revenues collection (2)

As part of this research and the wider analysis of the various ‘as-is’ revenues services operations in Wales we have noted that some of these innovative trends (e.g. Performance - *PMQA* from *RB Performance*) may already be adopted by some of the Welsh revenue services. We have still included theses ‘innovations’ here for the sake of completeness and for consideration by those Welsh revenue services that may not already have implemented these ‘solutions’.

For the sake of clarity, where any efficiency and effectiveness trends relate to collaborative working we have incorporated those trends in the ‘current Collaborations’ section of the report.

We has mentioned some ‘proprietary’ offerings and commercial providers in the analysis below; this should not be construed as a CIPFA recommendation of these products or services.

Opportunities to improve efficiency and effectiveness in revenues collection (3)

PROCESSES

The 'innovative' trends around processes include:-

Item Name	Brief Description	Key Objectives
Processing hubs	(Remote) processing capabilities to/for other Revenues Services	These 'processing hubs' have been developed by and between some local authority Revenues Services to deliver processing capacity and capability to other users often for both ad-hoc backlog clearance and longer term purposes. An example of this offering was the provision of remote back-office processing of Revenues (and Benefits) for Luton Borough Council by Peterborough City Council. In addition to local authority provided offerings these processing hubs are also provided in various designs & configurations by some private sector providers including:- • *Capita* • *Liberata* – including through its *Capacity Grid* offering
eCAPTURE	Automated Forms Processing data validation and data input solutions	The *eCAPTURE* service is a somewhat unique market offering from Govtech a specialist Local Government provider. Currently their main offering Benefits *eCAPTURE* is in use in a number of Benefit Services. The product/service is similar in design/concept to the *CACI* Automated Forms Processing offering that was DWP Funded and initially developed in association with LB Harrow & South Gloucestershire Council. Benefits eCAPTURE has been used in a Benefits Service environment for a number of years. From our market intelligence a new product Revenues *eCAPTURE* is currently being implemented in a London Borough Revenues Service for a product launch & release at the CIPFA Conference in July 2012. It is initially being developed for use in a *Northgate* Revenues system environment.

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Opportunities to improve efficiency and effectiveness in revenues collection (4)

PROCESSES

The 'innovative' trends around processes include:-

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Item Name	Brief Description	Key Objectives
Process review	Reviews of Revenues business processes & practices	A significant number of local authorities have already or are currently undertaking process reviews of their current CT and NDR process and practices in order to improve their effectiveness and efficiency. The scope of these reviews varies from end-to-end (front & back office) process reviews to reviews, say, specifically targeted at improving Collection & Recovery. These reviews can often incorporate staff from the authority visiting other high-performing services to learn (and try to replicate) the best practices from those authorities.
e-Processing	Process automation and e-Forms	e-Processing and the development of increased process automation has received increased attention in recent years partly as a result of the drive to reduce overall process transaction costs and resources involved in the administration of CT and NDR. *Capita, Northgate* and *Civica* each have their own e-Processing 'modules' with specific functionality for Revenues Services. These 'modules' are primarily focused on providing functionality that enables customers to provide (self-fulfilment) information on-line using specifically designed forms/portals. In addition to the use of these modules for customer self-fulfilment, a number of authorities are also using these same e-Processing modules as input mediums by their face-to-face and telephony Customer Service staff. *Northgate* also have a '*Task Manager'* module that provides an embedded workflow layer to their Revenues applications that can be purchased and developed to provide business rules and a degree of process automation for their application process handling.

Opportunities to improve efficiency and effectiveness in revenues collection (5)

PROCESSES

The 'innovative' trends around processes include:-

Item Name	Brief Description	Key Objectives
EDMS Process Blueprints for Revenues Services	Off-the-shelf process workflow models for CT & NDR processes	Many Revenues Services have already invested time and effort in using the embedded workflow capabilities in their EDMS applications to develop business rules and process routing layers to assist in the control and automation of their business processes for the various incoming document types. We understand that one of the major EDMS providers (*Civica*) are currently working on developing process 'Blueprints' as part of their already widely established (particularly in Revenues & Benefits service environments) EDMS product offering. It is unclear whether this 'Blueprint' will be an additional chargeable module, but its release may reduce the lead-time for a user in developing a comprehensive set of rules/routing layers for their CT and NDR operations.

Opportunities to improve efficiency and effectiveness in revenues collection (6)

PERFORMANCE

The 'innovative' trends around performance include:-

Item Name	Brief Description	Key Objectives
Performance Management	Performance Management Infrastructures	A number of methodologies and tools have been implemented by Revenues Services to assist in the planning, control and management of performance and productivity at service, team and individual levels. These performance management infrastructures (PMIs) include both in-house built databases of varying design and complexity, as well as package solutions such as *PMQA* (Performance Management & Quality Assurance) from *RB Performance* (which we understand from the companies web-site list of clients is already in use in some of the Welsh authorities for Revenues or Benefits operational support). The *PMQA* software provides users with a fully flexible, comprehensive performance and quality assurance tool that is easy to set up, can be customised by the user and has the ability to: • Set targets and monitor performance • Identify the strengths & weaknesses of individual staff • Control how many QA checks are selected for each person • Automatically notifies the results to relevant users and team leaders/managers • Can analyse your data & produce real-time, ad-hoc and historical reporting • Analyse individual performance levels and identify training needs These PMIs, both in-house and proprietary, are also used for resource planning and workload estimating as well as performance/productivity management. PMI solutions have also been firmly established in Revenues (and Benefits) BPO company operational and performance control models for a number of years. Their PMI solution designs have often included the allocation of 'stand minute value' average handling times to document types/activities (e.g. "in-district change of occupier" say 4 minutes) to enable them to measure both the incoming workload for resource planning purposes and also to measure the tasks completed at service, team and individual levels of granularity.

Opportunities to improve efficiency and effectiveness in revenues collection (7)

COLLECTION

The 'innovative' trends around collection include:-

Item Name	Brief Description	Key Objectives
Intelligence led Debt Recovery	Analysis and categorisation of debtors based upon previous payment/recovery history & personal account attributes	Analysis and categorisation of debtors to identify those that will only pay at the later stages of the recovery cycle to mark them for potential inclusion in say "the May Summons run" to accelerate the timeliness of in-year recovery. These intelligence led Debt Recovery procedures can also define the appropriate course of action to be follow to recover the debt (e.g. special arrangement negotiation limitations, attachment of earnings or the use of bailiffs).
Debtor management - external	Using the services of data management agencies (e.g. Experian, Call Credit etc.) as a component in the recovery process	Some of the Welsh Revenues Services operations are already using private sector partners to provide 'credit checking' type services and will be aware that companies such as *Experian* are keen to use their extensive database of information on personal and corporate customers to shape-up innovative offerings to Local Government. These include offerings for: - Abscond Tracing, data checks to assist in the potential differentiation of "can't pay from won't pay", SPD reviews and other residency checks.
Direct Debit	Direct Debit method of payment conversion as part of payment negotiation at Summons stage	As part of the negotiation with debtors at the Summons stage of the Recovery process some authorities have introduced a procedure that allows officers to agree to write back a defined portion of the enforcement (court) costs if the debtor agrees to pay the current balance outstanding by Direct Debit. The procedures also include protocols to ensure that if the Direct Debit arrangement is not kept then the debtor cannot repeat this special negotiated arrangement on an iterative basis.

Opportunities to improve efficiency and effectiveness in revenues collection (8)

IMPROVING THE CUSTOMER EXPERIENCE

The 'innovative' trends around improving the customer experience include:-

Item Name	Brief Description	Key Objectives
Contact centre reviews	Review of existing ("1st generation") call/contact centre operations to provide a range of effective and efficient contact channels and related processes	A number of authorities are reviewing their existing (1st generation) call/contact centres to improve both their efficiency & effectiveness. These reviews are often part of a wider review of front & back offices processes and procedures with a Target Operating Model designed to:- • Incorporate e-Services to enable improved customer self-fulfilment • Improve First Point of Contact Resolution • Introduce or revise existing Service Level Agreements between back and front office 'layers' • Introduce Content Management Systems in the provision and updating of integrated corporate and service specific web portals. • Accommodate the 'Tell us Once' functionality and capabilities

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Opportunities to improve efficiency and effectiveness in revenues collection (9)

PART-SOURCING/MANAGED SERVICE OFFERINGS

The 'innovative' trends around part-sourcing include:-

Item Name	Brief Description	Key Objectives
Scanning & Indexing	Use of bureau to undertake the scanning & indexing processes for DIP/EDMS customers on a managed service basis	A number of commercial service providers offer a contractually managed service to receive, scan and index documents for clients who have DIP/EDMS systems. The service delivery models vary between suppliers, but in general terms involve:- • the use of a remote PO Box number for directing inbound letters and documents to the (remote) managed service provider • the scanning of inbound documentation, often using high-end scanning equipment; the service can also include the verification and return postage of any prime documents • the indexing of documentation to specific customer records These services are normally provided within a contractually managed set of service and quality measures.

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Opportunities to improve efficiency and effectiveness in revenues collection (10)

Lean Processes

Many local authorities have used 'lean' to great effect (e.g. LB Waltham Forest, LB Ealing). 'Lean systems thinking' is a set of tools and techniques designed to challenge non value added activity and wasteful practices inherent in current work processes, and embed a culture of continuous improvement.

In the UK public sector, there are many improvement techniques and methodologies in use including lean, Six Sigma, business process re-engineering (BPR), PRINCE2, total quality management (TQM) and theory of constraints (TOC). These range of techniques and methodologies all share some key principles:-

- Processes are reviewed in detail in order to identify waste, duplication, errors, variations, bottlenecks and blockages; and
- Changes are made to eliminate such waste and duplication and streamline processes to an optimum in terms of their cost, quality and productivity.

The 'lean' tools and methods can play an integral part of delivering major transformation of the CT and NDR functions.

Opportunities to improve efficiency and effectiveness in revenues collection (10)

Change Management

Change management will be essential to the success of any collaboration option that is taken forward and implemented.

Effective change management will anticipate and tackle factors (mostly people and organisational) that could create a barrier to the new ways of working in the CT and NDR services. The ultimate goal is to ensure that all those affected by change are adequately prepared for their new roles and responsibilities, are clear what success looks like and are motivated to act in a supportive way.

It must also be remembered that change management cannot compensate for a poor business case or project implementation plan: all elements need to work well in tandem if change is to deliver business value and the stakeholders involved brought on board.

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6. Potential Delivery Vehicles for Revenues Collection

Potential Delivery Vehicles for Revenues Collaboration (1)

In this section of the report we have included details on typical service delivery vehicles employed in collaborations and also some details on governance models for collaborations.

There are a number of structural and legal issues that need to be considered around the governance models (and service delivery vehicles) which are outside of the scope of this project. These include the legalities of setting up collaborative services entities (joint committees, joint venture Companies, limited liability partnerships, etc), their suitability in respect of the authorities' objectives for the collaborative service arrangements and EU procurement implications.

In general terms the governance models and service delivery vehicles are encompassed by three main categories:-

- Informal Collaborations;
- Formal Collaborations (including variants such as joint service, delegation to another authority, joint venture (companies) etc; and
- Outsourcing.

In a later section of this report we will consider the specific opportunities for collaboration in revenues services in Wales that we have identified from our analysis of the various data around headcount, performance, ICT infrastructure etc.

Potential Delivery Vehicles for Revenues Collaboration (2)

Service Delivery Vehicles	Comments
Informal Collaboration/Incremental Sharing Coordinated strategy, knowledge sharing or co-sourcing through informal collaboration mechanisms. Individual authorities choose on a case-by-case basis the extent to which they participate.	This model is often the initial 'vehicle' adopted during initial benchmarking & specifics service strands improvement initiatives; from the review of existing Collaborations these types of models are often then grown into more formal partnerships (e.g. the Anglia Revenues Partnership initially grew from a need to address poor performance , exposed under the Best Value regime, in Revenues amongst the neighbouring authorities).
Joint Service This service delivery model comprises a formal arrangement and is established for a defined purpose. Policy is likely to be determined by local authority members for the purpose determined or delegated by the principal authorities, probably by a joint committee but possibly through a simultaneous executive meeting. The service delivery model is managed by designated officers.	Requires agreement amongst the participating local authorities, which should be documented but avoids the administration of setting up and operating a separate entity. There are no additional regulatory requirements to comply with e.g. company audit and annual returns. There are no statutory wind-up considerations at dissolution.
Delegation to another authority This service delivery model comprises a formal arrangement and is established for a defined purpose. Local authority 2 delivers defined services on behalf of Local authority 1 under delegated arrangements. Within the delegation, the services are delivered and managed within the decision-making framework of Local authority 2.	Requires agreement amongst the participating local authorities, which should be documented but avoids the administration of setting up and operating a separate entity. There are no additional regulatory requirements to comply with e.g. company audit and annual returns. There are no statutory wind-up considerations at dissolution.

Potential Delivery Vehicles for Revenues Collaboration (3)

Service Delivery Vehicles	Comments
Goods and services Local authority 1 delivers specified incidental services to Local authority 2. This is fundamentally a client-contractor arrangement between the two authorities. Local authority 1 will be solely responsible for the governance of the contractor function. Local authority 2 will be solely responsible for the governance arrangements for the client function.	Requires agreement amongst the participating local authorities, which should be documented but avoids the administration of setting up and operating a separate entity. There are no additional regulatory requirements to comply with e.g. company audit and annual returns. There are no statutory wind-up considerations at dissolution.
Company limited by guarantee Under this model, two or more local authorities form a company limited by guarantee. The authorities will be the members of the company and a board will be appointed under the terms of the company's constitution. There may be an agreement between the authorities and the company regulating its conduct and there may be a contract between the company and the authorities in respect of the services it delivers.	This model would require both in terms of set up and on-going running, compliance with the requirements of the Companies Acts. It requires agreement amongst the participating local authorities, which should be documented and the administration of setting up and operating a separate entity. There are additional regulatory requirements to comply with e.g. company audit and annual returns. There are statutory wind-up considerations at dissolution.

Potential Delivery Vehicles for Revenues Collaboration (4)

Service Delivery Vehicles	Comments
Company limited by shares (for profit) Under this model, two or more local authorities form a company limited by shares. The authorities will be the shareholders of the company and a board will be appointed under the terms of the company's constitution. There may be an agreement between the authorities and the company regulating its conduct and there may be a contract between the company and the authorities in respect of the services it delivers.	This model would require both in terms of set up and on-going running, compliance with the requirements of the Companies Acts. It requires agreement amongst the participating local authorities, which should be documented and the administration of setting up and operating a separate entity. There are additional regulatory requirements to comply with e.g. company audit and annual returns. There are statutory wind-up considerations at dissolution.
Joint Venture Third party company set up to deliver the service(s) owned jointly by the participating authorities and a private sector company. The authorities have contracts with it to provide the services.	This model would typically provide assistance with investment required (e.g.to align IT systems). However, any savings would have to be shared with the private sector partner. This model would normally be subject to EU procurement legislation.

Potential Delivery Vehicles for Revenues Collaboration (5)

Service Delivery Vehicles	Comments
Outsource Service delivery is contracted with private sector service provider. Typically a long term relationship where many of the existing employees (through TUPE) and assets transfer to the service provider.	This model would be subject to EU procurement legislation. The costs of procurement can be substantial and gestation period can be long (24 months +); there may also be a risk of 'frozen' services/performance/savings during procurement period. There could be potential issues and sensitivities around staff employment transfer. Any savings would have to be shared with the private sector service provider. The contractual nature of these types of service delivery vehicles can result in issues around:- •Inflexibility (e.g. to re-align with changing corporate strategies) in the service over the term of the contract •Loss of control over the service •Exit strategies in the result of contract performance failure

Potential Delivery Vehicles for Revenues Collaboration – Governance (1)

Shared service collaborations will be more successful and provide greater confidence to public sector partners where there is a strong governance structure in place. Responsibilities and accountabilities need to be well defined so that each party (including potential commercial partners) understands its role at all stages in the shared services lifecycle.

Clear governance arrangements should help build trust and understanding between the parties and allow for effective ways of working to be agreed. This will include setting resource requirements and key performance indicators (KPIs), and monitoring the delivery of services in line with service level agreements (SLAs).

Governance is particularly important at the time when services are being transferred to the 'partnership': customers (in most cases, the partner councils) will want the assurance that the right mechanisms are in place to ensure all operations run as smoothly as possible. A robust and well-defined governance model will be important here in guarding against the pitfalls associated with change. This also needs to work as part of the general service delivery and management framework and under the umbrella of the overall SLA.

Potential Delivery Vehicles for Revenues Collaboration – Governance (2)

From a strategic perspective, governance ensures that the direction of the collaboration is aligned with the overall vision of its partners. From an operational perspective, the governance function sets expectations, monitors service performance and works to drive improvement.

A governance structure should be developed from the start of any collaboration service initiative and updated through the project lifecycle. This will set out who should be on the governance board and other bodies, the extent of their powers, and who will be responsible for what. The nature of the board will reflect the collaboration model and legal vehicle used, as well as procurement and legal obligations on the part of member councils.

A typical governance model is shown on the next slide.

Potential Delivery Vehicles for Revenues Collaboration – Governance (3)

Example governance structure

Governance Body	Membership	Frequency of Meeting
Governance Board	Chair of Board/ Shared Service Leader / Director Partner CEOs / Elected members/ Non Exec representatives	Quarterly ↑
Service & Customer Forum	Shared Service Leaders / managers/ Key Account Managers/ Customer Representatives /Functional Specialists (Shared Services & Customer Service)	↑ Monthly ↑
Operational Management Team	Shared Service Leaders / managers /Key Account Managers /Customer Representatives/ Functional Specialists	↑ Weekly

Potential Delivery Vehicles for Revenues Collaboration – Governance (4)

Scrutiny committees

In addition to bodies set up for the purpose of governing the collaboration, council scrutiny committees will also have a role to play in ensuring that services are being performed effectively and in accordance with regulations, and that customers' needs are being met.

In some instances this may involve collaboration management team members being invited to individual councils' committee meetings. In many cases, though, joint scrutiny meetings may be held. Members of such committees will need to be kept abreast of developments involving the collaboration and receive management reports in an appropriate and timely manner.

Other governance issues to consider might include:-

- Standing Orders;
- Financial Regulations;
- Contract procedure rules;
- Overview & Scrutiny Arrangements; and
- Complaints Procedures.

7. Collaboration Options

Collaboration Options (1)

The earlier analysis of current collaborations has identified ICT synergy as a recurring (though not exclusive) characteristic of these operational collaborations/ partnerships and we have used this factor as one of the main evaluation criteria in testing the logic of joint service delivery options for revenues services in Wales.

In considering the initial service delivery collaboration options for CT and NDR in Wales we have based our high-level, first-pass feasibility analysis on some of the baseline service delivery data including:-

- Current I.T systems – to test the ICT infrastructure compatibility of any future collaboration models;
- Total number of properties/ hereditaments to identify the potential 'size' of any future collaboration models; and
- Headcount to identify the potential organisational size of any future collaboration models.

This analysis has provided an outline picture of what any future 'joined-up' service configurations might look like and produced a first-pass test of the potential feasibility of the various options and current inter-authority compatibilities including for:-

- A single Wales (national) revenues service;
- Regional (Footprint) based revenues services; and
- ICT infrastructure based 'virtual' revenues services.

Collaboration Options (2)

In addition to this service level modelling of potential collaborations in a holistic, joined-up service delivery of revenues services, we have also then looked at the opportunities for collaboration across the various layers of the overall services (e.g. ICT support/ hosting, procurement of support services (e.g. printing, bailiffs etc.) including the opportunities to expand and build upon existing collaborations amongst the revenues services in Wales.

It should be pointed out that the various collaboration options could be delivered by any of the three main service delivery vehicles (informal collaboration, formal collaboration, outsourcing) mentioned earlier.

This initial feasibility analysis of the potential ‘joined services’ is shown in the tables on the following slides.

Collaboration Options - CT Service Delivery – Wales - Single Service Characteristics

Authority	Gross Cost per Property	Regional Footprint Group	WIMD	I.T. Systems	EDMS Systems	Total Domestic Properties	Council Tax in-year collection	CT Collection Ranking	Ct Headcount	CC Staff	Total FTE
Anglesey	14.12	NW	14	NIS		34057	96.4	16	8.88	0	8.88
Blaenau Gwent	13.99	GWT	1	NIS	CIV	31883	95.4	20	17.50	0	17.50
Bridgend	4.02	WBAY	12	NIS	Anite	60937	96.5	15	18.00	0	18.00
Caerphilly	11.28	GWT	5	CAP	IDOX	76921	95.8	18	19.60	0	19.60
Cardiff	19.03	C&V	9	NIS	CIV	148238	94.5	22	45.00	7	52.00
Carmarthenshire	13.06	M&W	11	NIS	NIS	83178	97.6	2	20.00	2.4	22.40
Ceredigion	15.46	M&W	20	CAP	CIV	34452	96.8	13	9.38	2	11.38
Conwy	11.30	NW	13	CAP	NIS	55579	96.9	10	19.60	0	19.60
Denbighshire	10.96	NW	10	CAP	CIV	43806	98.2	1	13.10	0	13.10
Flintshire	8.91	NW	19	CIV	CIV	65343	97.5	4	17.60	0	17.60
Gwynedd	14.22	NW	16	CAP	Open Text	60352	96.7	14	19.70	0	19.70
Merthyr Tydfil	27.10	CTAF	2	NIS	Anite	26380	95.3	21	19.00	0	19.00
Monmouthshire	15.14	GWT	22	NIS		39833	97	9	12.00	0	12.00
Neath Port Talbot	15.49	WBAY	3	CAP		64088	97.2	6	19.00	0.5	19.50
Newport	11.41	GWT	6	CAP	NIS	63116	95.7	19	20.60	4.5	25.10
Pembrokeshire	11.54	M&W	15	NIS	NIS	58773	97.6	2	19.90	1.8	21.70
Powys	13.44	M&W	21	NIS	CIV	60547	97.3	5	14.10	5	19.10
Rhondda Cynon Taf	8.91	CTAF	4	CAP	Anite	105727	96.9	10	22.00	9.7	31.70
Swansea	15.82	WBAY	7	NIS	CIV	108533	96	17	42.40	0.5	42.90
Torfaen	11.20	GWT	8	NIS	NIS	40087	97.1	7	7.53	0	7.53
Vale of Glamorgan	12.28	C&V	18	CAP	Open Text	55381	97.1	7	17.14	0	17.14
Wrexham	11.01	NW	17	NIS	CIV	58321	96.9	10	11.50	0	11.50
Total						**1375532**			**413.53**	**33.40**	**446.93**

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Collaboration Options – NDR Service Delivery – Wales - Single Service Characteristics

Authority	Gross Cost per Property	Regional Footprint Group	WIMD	I.T. Systems	EDMS Systems	Total Hereditaments	NDR in-year Collection	NDR in-year Collection Ranking	NDR Headcount	CC Staff	Total FTE
Anglesey	46.0	NW	14	NIS		2655	97.7	11	1.88	0	1.88
Blaenau Gwent	83.6	GWT	1	NIS	CIV	2153	98.39	6	5.57	0	5.57
Bridgend	64.0	WBAY	12	NIS	Anite	4029	96.7	15	3	0	3
Caerphilly	38.2	GWT	5	CAP	IDOX	4526	96.1	20	3	0	3
Cardiff	35.7	C&V	9	NIS	CIV	11419	96.37	17	9.5	0	9.5
Carmarthenshire	33.6	M&W	11	NIS	NIS	6821	96.37	17	3	0	3
Ceredigion	33.6	M&W	20	CAP	CIV	3483	96.14	19	1	1	2
Conwy	35.4	NW	13	CAP	NIS	4939	98.67	4	3.6	0	3.6
Denbighshire	45.2	NW	10	CAP	CIV	3941	98.7	3	2.3	0	2.3
Flintshire	34.0	NW	19	CIV		5025	98.94	1	3.7	0	3.7
Gwynedd	41.9	NW	16	CAP	Open Text	6995	97.46	13	6.5	0	6.5
Merthyr Tydfil	50.1	CTAF	2	NIS	Anite	1618	98.2	7	1	0	1
Monmouthshire	51.0	GWT	22	NIS		3017	97.7	11	2	0	2
Neath Port Talbot	60.6	WBAY	3	CAP		3896	98.2	8	4	0	4
Newport	22.6	GWT	6	CAP	NIS	4420	98.76	2	2	0.2	2.2
Pembrokeshire	31.2	M&W	15	NIS	NIS	6370	98.1	9	3.9	0.4	4.3
Powys	43.0	M&W	21	NIS	CIV	6527	98.1	10	3.5	1	4.5
Rhondda Cynon Taf	37.6	CTAF	4	CAP	Anite	6462	97.08	14	5.2	0.4	5.6
Swansea	33.9	WBAY	7	CAP	CIV	7204	96.58	16	8.1	0	8.1
Torfaen	53.9	GWT	8	NIS	NIS	2558			1.99	0	1.99
Vale of Glamorgan	58.5	C&V	18	CAP	Open Text	3400	98.6	5	2.55	0	2.55
Wrexham	55.2	NW	17	NIS	CIV	4042	95.82	21	3.5	0	3.5
Totals						**105500**			**80.79**	**3**	**83.8**

Collaboration Options – Wales single Revenues Service model

This headline evaluation and consideration of a single 'revenues' service for the whole of Wales suggests that this is unfeasible or high-risk for two main reasons:-

- **I.T. Infrastructure** - The current lack of synergy around the I.T systems in use and the risk & cost involved in any conversion to a common system appears to be a significant barrier to a nation-wide service delivery model; and

- **Scale** - The resultant size of a nation-wide service delivery model, from a property caseload and staffing levels perspective, would result in an organisation of some 500+ employees which would make it over 3 times the size of the largest revenues operation that we are aware of in the UK which is Birmingham City Council which consisted of 150 FTE staff, before it was outsourced to CAPITA as part of the Service Birmingham Strategic Partnership contract extension in 2011.

The next option that was considered was the consideration of **regional (footprint) segmentation** in the delivery of revenue services and this analysis also identifies the lack of synergy in current I.T. systems as a major limiting factor to this option.

The third main option that was considered was the consideration of I.T. Systems segmentation (with a secondary analysis by regional footprint grouping) and this analysis is shown in the tables on the following slides.

Collaboration Options - CT Service Delivery – ICT Segmentation

ICT Segmentation											
Authority	**Gross Cost per Property**	**Regional Footprint Group**	**WIMD**	**I.T. Systems**	**EDMS System**	**Total Domestic Properties**	**Council Tax in-year collection**	**CT Collection Ranking**	**Ct Headcount**	**CC Staff**	**Total FTE**
Vale of Glamorgan	12.28	C&V	18	CAP	Open Text	55381	97.1	7	17.14	0	17.14
Rhondda Cynon Taf	8.91	CTAF	4	CAP	Anite	105727	96.9	10	22	9.7	31.7
Caerphilly	11.28	GWT	5	CAP	IDOX	76921	95.8	18	19.6	0	19.6
Newport	11.41	GWT	6	CAP	NIS	63116	95.7	19	20.6	4.5	25.1
Ceredigion	15.46	M&W	20	CAP	CIV	34452	96.8	13	9.38	2	11.38
Conwy	11.30	NW	13	CAP	NIS	55579	96.9	10	19.6	0	19.6
Denbighshire	10.96	NW	10	CAP	CIV	43806	98.2	1	13.1	0	13.1
Gwynedd	14.22	NW	16	CAP	Open Text	60352	96.7	14	19.7	0	19.7
Neath Port Talbot	15.49	WBAY	3	CAP		64088	97.2	6	19	0.5	19.5
ICT Total						**559422**			**160.1**	**16.7**	**176.82**
Flintshire	8.91	NW	19	CIV	CIV	65343	97.5	4	17.6	0	17.6
ICT Total						**65343**			**17.6**	**0**	**17.6**
Cardiff	19.03	C&V	9	NIS	CIV	148238	94.5	22	45	7	52
Merthyr Tydfil	27.10	CTAF	2	NIS	Anite	26380	95.3	21	19	0	19
Blaenau Gwent	13.99	GWT	1	NIS	CIV	31883	95.4	20	17.5	0	17.5
Monmouthshire	15.14	GWT	22	NIS		39833	97	9	12	0	12
Torfaen	11.20	GWT	8	NIS	NIS	40087	97.1	7	7.53	0	7.53
Carmarthenshire	13.06	M&W	11	NIS	NIS	83178	97.6	2	20	2.4	22.4
Pembrokeshire	11.54	M&W	15	NIS	NIS	58773	97.6	2	19.9	1.8	21.7
Powys	13.44	M&W	21	NIS	CIV	60547	97.3	5	14.1	5	19.1
Anglesey	14.12	NW	14	NIS		34057	96.4	16	8.88	0	8.88
Wrexham	11.01	NW	17	NIS	CIV	58321	96.9	10	11.5	0	11.5
Bridgend	4.02	WBAY	12	NIS	Anite	60937	96.5	15	18	0	18
Swansea	15.82	WBAY	7	NIS	CIV	125025	96	17	42.4	0.5	42.9
ICT Total						**767259**			**235.8**	**16.7**	**252.51**
Total									**413.5**	**33.4**	**446.93**

Collaboration Options - NDR Service Delivery – ICT Segmentation

ICT Segmentation												
Authority	**Gross Cost per Property**	**Regional Footprint Group**	**WIMD**	**I.T. Systems**	**EDMS Systems**	**Total Hereditaments**	**NDR in-year Collection**	**NDR in-year Collection Ranking**	**NDR Headcount**	**CC Staff**	**Total FTE**
Caerphilly	38.2	GWT	5	CAP	IDOX	4526	96.1	20	3	0	3
Ceredigion	33.6	M&W	20	CAP	CIV	3483	96.14	19	1	1	2
Conwy	35.4	NW	13	CAP	NIS	4939	98.67	4	3.6	0	3.6
Denbighshire	45.2	NW	10	CAP	CIV	3941	98.7	3	2.3	0	2.3
Gwynedd	41.9	NW	16	CAP	Open Text	6995	97.46	13	6.5	0	6.5
Neath Port Talbot	60.6	WBAY	3	CAP		3896	98.2	8	4	0	4
Newport	22.6	GWT	6	CAP	NIS	4420	98.76	2	2	0.2	2.2
Rhondda Cynon Taf	37.6	CTAF	4	CAP	Anite	6462	97.08	14	5.2	0.4	5.6
Swansea	33.9	WBAY	7	CAP	CIV	7204	96.58	16	8.1	0	8.1
Vale of Glamorgan	58.5	C&V	18	CAP	Open Text	3400	98.6	5	2.55	0	2.55
Sub-totals						**49266**			**38.25**	**1.6**	**39.9**
Flintshire	34.0	NW	19	CIV		5025	98.94	1	3.7	0	3.7
Sub-totals						**5025**			**3.7**	**0**	**3.7**
Anglesey	46.0	NW	14	NIS		2655	97.7	11	1.88	0	1.88
Blaenau Gwent	83.6	GWT	1	NIS	CIV	2153	98.39	6	5.57	0	5.57
Bridgend	64.0	WBAY	12	NIS	Anite	4029	96.7	15	3	0	3
Cardiff	35.7	C&V	9	NIS	CIV	11419	96.37	17	9.5	0	9.5
Carmarthenshire	33.6	M&W	11	NIS	NIS	6821	96.37	17	3	0	3
Merthyr Tydfil	50.1	CTAF	2	NIS	Anite	1618	98.2	7	1	0	1
Monmouthshire	51.0	GWT	22	NIS		3017	97.7	11	2	0	2
Pembrokeshire	31.2	M&W	15	NIS	NIS	6370	98.1	9	3.9	0.4	4.3
Powys	43.0	M&W	21	NIS	CIV	6527	98.1	10	3.5	1	4.5
Torfaen	53.9	GWT	8	NIS	NIS	2558			1.99	0	1.99
Wrexham	55.2	NW	17	NIS	CIV	4042	95.82	21	3.5	0	3.5
Sub-totals						**51209**			**38.84**	**1.4**	**40.2**
Totals						**105500**			**80.79**	**3**	**83.8**

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Collaboration Options – CT & NDR – ICT Segmentation (1)

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This segmentation based upon current core I.T systems shows that an application based collaboration for revenues services would have the following characteristics:-

CAPITA	**CT**	**NDR**	**Total**
Properties	559,422	49,266	608,668
Headcount (FTE)	176	40	216
Northgate	**CT**	**NDR**	**Total**
Properties	767,259	51,209	818,468
Headcount (FTE)	252	40	292
Civica	**CT**	**NDR**	**Total**
Properties	65,343	5,025	70,368
Headcount (FTE)	18	4	22

Collaboration Options – CT & NDR – ICT Segmentation (2)

From an initial high-level evaluation of the feasibility for joint service delivery of NDR services it would appear that the delivery of application based 'virtual' services for NDR could be worthy of more detailed consideration. Any more detailed evaluation of this service delivery option should also consider the additional convergence opportunities presented by the commonality in the current EDMS products in use as well as the core NDR applications in use (e.g. Northgate NDR application & Civica EDMS commonality at Cardiff, Blaenau Gwent, Powys & Wrexham).

There also appears to be a degree of convergence for the CT services around core CT IT systems & the current, underlying EDMS products in use (e.g. Northgate CT application & Northgate EDMS commonality at Torfaen, Carmarthenshire & Pembrokeshire) that might be worthy of more detailed consideration in providing a potential 'network' capable of enabling shared working between these authorities and similar convergent CT-EDMS common system clusters.

The second-pass options consideration was undertaken to evaluate the current collaborations within revenues services in Wales and identify opportunities where these could be extended amongst the Wales authorities and also to look at new, additional opportunities for collaboration.

Collaboration Options – extending existing collaborations (1)

Existing areas of collaboration

The analysis of current (Wales) collaborations around revenues services was based upon the authority responses to the CIPFA *Questionnaire 1* which sought details on current public-private & public-public partners.

In general terms that showed existing collaboration opportunities that could be extended and leveraged around:-

- **Shared Management** – from the responses returned there is currently already a shared revenues manager between Powys & Ceredigion; shared management of services is one of the potential benefits from the evidence from the analysis of current (external) collaborations for revenues and the experience of this sharing of a manager will provide valuable inputs into any detailed consideration of collaboration opportunities for the other revenues services in Wales;
- **Training** – currently there are joint training courses including some NVQ approved assessment capabilities shared primarily amongst the authorities in North Wales which could potentially be extended to other areas of Wales;
- **Single Person Discount Reviews** – currently 7 authorities in North & Mid-Wales have jointly procured a service provider to undertake an SPD review for their authorities; subject to it being tested against a business case approval process this could also be extended to other areas of Wales;

Collaboration Options – extending existing collaborations (2)

- **Bailiffs** – a variety (11 across the 20 services that completed the questionnaire) of different bailiff organisations are engaged across the revenues services. Although most are employed on a 'no charge' to the Council basis, there may be opportunities to use the leverage of the 22 revenues services to develop common procedures and performance management protocols/ SLAs between the 22 services and each bailiff engaged to provide a best practice framework for the management of these contract/partnerships with bailiffs; and
- **Printing** – from the returned data there appears to be limited use made of external printing suppliers across the 22 revenues services for the provision of either main/ bulk billing or ad-hoc printing of bills. Subject to soft market testing & business case approval there may be opportunities to undertake a joint procurement of printing services from specialist contractors (e.g. Print Search, MPS, FDML etc.).

Collaboration Options – Additional areas of potential Collaboration (1)

This evaluation of additional areas of potential collaboration has considered evidence of collaborations from existing collaborations and partnerships for revenues services.

We have also taken into account consideration of specific opportunities for collaboration in Wales that can help to address the 'levelling up' by cross-pollination between the high-achieving and the poorer performing of individual services across the 22 local authorities to benchmarked targets such as:-

- headcount/ productivity from the 'Barony' and 'Greater Manchester' benchmark methodologies;
- collection performance from the analysis of intra-Wales and English peer group authority comparators; and
- best practice processes and practices for CT and NDR from the self-assessment rating against Greater Manchester best practice checklist.

These additional areas for potential collaboration, if adopted, will need to be undertaken (and are likely to require access to a range of support services such as HR, Legal, ICT etc.) within a structured programme of change that may also require a consensus to be reached between the authorities on a number of important issues including:-

Collaboration Options – Additional areas of potential Collaboration (2)

- prioritisation of the various collaboration opportunities;
- any funding and sharing of savings protocols to govern the programme;
- whether these collaborations should be considered separately from, or as part of, any wider 'joined service' operational collaboration options; and
- the approach that should be adopted to unlock these potential options for improving the effectiveness and efficiency of the services

These additional collaboration options include:-

- **Shared improvement to processes, practices & procedures** based upon shared learning and experience.

  This can be undertaken:-

  - on an end-to-end review of all front and back office processes (which could take a considerable length of time)
  - within a more targeted approach to address prioritised areas for improvement, for example:-
    - improvements to recovery and enforcement processes, practices & procedures
    - improvements to the customer contact driven aspects of the service e.g. to reduce avoidable contacts and any failure demand

Collaboration Options – Additional areas of potential Collaboration (3)

Shared Management/'specialist' resources

- The current Wales collaborations already include examples of shared management in Revenues Services which may be worthy of consideration by other revenues services;
- There are other areas in the sharing of 'specialist' resources that have also been considered and adopted elsewhere in other revenues service collaboration reviews although these have not been specifically tested in this feasibility study. Some of these examples may not be feasible due to the local factors in Wales (e.g. geography, distance, size, workload peaks (e.g. 'clashing' recovery/ court cycles)) but are shown below:-
    - Joint inspections;
    - Joint court team;
    - Joint recovery;
    - Shared ICT systems support; and
    - Scanning and indexing shared resources.

Collaboration Options – Additional areas of potential Collaboration (4)

Shared Performance Management

The earlier analysis of the CIPFA *Questionnaire 1* responses on staffing identified that :-

- 10 of the local authorities operate a formal performance management (PM) scheme to monitor staff performance and only 4 use a performance management software package to provide data/information to assist with this management function;
- From our experience of other best practice revenues services (including those in a formal managed service contract environment) PM at service, team and individual level is a critical success factor; and
- The joint sharing of current approaches to PM and an evaluation of options for PM software to support this function appears to be an area worthy of more detailed consideration and collaboration.

Collaboration Options – Additional areas of potential Collaboration (5)

Shared/Hosted ICT

- IT outsourcing (ITO) and hosted services and support for revenues services hardware and software are available from a wide range of suppliers (including CAPITA, Northgate & Civica) as well as other generic ITO providers;
- Hosted ICT options could also be provided by an authority for other authorities;
- The current ICT analysis provided as part of CIPFA *Questionnaire 1* responses shows that Swansea currently have their (Revenues) ICT provided under an ITO supply model;
- The analysis also shows a mix of 'service' and 'central' provision of ICT delivery and support; and
- Hosted ICT by either a public-public or public-private partnership model may be an opportunity for future collaboration; any evaluation will also need to consider the need to maintain critical interfaces (e.g. housing/ council tax benefits, LLPG, customer contact management systems etc.) with other council systems.

Collaboration Options – Additional areas of potential Collaboration (6)

Shared Procurement & Commissioning

Joint procurement of goods & services and particularly those in common use within the various revenues service provides an opportunity to use the group buying power to achieve preferential terms/ costs from current and any future suppliers; there are also potential opportunities by the commissioning and implementation of any newly procured goods and services and the sharing of that 'prototype' experience with other joint purchasers to inform their implementations.

These joint procurement & commissioning opportunities could include a range of goods & services including:-

- Bailiff services (although we note that many of these are a 'no cost' service to the authority) – e.g. negotiating common 'SLAs' with the various bailiffs;
- Leaflets etc;
- E-Forms & e-service modules;
- Content design & content management of Revenues related web-pages;
- Scanning and indexing bureau services – including a local authority hosted service;
- Back-office off-site processing resources for shared additional capacity for resilience, backlog, planned back-fill resourcing scenarios; and
- Call centre 'bureau' facilities specifically for revenues services related call handling, which could include delivery hosted by a lead authority.

8. Opportunities for Savings

Opportunities for Savings (1)

This section considers the opportunities for the 22 Welsh authorities to improve the cost of their CT and NDR activities. Specifically, set out here is CIPFA's assessment of the main areas in which authorities can:-

- make potential indicative cost savings; and
- make potential indicative collection rate improvements.

These are an exploration of the improvements in the cost and collection performance of the CT and NDR activities.

Opportunities for Savings (2)

Whist it is recognised that it may not be feasible in all cases to generate the magnitude of potential savings set out in the following slides, the information is an indication of what potential savings that could be achieved, through either informal collaboration (i.e. knowledge sharing through identifying best practice across authorities), formal collaboration (i.e. joint service) or outsourcing.

It should be noted that the CT and NDR potential savings are predicated on an accurate split of costs between the two functions as reflected in the base information used. From experience of other Revenues Service review projects, we are aware that the degree of operational and organisational integration and 'sharing' of resources between these CT and NDR components within a Revenues Service makes the accurate apportionment of costs and headcount difficult to produce. We would expect this to be recognised in the consideration of the current analysis of opportunities for savings and to be addressed in any future more detailed analysis of opportunities for savings in Revenues Services in Wales.

It is recognised the information is a snapshot at a particular moment in time and does not necessarily provide the level of granularity that authorities will require when faced with specific operational and organisational choices. The level of granularity will need to be included in any outline and full business cases.

It should be noted, that achieving the indicative gross savings requires a change management project/ programme to deliver the savings whilst also maintaining/ improving (collection etc.) performance. This approach will involve costs examples of which are shown in Section 9 of this report.

Opportunities for Savings (3)

The 'basket' of alternative benchmarks used to quantify (£k) potential CT and NDR function cost savings are:-

- 'Barony Benchmark' and 'Greater Manchester benchmark' (see Appendix C) – nationally recognised benchmarks using ratios of FTEs to number of properties/ hereditaments, to identify potential staff cost savings;
- Potential staff and non-staff savings across different cost headings if an authority with higher costs than the Wales average cost per property/ hereditament could reduce the costs to the Wales average cost per property; and

Due to the high cost of outsourcing contracts in England for CT and NDR (compared to Wales), it is not considered appropriate to use the following benchmark:-

- Potential staff and non-staff savings across different cost headings if an authority with higher cost than the England average cost per property/ hereditament could reduce the costs to the England average cost per property/ hereditament.

Opportunities for Savings - CT (1)

Potential staff cost savings if an authority with FTEs higher than the ‘Barony Benchmark’ could reduce the FTEs to the ‘Barony Benchmark’.

	Staff Cost Saving (£'000)
Total	-1,172
Average potential saving per authority	-98

Opportunities for Savings - CT (2)

Potential staff cost savings if an authority with FTEs higher than the ‘Greater Manchester Benchmark’ could reduce the FTEs to the ‘Greater Manchester Benchmark’.

	Staff Cost Saving (£'000)
Total	-916
Average potential saving per authority	-70

Opportunities for Savings – CT (3)

Potential savings if an authority with higher costs than the Wales average cost per property could reduce the costs to the Wales average cost per property.

	Staff Saving (£'000)	Receiving Payments Saving (£'000)	Other Running Costs Saving (£'000)	Central Charges – IT Saving (£'000)	Central Charges – Accom. Saving (£'000)	Central Charges – Other Saving (£'000)	Total Saving (£'000)
Total	-976	-369	-521	-413	-227	-719	-3,225
Average potential saving per authority	-139	-53	-52	-59	-32	-90	-425

The issues surrounding the impact of central charges savings (in this scenario totalling £1,359k) are discussed in section 10 of this report.

Opportunities for Savings - NDR (1)

Potential staff cost savings if an authority with FTEs higher than the "Barony Benchmark" could reduce the FTEs to the 'Barony Benchmark'.

	Staff Cost Saving (£'000)
Total	-831
Average potential saving per authority	-46

Opportunities for Savings - NDR (2)

Potential staff cost savings if an authority with FTEs higher than the ‘Greater Manchester Benchmark’ could reduce the FTEs to the ‘Greater Manchester Benchmark’.

	Staff Cost Saving (£'000)
Total	-1,367
Average potential saving per authority	-62

Opportunities for Savings – NDR (3)

Potential savings if an authority with higher costs than the Wales average cost per hereditament could reduce the costs to the Wales average cost per hereditament.

	Staff Saving (£'000)	Receiving Payments Saving (£'000)	Other Running Costs Saving (£'000)	Central Charges – IT Saving (£'000)	Central Charges – Accom. Saving (£'000)	Central Charges – Other Saving (£'000)	Total Saving (£'000)
Total	-244	-59	-157	-108	-33	-171	-773
Average potential saving per authority	-31	-7	-13	-15	-4	-21	-91

The issues surrounding the impact of central charges savings (in this scenario totalling £312k) are discussed in section 10 of this report.

Further Opportunities for Savings

The previous slides quantified (£) potential indicative savings through the use of benchmarking. Further potential savings could be achieved through formal collaboration (i.e. joint service), and outsourcing in the following areas:-

- Staff rationalisation through economies of scale (e.g. fewer Revenues management overheads);
- Rationalising the amount of accommodation through the co-location of services;
- Cheaper procurement through aggregated demand;
- Rationalisation through sharing common ICT platforms; and
- Lower central charges (i.e. finance, legal, ICT, HR) as a result of rationalisation of staff, and supporting systems/ processes/ practices.

Opportunities to Improve Cash flow – CT and NDR

If an authority with an in year collection rate lower than the upper quartile could increase the collection rate to the upper quartile, there is a potential to increase the 'public purse' cash flow through:

- Increased investment income (although it is acknowledged that there would be a minimal gain based on current interest rates); and
- Reduction in bad debt write-offs (a link between increased collection rates and lower write-offs would need to be evidenced).

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9. Costs of Implementation of Collaborative Working

Costs of Implementation of Collaborative Working (1)

Potential savings as a result of collaboration (i.e. informal/ formal collaboration and outsourcing) are included in the previous section. However, there is a limit to the potential cost savings that can be achieved without an upfront and/ or on-going outlay of resources. In most cases, authorities will need to invest or incur costs in order to generate savings. Such investment/ costs include:-

- **Severance costs (one-off)** – costs associated with staff economies of scale. or example redundancy costs, pensions, relocation costs;
- **ICT investment (one-off)** – investment in new or upgraded/ integration of exist ICT platforms;
- **Accommodation (one-off)** – rationalisation of office space/ relocation may incur additional property costs (i.e. lease penalties);
- **Project Management (one-off)** – specialist project management skills may be required to oversee and manage the changes to the service;
- **Specialist staff costs (one-off)** – additional capacity in areas such as legal services, business process analysis, strategic and operational HR, change management, risk management;
- **Training (on-going)** – staff training of new and improvement business processes/ systems; and
- **Performance management (on-going)** – systems and processes that support the production of good quality performance management information.
- **Procurement costs (one-off)** – the costs incurred in the procurement of the various service delivery models

Costs of Implementation of Collaborative Working (2)

Summarised below are the areas identified as potential costs and the extent, in terms of value, they relate to informal collaboration, formal collaboration and outsourcing.

Potential Cost	Informal Collaboration	Formal Collaboration	Outsourcing
Severance costs	Low	Medium	High
ICT investment	Low	Medium - High	Medium - High
Accommodation	Low	Medium - High	Medium - High
Project Management	Low	Medium	High
Specialist staff costs	Low	Medium - High	High
Training	Low	Medium	Medium
Performance Management	Low	Medium - High	High
Procurement Costs	Low	Medium – High	High

The above table illustrates that costs associated with outsourcing are high, they diminish for formal to informal collaborations.

10. Further Considerations of Collaborative Working

Further considerations for collaboration - Financial Case (1)

VfM

The detailed financial case incorporating the associated potential savings and costs will be dependant on the collaboration option(s) selected. Section 3 has highlighted the potential indicative savings that could be realised through collaboration. Significant reductions in costs would be very much a medium to long-term objective.

The amount and profile of costs highlighted in section 9 will be an important consideration when the VfM (including payback) of any collaboration option(s) is evaluated as part of any outline and detailed business case, following on from this feasibility study.

Funding and access to other resources

In most cases, a shared initiative will demand some form of investment in change, both in terms of cash and in-kind resources. The ability to find a suitable funding and resource model – in collaboration with partners – will be essential in making things happen. Steps needed here may include:-

- Ensuring that the business case is robust and can be used as the basis for securing the funds available, whichever route is chosen (both from internal sources or external grant funding);
- Checking whether revenue budgets are sufficient to meet the costs of change and, if not, understanding what capital funding options exist;
- Exploring the options around business and partnership models, to see which will best meet the funding constraints and appetite for risk; and
- The MTFP will be informed by the investment appraisal and outline/ full Business Case, in order to recognise their impact on the councils' resources over the medium term.

Further considerations for collaboration - Financial Case (2)

Invest to Save Fund

The Welsh Government has announced a minimum of £45million for investment in new projects over the next three financial years. The fund supports the introduction of new and/ or proven ways of working so that public services become more efficient and effective. The fund will target strategic projects, in particular those that:-

- lead to the release of significant cash-releasing savings;
- deliver citizen-focused services; and
- support key aspects of the Welsh Government's public service efficiency and wider improvement agenda.

Investments made from the fund are fully repayable but there are no interest charges and there is flexibility on the payback period.

We consider the Invest to Save Fund is an option to consider in relation to pump priming CT and NDR collaboration in view of the supporting funding guidance which provides an example of the type of project that the funding would support i.e. '*collaborative projects that deliver gains through the re-engineering of business processes that improve front-line services*'. However, the timescales for the current round of applications for funding is tight:-

- Round VII (funding for 2013-14): opens 5 November 2012. Expressions of interest to be submitted by 7 January 2013.

Further considerations for collaboration - Financial Case (3)

Central Charges

The impact of collaboration on central charges is often overlooked or ignored, with central charges more often than not, being reallocated to other service areas, rather then being saved. This naturally increases the net cost of other service areas and could be viewed as inequitable.

Central charges should be subject to the same scrutiny as direct CT and NDR function costs and should involve the relevant budget holder(s) of central support services. Central charges should be charged, allocated or apportioned across users and other beneficiaries in accordance with the following seven general principles:

- **Complete recharging** – all central charges must be fully recharged to service expenditure (with the exception of charges defined as NDC and CDC);
- **Correct recipients** – correctly identify who should receive charges;
- **Transparency** – recipients must be clear what each recharge covers;
- **Flexibility** – recharge arrangements must be flexible to allow for changes;
- **Reality** – recharges should result in the distribution of actual costs which has the basis of fact;
- **Predictability/ Stability** – recharges should be as predicable as possible; and
- **Materiality** – due regard should be made to materiality to minimise the costs involved in running the recharge system.

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Further considerations for collaboration - Financial Case (4)

Summarised below are the potential CT central charge savings using benchmarking, identified in Section 8.

Benchmark - CT	Central Charges – IT Saving (£'000)	Central Charges – Accom. Saving (£'000)	Central Charges – Other Saving (£'000)	Total (£'000)
Potential savings if an authority with higher costs than the Wales average cost per property could reduce the costs to the Wales average cost per property	-413	-227	-719	-1,359

Further considerations for collaboration - Financial Case (5)

Summarised below are the potential NDR central charge savings using benchmarking, identified in Section 8.

Benchmark - NDR	Central Charges – IT Saving (£'000)	Central Charges – Accom. Saving (£'000)	Central Charges – Other Saving (£'000)	Total (£'000)
Potential savings if an authority with higher costs than the Wales average cost per hereditament could reduce the costs to the Wales average cost per hereditament	-108	-33	-171	-312

Further considerations for collaboration - Financial Case (6)

The potential central charge savings on the previous two slides are predicated on the seven general principles discussed earlier, particularly 'correct recipients' and 'reality', being followed. In practice this may not have happened and as such the central charge cost base for each of the authorities will not be correct.

We would therefore suggest that the basis for the central charges to CT and NDR functions are analysed and any corrections made to establish a robust cost base upon which potential central charge cost savings can be calculated.

Further considerations for collaboration – Technical Considerations

Impact on Grant

The impact on grants as a result of collaboration in the delivery of CT and NDR (ring-fenced and non ring-fenced), is difficult to determine due to the independent factors that are used to calculate grant entitlement for individual authorities. The Grants that may be affected in terms of the total quantum are:-

- Revenue Support Grant (RSG);
- Redistributed non-domestic (business) rates; and
- NDR Admin Grant.

In particular NDR admin grant, which is a separately identified grant, may be subject to reductions if there is a significant reduction in the level of NDR function gross costs. In view of this the WLGA may wish to lobby the Welsh Government for the admin grant to be subsumed into RSG.

Potential reductions in RSG and redistributed non-domestic (business) rates is harder to predict. The grant entitlements are determined by a number of independent factors (including assumed collection rates) and as such may be affected in the medium to long term by significant reductions in gross costs and increased collections rates.

It should be noted that the outcome of a recent review may affect the quantum of business rates retained by local authorities. The Business Rate Wales Review contains recommendations for change including enabling local authorities to retain a proportion of the income they generate from business rates.

Further considerations for collaboration – the commercial case (1)

The detailed scoping of the commercial case will be very dependent upon the collaboration option(s) selected and whether the release of potential savings from a 'levelling up' across the 22 vertical revenues services is undertaken in parallel with any consideration of the more formal 'shared services' options framework.

In general terms you could start the 'levelling up' project fairly quickly and begin to deliver improvements in the effectiveness and efficiency of the services, particularly if a prioritised review of processes and performance is adopted.

It is also worth mentioning that any plans for change within revenues services and CT in particular will need to recognise the potential impacts (and risks) to the CT service from the roll out of the new universal credit scheme.

Timelines

From the lessons learned and critical success factors reported from established revenue service collaborations there are important messages about both the initial set-up and implementation of collaborations.

Further considerations for collaboration – the commercial case (2)

Full service collaboration is a complex programme of change and would typically include subject matter experts from a number of specialisms including:-

- Programme Management;
- Legal;
- HR/ Organisational Design;
- Property/ facilities;
- Finance modeller;
- Procurement;
- ICT;
- Solution architects;
- Subject Matter Experts/ Solution Architects;
  - Revenues
  - Customer Services
- Business Analysts; and
- Communications.

Further considerations for collaboration – the commercial case (3)

We have provided a table of the typical processes involved in the lead-in stage (only) to collaboration projects; as you will see from the analysis of existing revenues collaborations the majority of these have involved District Councils and most of the partnerships consist of 2-3 combined revenues services, so the scale and complexity potentially involved in Wales (involving 22 local authorities) is somewhat untried.

Collaboration - formal options consideration- Lead-in tasks	Estimated elapsed time
Develop Programme Management structures	4-6 weeks
Develop baseline of service information (e.g. headcount, staffing levels, budgets/costs, collection performance etc.) for initial benchmarking of current service disposition for use as baseline against options and progress can be measured	4-6 weeks
Develop framework for detailed evaluation of improvement options for Revenues Services in Wales	6-8 weeks
Options consideration (to include Soft market testing)	8-12 weeks
Test options with potential LAs to determine their eagerness to participate	4-6 weeks
Define preferred options	4-6 weeks
Formally agree preferred options & action plan	4-6 weeks
Detailed business case	4-6 weeks
Formal agreement to engage	6-8 weeks
Commence formal engagement	

Typical timescales for other revenues shared service projects suggest 12 months for the initial formation/ go live stage and a further 12 months for the (front-loaded) transformation stage.

We would expect the informal collaboration & 'levelling-up' option to have a reduced set of timescales for the lead-in, formation and go-live stages and a similar 12 months elapsed period for the full transformation stage to be completed.

Further considerations for collaboration – the commercial case (4)

Potential Partners/suppliers

The potential partners and/or suppliers that may be required to be involved will depend upon the Collaboration approach adopted but could include:-

- Current software suppliers;
  - CAPITA(Academy)
  - Northgate
  - Civica (OPENRevenues)
- Current DIP/EDMS suppliers;
  - Northgate/Anite
  - Civica
  - Open Text
  - iDOX
- Change Management consultants;
- Process;
- ICT Network expertise;
- ICT hosting providers;
- Benchmarking consultants;
- Independent/ external revenues services subject matter experts; and
- Any selected new ‘innovation’ providers (e.g. Govtech, RB Performance etc.).

Further considerations for collaboration – the commercial case (5)

Should the options consideration include evaluation of the potential for engagement with outsourcing partners for any proposed target operating models for revenues services, or even for an initial soft market testing of outline options, then the potential partners could also include:-

- Agilisys;
- Arvato;
- BT – Global Services;
- CAPITA;
- Civica;
- CSC;
- IBM;
- Liberata;
- Mouchel;
- Serco; and
- Steria.

Further considerations for collaboration – the commercial case (6)

Opportunity cost of delivery changes

The potential opportunity cost of delivery changes could potentially include:-

- Other scheduled or 'in-flight' projects being delayed or cancelled;
- Potential impacts on particular local authority revenues services improvement and cost reduction plans as they have to conform with the collaboration plans/timescales;
- Additional commitment of internal resources (e.g. HR, legal, ICT etc.) in supporting any collaboration plans;
- Potential opportunity costs caused by disruptions to services;
- Potential opportunity costs for those local authorities who may be considered as 'donors' rather than 'beneficiaries' in the collaborative approach to improving services; and
- Potential impacts on the CT benefits operational interfaces from the potential segregation of revenues services from the typical revenues and benefits operational and organisational structure.

Further considerations for collaboration – the commercial case (7)

The customer case

The data analysis of the customer contact aspects of the revenue services has looked at volume metrics and details on the configuration and scope contacts handled around the customer contact elements of the CT and NDR services at the various authorities; there has not been analysis of the quality aspects of the service.

That analysis of the current customer contact related data shows:-

- Varying levels of calls answered for the individual CT services from between a low of 34% (66% abandoned rate) to a high of 100% of calls offered being answered;
- Different levels of contacts/property which for the high levels of contact per property may indicate failure demand/avoidable contacts;
- Differences in the configuration and responsibility (between corporate and service) for face-to-face and telephony contact handling; and
- Different levels (from a brief survey of council web-sites for "revenues on-line forms") of sophistication in the on-line forms in use – from word/ PDF forms that need to be printed off, completed and returned by the customer to the use of sophisticated e-forms that capture the customer completed data and pass it to the back-office database systems.

Further considerations for collaboration – the commercial case (8)

The customer contact functions of shared service revenues services operations for both inter authority and outsourced service operating models can have the following characteristics:-

- Continued local delivery of face-to-face contact handling for the revenues services;
- Continued local handling of telephone calls (either as part of a corporate or service delivered telephone operation); **or**
- Remote handling of telephone calls sometimes on behalf of a group of revenues services

An example of the latter model from the revenues service outsourcing marketplace was the target operating model adopted by Liberata for their revenues and benefits contracts. Their model had the telephone calls for a variety of CT services (including at the time North Somerset, Swindon, Bromley, City of London, Southwark Councils etc.) handled by their telephone call handling operation in Sheffield. Their target operating model also involved the re-engineering of the end-to-end processes (using Six Sigma experts and revenues practitioners) and the implementation of common best practice process models across all of their revenues services contract operations.

Further considerations for collaboration – the commercial case (9)

The collaboration options for both the informal collaboration/ incremental sharing and inter-authority shared service models would both normally include a similar development of best practice business processes.

This process review would provide an opportunity:-

- to re-design processes, including looking at the effectiveness of processes and practices from a customer perspective;
- to seek to identify avoidable contacts and failure demand within the current model and introduce a revised process model to reduce and eliminate these avoidable processes;
- to improve first point of contact resolution across all channels;
- to review process and procedures to enable a consistency and commonality in the delivery of customer contacts irrespective of the contact channel chosen by the customer;
- to re-design e-services to enable increased customer self-fulfilment and customer contact form automation by the use of e-forms;
- to ensure that the front and back office 'layers' have clarity around responsibility boundaries, hand-offs etc;

Further considerations for collaboration – the commercial case (10)

- to ensure that there are clearly defined protocols and practices for the handling of complaints;
- to ensure that there are appropriate performance management mechanisms in place to provide customer contact information for use in resource planning, resource management, 'agent' performance and the contact resolution levels;
- to identify opportunities for the selective channel shift of customer contacts;
- to define customer contact performance levels that measure efficiency factors such as time to answer/respond, abandon rate etc. as well as effectiveness measures such as resolution rates and customer satisfaction (this latter factor can be complicated in a revenues service delivery scenario due to the nature of the contacts often being about paying money);
- to enable the consideration of various options for the handling of revenues services telephone contacts including the opportunity to develop a hosted option; and
- to enable the consideration of remote processing support options from either an inter-authority 'processing grid' or similar options from commercial providers to avoid backlogs.

Further considerations for collaboration – the commercial case (11)

Performance case

As part of the benchmarking and analysis of current performance across the revenues services in Wales, that included selective comparison with other UK CT and NDR services, we have identified potential opportunities for improvement in performance and performance indicators that could be achieved by a 'levelling-up' project work-stream.

For this revenues services collaborations feasibility study we have focused on *collection performance* key performance indicators as the data available enabled that to be undertaken. We have also undertaken some outline analysis of the customer contact volume metrics including the telephone calls presented/ answered/ abandoned rates, although the quality and satisfaction levels aspects have not been analysed.

We would envisage that any decision to undertake a 'levelling-up' project within the collaborations programme would include a defined project outcome that the objectives would specifically include a focus on maintaining and improving published performance indicators; in addition to the analysis of in-year collection performance for CT, you will see from the collection performance analysis that we have also included an analysis of the 'unpublished' combined collection performance that analysed the collection performance being achieved for the collection of in-year and previous year's debits outstanding.

Further considerations for collaboration – the commercial case (12)

The levelling-up project work-stream would potentially include the following components to assist in maintaining and improving published performance indicators:-

- Revised processes, practices and procedures to enable more effective and efficient service delivery as the platform for performance improvement (to the agreed collective target) and subsequent sustainable performance;
- Sharing of 'best practice', processes and procedures between the various Revenues Services and the importation of 'what works' service components;
- Selection of products/ services from the 'emerging trends to enable improvement in effectiveness, efficiency and service performance outcomes;
- Potential adoption of a common performance management infrastructure and software to monitor and manage performance across services, teams and individuals;
- Customer contact 'layer' improvements as part of the process review – including the identification of avoidable contacts and failure demand in the current process models; and
- Service level agreements with key internal (such as customer services) and external partners (such as bailiffs) to ensure that they are aware of the expectations placed on them to meet the defined service objectives.

Further considerations for collaboration – the commercial case (13)

By way of example of the potential link between process and performance - from experience at another large local authority revenues service (150 FTE) a structured review of their current processes and practices identified differences in processes and practices across their 8 CT teams due to process and procedural ‘drift’ from the documented procedures. By the adoption of revised processes, procedures (including in the provision of clear guidance around the negotiation of special arrangements with debtors) and controls to monitor adherence/ detect exceptions, the operation achieved a 1% improvement in in-year CT collection, albeit from a previous position of lower quartile collection performance.

Further considerations for collaboration – the commercial case (14)

Staffing issues

The potential impacts on staff will, to some extent, be dependent upon the options that are selected from the outline feasibility study for more detailed consideration.

In order to provide a degree of framework to identify the potential impacts on staff we have assumed three potential options:-

1. Informal collaboration/ Incremental Sharing;
2. Virtual (Revenues System based) Shared Services; and
3. Outsourcing.

There can of course be variants even within these three examples of possible collaboration service delivery models, including variants that have a scope that covers CT and/ or NDR.

In general terms the (perceived) impacts on staff are likely to increase as you move through options 1 to 3. Until such time as there is more clarity around your preferred collaboration options then the potential issues can only be considered as typical examples of impacts rather than specific impacts.

Further considerations for collaboration – the commercial case (15)

Option 1 - Informal Collaboration/ Incremental Sharing - is likely to have potential impacts on staff that includes:-

- Potential changes to working practices;
- Potential changes to the performance management structure and culture in which the services operate;
- Potential changes in the shape of the service delivery model (e.g. how/ who/ where aspects of customer contact handling);
- Potential changes to the organisational structure in which they operate; and
- Potential reductions in current staffing levels if the move to a benchmark headcount is adopted

Option 2 - Virtual (Revenues System based) Shared Services - in addition to the above potential impacts this option might include impacts on staff from:-

- Any potential changes to the current operating models for CT and/ or NDR;
- Any potential changes to the management of the CT and/ or revenues services; and
- Should the virtual shared services models also include the re-design and relocation of services or service components (e.g. say, telephony or scanning and indexing etc. being undertaken for the 'partnership' by a lead authority) then this would also impact on staff.

Further considerations for collaboration – the commercial case (16)

Option 3 – Outsourcing - in addition to the above potential impacts this option might include impacts on staff from:-

- Potential changes to current local authority employment from the transfer of staff to a new employer/ contractor typically under a TUPE or secondment employment model; and
- Potential concerns about whether the services and employment opportunities will be retained locally.

Further considerations for collaboration – the commercial case (17)

Risk Assessment & mitigating actions

This risk assessment has been undertaken using both local (Wales) specific and the typical risks encountered in the consideration and implementation of collaborations/ partnerships.

Any programme/project governance structure for the management of the collaboration programme should include a risk management plan.

The key risks and mitigation steps typically encountered in collaboration projects are shown in the tables in the following slides.

Further considerations for collaboration – Risk Assessment & Mitigating Actions (1)

RISK		Mitigation
Failing to gain support from the top	Support from elected members and/or senior management is weak, making it difficult win commitment to the vision for change, or to gain access to the resources needed to make change happen	Before committing significant resources, ensure that the vision and business case for change are compelling. Invest time in understanding the concerns of those at the top, providing evidence and explanations that solidify their support
Lack of experience of partnership working	There is little cross-organisational/inter-departmental collaboration, with (local) interests remaining entrenched and with no commitment to work in partnership. Elected members are also reluctant to move ahead because of concerns about perceived loss of control or the political fall-out if collaborations fail	Invest in effective communications and team-building, creating a shared vision of the future and explaining the short-comings of continuing with the status quo. Create staff incentives – and, if necessary, sanctions – that encourage the new forms of behaviour that are needed. Ensure that elected members across councils have plenty of opportunities to meet and explore common ground, with attention focused on the mutual interests of their citizens. Explain the governance structures and service management mechanisms that can be used to enable each set of councillors to have control over the partnership's operations

Further considerations for collaboration – Risk Assessment & Mitigating Actions (2)

RISK		Mitigation
Staff turnover increases in critical areas	Staff turnover increases because of uncertainty about the future. Loss of staff in areas impacted by change means a shortage of knowledge and experience for handling the transition to the new arrangement	Ensure all staff – especially those in the focal areas – are kept informed about change, have a clear sense of what the change is about and why it's happening, and have an opportunity to influence its direction. Be clear about the way staff transfers will be handled and – where necessary – create incentives for staff to see the change process through if job losses are involved (e.g. enhanced redundancy terms)
Knowledge transfer is poor or incomplete	Knowledge transfer to the SSA is done poorly or incompletely leading to errors in delivery; time is then spent to recover the situation and repair damaged customer relations	Ensure business and systems analysis is properly funded, with staff engaged throughout. Seek to draw out and document tacit knowledge acquired in operating the 'as is' service and ensure this is properly reflected in the way the new service operates and is supported

Further considerations for collaboration – Risk Assessment & Mitigating Actions (3)

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RISK		Mitigation
Negative reporting damages confidence	Negative media reporting leads to loss of customer and stakeholder confidence. The need to satisfy unhappy stakeholders limits future strategic options for change	Ensure that media and stakeholder relations are professionally managed, supported by an effective communications plan. Invest time and energy with sceptical groups to explain the benefits of change and the measures put in place to make sure it is being well-handled
Time and energy are diverted into repairing labour relations	Senior management time and energy has to be spent repairing damaged labour and community relations, rather than focusing constructively on future plans for improvement	Leading from the top, work with HR professionals, as well as staff representatives and unions, to understand staff concerns in advance of change and explain – where possible – the benefits that they will gain from it. Ensure that staff are a key part of the stakeholder and communications plans

Further considerations for collaboration – Risk Assessment & Mitigating Actions (4)

RISK		Mitigation
Processes and technology	Processes and technology requirements are poorly understood, requiring extra time and expense to create satisfactory service designs and delivery systems	Invest in professional business and systems analysis, ensuring that staff and users are fully involved, with suppliers and subcontractors being fully briefed on needs and quality criteria
The scope of change is too narrow or too broad	The project's scope is wrong – services covered are either too narrow to deliver a gain worth the investment of resources, or so wide as to make change too complex and cumbersome	Start by understanding all the drivers and opportunities for change, but break these down into a portfolio of projects that can be approached in a modular way, maximising potential project synergies. Start implementation with projects that are well understood, where the complexities are reasonably low and benefits near-term

Further considerations for collaboration – Risk Assessment & Mitigating Actions (5)

RISK		Mitigation
The benefits of change are over-estimated or not realised	Benefits have been over-estimated prior to change (including not taking into account an off-setting of savings from authorities sharing their best practice/ processes and taking a reduction in performance i.e. reduction in collection) during the short-term transition period) or not realised during change, making the business case invalid	Ensure that the business case is built on robust measurements of baseline costs and performance (including potential impact on collection rates), and that the costs of change and expected returns are robustly calculated and held open to challenge. Bring experienced project and change managers on board, with a strong focus on active benefits realisation

Further considerations for collaboration – Risk Assessment & Mitigating Actions (6)

RISK		Mitigation
Failure to address redeployment and redundancy issues early on, leading to uncertainty and muted support	Sometimes change may have a potential downside, such as redundancy, or create concerns about the nature of redeployments. If these are not dealt with early on they can create anxiety and resistance that will negatively affect the course of the initiative	Understand the consequences as early as possible for individuals and groups and communicate with them about it. In the absence of clarity of consequences, explain to people the process that will be gone through, the basis on which decisions will be made, and how and when they will be informed
Cost overruns and delays – particularly due to unanticipated/ hidden costs	Where costs overrun original budgets, the whole business case for change may be negated, with the benefits that do occur taking longer to come through than planned	Ensure that baseline costs, together with the anticipated costs and savings from change, are rigorously calculated – and ideally held open to independent validation and benchmarking. Ensure that implementation is rigorously managed, with close attention to costs and early warnings of any overruns

CIPFA performance in public services

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Further considerations for collaboration – Risk Assessment & Mitigating Actions (7)

RISK		Mitigation
Inadequate financial planning and tax exposures	Unless expert attention if paid to the financial side of change, the price of investments and timing of returns can lead to higher than expected costs. Liabilities may also exist on the tax side that were not anticipated in the initial business case, undermining the financial case for change.	Ensure that expert financial input is made into the development of the business case and that this is line with the financial regulations of all parties to the change. Ensure tax expertise is part of this, if necessary bringing in external people. Make sure that the legal basis of the collaboration minimises tax exposure (excepting that other factors will also determine which vehicle is chosen)
Policies and compliance regulations frustrate progress or create unanticipated costs	Despite a strong business rationale for change, the process that must be gone through creates delays and costs that were not anticipated at the start.	Bring in legal experts, or talk to people at reference sites, to check whether legal requirements have been properly understood, if there are 'smarter' ways of dealing with them, or whether there are different approaches (such as alternative legal vehicles or procurement routes) that may be better. Whichever approach is adopted, make sure that legal and procurement resource is invested early on to do this, so that the full costs and time implications are understood and can inform the business case

cipfa.org.uk

Further considerations for collaboration – Risk Assessment & Mitigating Actions (8)

The specific risks for this revenues collaboration opportunities review for Wales include:-

RISK		Mitigation
Revenues only focus	The scope of this review is specifically focused on Revenues although many of these services currently exist within a Revenues & Benefits organisational & operational structures to reflect the close linkage between CT and Benefits.	Ensure that the potential impacts of this Revenues only Collaboration focus from an organisational, operational, systems and customer perspective are fully explored as part of any more detailed options consideration.
Universal Credits	The current Housing Benefits legislation is being replaced (with effect from 1 April 2013) by a new Universal Credits regime; the details of which are still being finalised. From experience of previous changes in Benefit schemes this is likely to have an adverse impact on Benefits service operations and performance.	Ensure that the planned implementation timescales and resultant potential impacts are evaluated and captured for inclusion in any more detailed options consideration.

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Further considerations for collaboration – Risk Assessment & Mitigating Actions (9)

The specific risks for this revenues collaboration opportunities review for Wales include:-

RISK		Mitigation
Localised Support for CT	Council Tax Benefit Scheme will end on 31 March 2013, and will not continue beyond that date. Details of the replacement scheme is being developed. From experience of previous changes in Benefit schemes this is likely to have an adverse impact on Benefits service operations and performance. HB administration is being moved into universal credit – see previous slide.	Ensure that the planned implementation timescales and resultant potential impacts are evaluated and captured for inclusion in any more detailed options consideration.
Business Rates Wales Review	A Business Rate Review has been undertaken by Professor Brian Morgan. A considerable amount of evidence has been received. The report published in June 2012 contains recommendations for change including the case for the devolvement of business rates to Wales and enabling local authorities to retain a proportion of the income they generate from business rates. http://wales.gov.uk/topics/localgovernment/financeandfunding/businessrates/publications/120612brreview/?lang=en The recommendations in the report will be considered by the Welsh Government who will provide a response later this year.	Ensure that any potential future implementation timescales and resultant potential impacts are evaluated and captured for inclusion in any more detailed options consideration.

CIPFA performance in public services

cipfa.org.uk

Further considerations for collaboration – Risk Assessment & Mitigating Actions (10)

RISK		Mitigation
Accuracy & timeliness of data	This feasibility study has been based upon operational, costs and performance data relating to Financial Year 2010-11 supplied as part of the CIPFA Benchmarking service; some of the Welsh authorities were new to this data gathering process and this may have affected the accuracy and completeness of the data supplied.	Understand the limitations in the use of data for 2010-11 in the evaluation of this feasibility study and ensure that any more detailed options consideration includes the appropriate mechanisms to gather baseline data that reflects the current CT and NDR services
Size & scale	The potential scale involved in the review of Collaboration Options for the 22 Unitary Authority Revenues Services is larger than any previous options (the aborted *Eastern Counties Revenues & Benefits* proposed partnership (sponsored by the East – Regional Centre of Excellence funding) possibly being the closest in size) and larger than any current Revenues Collaborations.	Ensure that the potential scale and manageability of any proposed Revenues Collaborations (and in particular shared service models) are considered in any detailed options consideration.

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11. Conclusions

Conclusions (1)

The activities within the revenues functions across the 22 local authorities in Wales are currently delivered principally as stand-alone entities with limited collaboration, although there are already examples of a degree of collaboration amongst some of the revenues services in North/ Mid Wales for training, shared management, single person discount reviews etc.

From the various analyses that we have undertaken there is a high level of variation across CT and NDR in the operational and financial performance of these services.

Within the group of 22 local authority revenue services there is evidence of a mosaic of potential exemplar performance, costs , processes and practices that if used as a target for collaborative 'levelling-up' would potentially release substantial savings and increases in income collection.

The options considered for potential collaborative service vehicles during this feasibility study have resulted in two main options (which may not necessarily be mutually exclusive – a number of the current formal revenues collaborations initially started as informal collaborations) that should be taken forward for further consideration:-

- **Informal Collaboration/ Incremental Sharing** – A cross-Wales managed programme of change and improvement to deliver a 'levelling-up' of the CT and NDR services through a number of work-streams (including performance, improved (front & back office) processes, joint procurement & commissioning, implementation of best practice, sharing of expertise etc.); and

Conclusions (2)

- **Formal Collaboration** – having considered the various national/ regional etc. options we have discounted the single national option due to (too large) scale issues and lack of commonality across the ICT platforms which is one of the CSFs reported from the existing Revenues Collaborations.

This detailed analysis of the current CT and NDR service landscape suggests that a 'shared/ joint service' option for CT and/or NDR with partnership(s) clusters based around core ICT systems (e.g. Northgate, Capita and Civica (1 authority)) and commonality of DIP/ EDMS systems would be a feasible option to consider in more detail.

We do not consider outsourcing of the revenue services to be an option currently, as the potential indicative savings that have been identified can be delivered as savings to the Councils through the informal/ formal inter-authority models above. The outsourcing option could result in these savings being passed as current service base-line budgets (and subsequent potential profit) against which commercial providers would base their bid/ financial model as part of the typical OJEU outsourcing financial case evaluation by the client. You may, however, wish to seek soft market testing responses from outsourcing companies as part of your development of a more detailed outline business case for revenues collaboration options.

A number of areas have been identified in this review in which individual CT and NDR services could potentially achieve costs savings, improved income collection and improvements to the effectiveness of the services. These outline options will need to be considered in more detail and granularity in your development of any outline business case.

12. Appendices

Appendix A

Local Authorities Participating in this Study

Local Authority	Regional Footprint Group	Abbreviation
Anglesey	North Wales	ANG
Blaenau Gwent	Gwent	BG
Bridgend	Western Bay	BRI
Caerphilly	Gwent	CAE
Cardiff	Cardiff & Vale	CAR
Carmarthenshire	Mid & West	CAM
Ceredigion	Mid & West	CER
Conwy	North Wales	CON
Denbighshire	North Wales	DEN
Flintshire	North Wales	FLI
Gwynedd	North Wales	GWY
Merthyr Tydfil	Cwm Taf	MT
Monmouthshire	Gwent	MON
Neath & Port Talbot	Western Bay	NPT
Newport	Gwent	NEW
Pembrokeshire	Mid & West	PEM
Powys	Mid & West	POW
Rhondda Cynon Taf	Cwm Taf	RCT
Swansea	Western Bay	SWA
Torfaen	Gwent	TOR
Vale of Glamorgan	Cardiff & Vale	VOG
Wrexham	North Wales	WRE

Appendix B

Welsh Index of Multiple Deprivation – Income Related Benefits factor

Key:

1 represents High Deprivation

22 represents Low Deprivation

WLGA WIMD DI Group	LA
1	Blaenau Gwent
2	Merthyr Tydfil
3	Neath Port Talbot
4	Rhondda Cynon Taff
5	Caerphilly
6	Newport
7	Swansea
8	Torfaen
9	Cardiff
10	Denbighshire
11	Carmarthenshire
12	Bridgend
13	Conwy
14	Angelsey
15	Pembrokeshire
16	Gwynedd
17	Wrexham
18	Vale of Glamorgan
19	Flintshire
20	Ceredigion
21	Powys
22	Monmouthshire

Appendix C

‘Barony’ and ‘Greater Manchester’ Benchmarks (1)

Barony Benchmark

The ‘Barony Benchmark’ was developed in the mid-nineties as part of the Barony Consulting Groups ‘Competitive Review’ service for reviewing the ‘competitiveness’ of revenue services during the compulsory competitive tendering (CCT) regime. It was developed by one of the CIPFA consultants working on this WLGA project and has been successfully used in over 100 revenues benchmarking reviews for local authorities (including in developing in-house bids) as well as by a number of commercial BPO providers as part of their baseline benchmarking of revenues services that are being formally outsourced or as part of a soft market testing exercise.

The original approach involved the collection of detailed service metrics and the analysis of that data to arrive at how many ‘inputs’ were required to be undertaken in the service in a year – an ‘outputs’ productivity measure of 60 items per person/ day (and grossed up to an annual total by using 210 productive days of 12,600 outputs per annum/ person)were then applied to the inputs to arrive at a headcount requirement with added supervisor resource based upon a span of control of 1:11. After having undertaken this detailed analysis of a wide range of revenue services (and observed services operating on a sustainable basis at this headcount levels), a ‘Barony-lite’ calculation based upon 3300 properties/ FTE was adopted and has been used in this analysis.

Appendix C

'Barony' and 'Greater Manchester' Benchmarks (2)

Greater Manchester Benchmark

The 'Greater Manchester' benchmarking methodology is one of the outputs from the Greater Manchester (GM) Benchmarking Partnership set up by the regional group of revenues (and benefits) services around Manchester and is based upon evidence gathered by that partnership over a number of years. It uses a similar approach of 'property caseload per FTE' that underpins the Barony approach, but it also incorporates a weighting based upon Deprivation Index grouping.

Having used these two approaches to identify a 'commercial' headcount for each of the 22 services, we have then compared that target headcount level with the existing headcount to identify any variance and then applied the average staff costs to identify potential, indicative staff cost savings if the 'commercial' headcount was adopted – see section 8.

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I regret that an unplanned medical procedure has prevented my intended attendance at the Finance Committee. However I wish to provide the Committee with my observations on Revenue Scotland which may prove helpful in their deliberations.

Since January 2015 I have acted as Chair of Revenue Scotland, working closely with the Chief Executive through key delivery milestones to the formal launch of the service on April 1st 2015. I am also a long-standing non-executive board member of a key partner of Revenue Scotland – the Scottish Environment Protection Agency (SEPA).

Through both these roles I have gained insights into the successful development of Revenue Scotland as an organisation, the IT transactional systems and relationships with stakeholders and partners. Despite challenging timescales, Revenue Scotland successfully won stakeholder buy-in and partner co-operation; I am convinced that it was this relationship management – which I view as exemplary - that was the key element in the programme's achievements.

Revenue Scotland's engagement with stakeholders was undertaken through professional body advocacy, stakeholder roadshows and demonstrations, 1:1 meetings with key personnel and a supportive service desk call centre. This programme of engagement lead to co-operation and buy-in towards:

- Design of the transactional system portal and browser interface
- Operational testing of the system to aid development refinements
- Promotion of the new service to the legal and tax communities
- Familiarity and ease-of-use of the new systems
- Trust and Confidence in Revenue Scotland

If the Welsh Government seeks to establish a similar Revenue Authority, I would commend early and effective engagement with stakeholders, in effect making them partners in the organisational development and system adoption.

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30 April 2015

Dear Clerks

RE: IMPLEMENTATION OF THE DEVOLVED TAXES – JOINT UPDATE FROM REVENUE SCOTLAND, REGISTERS OF SCOTLAND AND SCOTTISH ENVIRONMENTAL PROTECTION AGENCY

Further to the report I provided to the Committees on 27 February and my letter dated 17 April, I am pleased to provide the Committees with details of Revenue Scotland's finalised Key Performance Indicators (KPIs) and plans for publishing data. I attach at Annex A information about our KPIs which have been set out in line with Adam Smith's four principles of taxation. Further information about the statistics Revenue Scotland intends to publish is included in Annex B.

Revenue Scotland is committed to publishing quarterly updates to our KPIs (where applicable) by the end of the month following a quarter end. Annual KPI updates will be published as part of our Annual Report in July of the following year. Monthly LBTT statistics will be published on or around the 20th day of the following month. Quarterly SLfT statistics will be published 3 months following the end of the quarter (to accommodate the 44 day payment deadline). Annual revenue statistics will be published in July of the following year. Revenue Scotland will be making our publication schedule available to the public shortly.

I also attach copies of the Memoranda of Understanding with Registers of Scotland (RoS) at Annex C and the Scottish Environment Protection Agency (SEPA) at Annex D. These outline the way the relationship between Revenue Scotland and RoS or SEPA will be managed on a day-to-day basis and set out the approach to carrying out the delegated functions formally laid out in the Schedules of Delegation.

I hope that this update is useful to the Committees and I would be happy to answer any further questions.

Yours sincerely

Eleanor A Emberson.

ELEANOR EMBERSON

ANNEX A REVENUE SCOTLAND DATA PUBLICATION PLANS: KEY PERFORMANCE INDICATORS

REVENUE SCOTLAND PURPOSE **To collect the devolved taxes which fund public services for the benefit of all Scottish citizens** by delivering excellent tax administration founded on Adam Smith's four principles of equity, certainty, convenience and efficiency, built on a modern digital platform, with all involved working together in good faith to ensure that the right amount of tax is paid at the right time.			
Adam Smith Principles			
Equity: "Proportionate to the taxpayer's ability to pay: The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities"	"Certain: The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."	"Convenient: Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay…"	"Efficient: Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state…"
KEY ACTIVITY AND PERFORMANCE INDICATORS			
Direct Compliance yield (A)	Proportion of all tax returns that receive no Revenue Scotland intervention (A)	Mean, median and maximum waiting time for all calls made to the support desk (Q) *Target: TBA after quarter 1*	Total running costs as a percentage of money transferred to the Scottish Consolidated Fund + Scottish Landfill Communities Fund (A)
	Positive stakeholder feedback on Revenue Scotland's taxpayers guidance (A)	Proportion of taxpayer correspondence received by secure message, email and post responded to within 10 and 25 working days (Q) *Target: TBA after quarter 1*	
Strategic Objectives			
Collect the right amount of tax from the full taxpayer base for each of the devolved taxes, using online technology to best effect.	Ensure compliance in payment of the correct amount of tax at the right time, resolving disputes as cost-effectively as possible	Build an effective, efficient tax authority with a reputation for high-quality public service to taxpayers and the people of Scotland	Attract, develop and retain a knowledgeable and skilled workforce who are engaged and motivated to deliver the functions of Revenue Scotland to the highest standards of professionalism and integrity.
KEY ACTIVITY AND PERFORMANCE INDICATORS			
Proportion of all due payments received a) on-time (Q) b)within 3 months (A) c) within 1 year (A)	Mean , median and maximum days between enquiries being opened and closed (A)	Positive stakeholder feedback on Revenue Scotland's compliance with the Charter of Standards and Values (A)	Employee engagement index (A) *Target: to be in the top 25% of all civil service organisations*
Proportion of all tax returns filed online (Q) *Target: 90%*	Value of tax liabilities identified as a consequence of corrections, amendments, assessments, determinations and enquiries (A)	Number of data security breaches (Q) *Target: 0*	Sick absence rate (A) *Target: less than 7 average working days lost*
	Number of disputes and time to resolution method (A) *Target: TBA after year 1*	Number of complaints (Q)	

RATIONALE, DEFINITIONS AND PRESENTATION NOTES

All indicators will relate to the year 1 April to 31 March inclusive.
Taxpayers should be read throughout as 'taxpayers their agents or representatives'.
Revenue Scotland should be understood to include SEPA and RoS in exercising their delegated functions throughout unless otherwise specified.

Direct compliance yield

=
(The value of all interest payments receipted
+ The value of all charges receipted following determinations
+ The value of all charges receipted following assessments - the original self-assessed liability
+ The value of all charges receipted following adjustments - the original self-assessed liability
+ all penalties receipted
+ all receipts from the Sheriff Court or Court of Session
+ the value of all requests for repayments declined
+ the value of liabilities reported following a Revenue Scotland opinion where it is greater than the value originally suggested by the taxpayer)
- any subsequent repayments made following review or appeal.

This figure captures direct compliance yield only and does not include estimates of deterrent and preventative effects. It is therefore not comparable to HMRC compliance yield. The most recent years figures will be presented as provisional and revised the following year. This is necessary because some disputes regarding tax liabilities could take several months to resolve.

Direct compliance yield, as defined above, will measure all money that is received by Revenue Scotland following all assessments and determinations, including those that are made using the General Anti-Avoidance Rule, and those that result from direct compliance activity delivered by SEPA in the execution of their delegated functions.

Direct compliance yield will provide an indication of the extent to which the right amount of tax has been collected from the full taxpayer base over the course of the year, but is not a direct measure of that. In future years Revenue Scotland may develop estimates of the Tax Gap (the gap between tax collected and that which is estimated to be due). Tax Gap estimates require several years of data to calculate so are not within the terms of the 2015-18 Corporate Plan.

Proportion of all tax returns that receive no Revenue Scotland intervention
= The number of all self-assessed tax returns that are not corrected so as to effect liability, amended, subject to enquiry or assessment.

This indicator will be presented as a percentage and the numerator and denominator both shown. The most recent years figures will be presented as provisional and revised the following year. This is necessary because some corrections may not be made for several months following the original tax return.

A high proportion of tax returns being accepted as right first time will indicate that taxpayers are clear about the amount of tax they ought to pay. In the terms of the definition taxpayers may not then make the payment on time, and that element is captured by a different KPI (the Proportion of all due payments received on-time).

Mean, median and maximum waiting time for all calls to the support desk
= the mean, median and maximum minutes that callers to the Revenue Scotland support desk wait before the call being answered, or abandoning the call.

The information will be presented as a composite and for calls answered and abandoned, as well as calls separately for calls answered and abandoned.

Where a call is abandoned it may be for many reasons including, but not limited to, the caller becoming frustrated at the length of the wait, the caller realising they called the wrong number, or having to attend to something else. The number of calls answered will also include those that are wrong numbers. Nevertheless the number of calls abandoned and the length of time callers were kept waiting before they abandoned their call or their call was answered provides an indication of the quality of service delivered by Revenue Scotland.

Total running costs as a percentage of money transferred to the Scottish Consolidated Fund + Scottish Landfill Communities Fund.
= The total running costs (as will be reported in the Financial Report) for all aspects of Revenue Scotland functioning as a percentage of the total money transferred into the Scottish Consolidated Fund + the Landfill Communities Fund (the latter as reported by SEPA) and not clawed back.

This will be presented as a percentage and the numerator and both components of the denominator shown and is intended to provide an overall indication of the extent to which the Revenue Scotland is efficient in delivering tax receipts to the state.

Positive stakeholder feedback on Revenue Scotland's taxpayers guidance
A methodology will be developed to capture this information in due course. The intention is to provide an indication as to how well Revenue Scotland is considered by its stakeholders to be helping taxpayers understand how and when they ought to pay tax.

Proportion of all taxpayer correspondence received by secure message, email and post and responded to within 10 and 25 working days.
=
(number of messages received via the SETS Secure Messaging functionality + number of messages received via the LBTT@RevenueScotland, SLFT@RevenueScotland addresses + number of letters received, which were categorised as being taxpayer queries or complaints and to which a substantive response was issued within 10 or 25 working days of the correspondence being received)

/
number of messages received via the SETS Secure Messaging functionality + number of messages received via the LBTT@RevenueScotland, SLFT@RevenueScotland addresses + number of letters received, which were categorised as being taxpayer queries or complaints.)

A substantive response is any response that seeks to resolve the query or issue at hand, and excludes holding replies or automatic acknowledgements. The definition seeks to exclude correspondence from stakeholder organisations (e.g. HMRC, Scottish Government) as opposed to taxpayers, their agents or representatives.

This information will be presented as a composite and for each correspondence method separately. In addition, the mean, median and maximum days from receipt to response to taxpayer emails, secure portal messages, and white mail will be presented.
This measure is an indication of the convenience of Revenue Scotland's services to taxpayers, who are expected to consider long delays in response to queries inconvenient to helping them pay the correct amount in a timely manner.

Proportion of all payments due receipted a) on-time b) within 3 months due date c) within 1 year of due date.
= number all payments of tax liability receipted a) within the terms of Arrangements Satisfactory b) within 3 calendar months of the last day of Arrangements Satisfactory c) within 1 calendar year of Arrangements Satisfactory
/
total number of tax liability payments due.

The most recent years figures for b) will be presented as provisional and revised the following year and c) will be presented for the last-but-one year, and hence not reported in the first year.
This indicator will provide information about how well Revenue Scotland's systems are performing in terms of supporting taxpayers pay their tax on time, and it excludes payments of penalties and interest.

Mean, median and maximum days between enquiries being opened and closed
= mean, median and maximum of the number of days from dates enquiry notices were issued to the date the enquiry closure notices were issued.
All enquiries closed within the financial year (regardless of when they were opened) will be included, with the number of enquiries open as at 31 March provided for context.

Positive stakeholder feedback on Revenue Scotland's compliance with the Charter of Standards and Values
A methodology will be developed to capture this information in due course. The intention is to provide an indication as to how well Revenue Scotland is considered by its stakeholders to be meeting the standards and values of behaviour committed to in the Charter.

Employee engagement index
The employee engagement index is calculated on the basis of responses to the civil service wide People Survey which Revenue Scotland will take part in. The top scoring 25% of organisations are considered to be “high performers” by the Cabinet Office (who run the People Survey) and the target to be in the top 25 of organisations is based on that.

Proportion of all tax returns filed online
= number of all tax returns entered by taxpayer
/ number of all tax returns entered by taxpayer + number received as hardcopy and entered into SETS by Revenue Scotland or RoS.

This indicator will be presented as a percentage and the numerator and denominator both shown. The figure will provide an indication of how well Revenue Scotland is using online technology, with a high figure indicating that the online system is more convenient than use of paper forms.

Value of tax liabilities identified by Revenue Scotland as a consequence of Revenue Scotland corrections, amendments, assessments, adjustments and determinations
= The value of all tax liabilities charged following Revenue Scotland corrections, amendments, assessments, determinations and adjustments - minus the original self-assessed liability where there was one. Where the charge is made within the financial year.

This indicator, which differs to compliance yield as it measures charges made rather than payments received and does not include interest and penalty charges, provides a measure of the extent to which Revenue Scotland is delivering its duty to identify the right amount of tax that taxpayers should be paying. The number of changes that result in an increase in liability, and the number that resulted in a decrease, will also be presented for context.

Number of data security breaches
= Number of data security breaches (unintentional release of confidential or personal information to unauthorised persons, through either accidental or deliberate disclosure, loss or theft of the information – as per the Security Breach and Incident Management Policy) identified within the Financial Year.
This definition is in line with Revenue Scotland’s Security Breach and Incident Management Policy and the indicator will show the extent to which Revenue Scotland provides high quality public service in terms of protection of tax-payer data.

Sick absence rate
= Average Working Days Lost per Full Time Equivalent staff, for a 12 month rolling period.

This indicator is intended as a proxy measure of staff morale and satisfaction. It will include staff in both core Revenue Scotland and in the SEPA tax team. It will exclude staff in Registers of Scotland who work on processing LBTT returns because there is a pool of staff within RoS who are called upon to deliver that role depending on the number of paper forms delivered to RoS by taxpayers, it is therefore very complex to include RoS staff in this indicator.

The Chartered Institute of Personnel and Development's 2014 sickness absence report shows that the Average Working Days Lost in the public services is 7.9 and 7.4 in non-profit organisations. A target of less than 7 is therefore ambitious but achievable.

Number of disputes and time to resolution

= Number of taxpayers who requested a review and/or appealed to the tribunal and/or requested mediation.

Disputes are counted at the point they are resolved and are counted only once regardless of the number of dispute resolution methods used.

Time to resolution is the calendar days from the date taxpayer requested a review / appealed to the tribunal / requested mediation (whichever came first) to the date when Revenue Scotland gives notice of the conclusion of the review (and the taxpayer does not appeal or request mediation) or Revenue Scotland gives notice of the settlement agreement (and the taxpayer does not appeal) or the tribunal concludes the matter in question (and the taxpayer does not appeal) or the Court of Session concludes the matter in question.

Count is per taxpayer not per agent/representative and not per case, to avoid double counting. The most recent years figures will be presented as provisional and revised the following year. This is necessary as there may be occasion on which an issue that we considered resolved is appealed by the taxpayer.

Number of complaints

Number of complaints received verbally or in writing from taxpayer. As per our Complaints Policy, complaints can only be about service and are distinct from tax disputes – complaints about liabilities (which are therefore tax disputes, for which a distinct resolution process exists) or that should have been directed at a different organisation will not be counted.

Numbers of complaints will be reported quarterly and in our Annual Report we will provide information about how we have used complaints to improve our services and how many, if any, complaints are escalated by the complainant to Scottish Public Service Ombudsman.

ANNEX B REVENUE SCOTLAND DATA PUBLICATION PLANS: STATISTICS

Land and Buildings Transaction Tax (LBTT) monthly statistics

- Total count of all LBTT returns received where Received Date is first to last day of month
- Total sum of all self-assessed Amount Tax Due where Received Date is first to last day of month
- Total money received relating to all LBTT returns made within the previous month received by 5th working day of following month

All of the above presented by:

  - Residential
  - Commercial

Scottish Landfill Tax (SLfT) quarterly statistics

- Total count of all SLfT returns received where accounting period is relevant quarter
- Sum of all self-reported Amount Tax Due for given accounting period
- Total money received relating to all SLfT returns for the given accounting period received by deadline (44 days of quarter end)
- Total sum of all Standard Rate Waste Tonnage for every site for every Landfill Operator (LFO) reported for given accounting period
- Total sum of all Lower Rate Waste Tonnage for every site for every LFO reported for given accounting period
- Total sum of all Exempt Waste Tonnage for every site for every LFO reported for given accounting period
- Total sum of all Community Fund contributions reported for given accounting period

Devolved tax annual statistics

- Total number of LBTT transactions notified
- Total number of LBTT transactions liable
- Total LBTT liabilities reported
- LBTT Relief claimed and count for each relief
- Money received by June of following year relating to all LBTT liabilities reported in previous financial year

All of the above presented by:

  - Residential ; Commercial ; Conveyance, transfers, options & rights of pre-emption; Leases
  - Local Authority of property

- Total waste tonnage for the year by Local Authority area of waste origin (per waste tax band)

Memorandum of Understanding
between
Revenue Scotland and the Keeper of the Registers of Scotland

Glossary

RSTPA	Revenue Scotland and Tax Powers Act 2014
LBTT(S)A	Land and Buildings Transaction Tax (Scotland) Act 2013
SLfTA	Landfill Tax (Scotland) Act 2014
LBTT	Land and Buildings Transaction Tax
RoS	The Keeper of the Registers of Scotland
MoU	Memorandum of Understanding
RPO	Returns Processing Officer
SPoC	Single Pont of Contact
FOISA	Freedom of Information (Scotland) Act 2002
EIRS	Environmental Information (Scotland) Regulations 2004

1. Introduction

Background to the devolved taxes

1.1 The Scotland Act 2012 amended the Scotland Act 1998 to devolve the power to the Scottish Parliament to introduce new taxes on land transactions and disposals to landfill. The existing UK Stamp Duty Land Tax and Landfill Tax will be disapplied in Scotland on 1 April 2015 and replaced with the 'devolved taxes'.

1.2 The Revenue Scotland and Tax Powers Act 2014 (RSTPA) sets out the overall framework for the devolved taxes. Detailed provisions for these two devolved taxes are made by the Land and Buildings Transaction Tax (Scotland) Act 2013 (LBTT(S)A) and the Landfill Tax (Scotland) Act 2014 (SLfTA) and associated subordinate legislation.

1.3 Under section 4(1)(a) of the RSTPA, Revenue Scotland has the power to delegate any of its functions relating to the Land and Buildings Transaction Tax (LBTT) to the Keeper of the Registers of Scotland (RoS).

The Adam Smith Principles of Taxation

1.4 In June 2012, the Cabinet Secretary for Finance and Sustainable Growth set out the Scottish Government's approach to taxation. The Scottish Government's approach is embedded in Adam Smith's four key maxims. These are:

- that the burden of tax is proportionate to ability to pay
- certainty for the taxpayer
- convenience of payment
- efficiency

1.5 Revenue Scotland and RoS will carry out their duties in relation to LBTT in line with the Scottish approach to tax and Adam Smith's maxims, working collaboratively, efficiently and effectively for the benefit of the people of Scotland, supporting sustainable economic growth.

1.6 In carrying out those duties, Revenue Scotland and RoS will also observe and comply with the provisions of the Revenue Scotland Charter of Standards and Values.

2. Revenue Scotland and RoS

2.1 **Revenue Scotland,** established by section 2(1) of the RSTPA, is a body corporate and part of the Scottish Administration, accountable to the Scottish Parliament, rather than Ministers, and separate from the Scottish Government. The RSTPA established Revenue Scotland as the independent tax authority responsible for the collection and management of the devolved taxes in Scotland.

2.2 The Keeper of the Registers of Scotland (RoS) is a non-Ministerial office-holder in the Scottish Administration responsible for compiling and maintaining 17 public registers which provide for the registration of legal documents in Scotland. RoS is a non-Ministerial department which operates as a trading fund.

3. Purpose and Scope of the Memorandum of Understanding (MoU)

3.1 The key aims of this MoU are to set out:

- the terms of agreement between Revenue Scotland and RoS in relation to joint working arrangements and collaboration in delivery of the functions to be delegated to RoS with regard to LBTT ('the delegated functions')
- the roles and responsibilities of Revenue Scotland and RoS in respect of each of the delegated functions and
- the general framework for governance and management of the delegated functions.

3.2 This MoU is not a contract, nor is it legally binding. Nothing in this MoU has the effect of delegating any of Revenue Scotland's statutory powers, functions or duties to RoS. Delegation will be given effect through the Schedule of Delegation.

3.3 The MoU will come into effect on the date of the Schedule of Delegation and will continue for as long as RoS undertakes the statutory responsibilities in relation to LBTT.

3.4 This MoU does not remove, alter or reduce the prevailing legal obligations of each party, for example, obligations under the Data Protection Act 1998 and the Human Rights Act 1998.

3.5 The relationship between Revenue Scotland and RoS will require information to be shared between the two organisations. This MoU does not include the detailed arrangements which require to be in place to allow this. A Data Processing Agreement will be annexed to this MoU.

3.6 The arrangements for provision of the relevant LBTT data by Revenue Scotland to RoS under section 43 of the LBTT Act are set out in another Information Sharing Agreement, between Revenue Scotland and RoS and are outwith the scope of this MoU.

4. Collaborative Working

4.1 While fully acknowledging their respective obligations with regard to delegation under section 4(1)(a) of the RSTPA, the parties are committed to establishing and maintaining a collaborative relationship and working culture, underlined by the following principles.

- Revenue Scotland and RoS will work openly and co-operatively in delivering the functions delegated to RoS with respect to LBTT

- Revenue Scotland will consult RoS on any matters relating to delegation before implementing them. This includes any changes to the scope of delegation, any revocation, any statutory directions (in accordance with sections 4(2) and 4(3) of the RSTPA) and any operational decisions affecting the way RoS undertakes its duties in relation to LBTT
- Revenue Scotland and RoS will jointly monitor the delivery of those functions to ensure that adequate resourcing, financing and working arrangements are in place to meet operational requirements

5. Delegation of Functions

5.1 Under section 4(1)(a) of the RSTPA, Revenue Scotland has the power to delegate any of its functions in relation to LBTT to RoS.

5.2 Revenue Scotland will prepare a Schedule of Delegation, a document setting out the exact functions to be delegated by Revenue Scotland to RoS. The Schedule of Delegation will be prepared in consultation with RoS. Information about this document will be published by Revenue Scotland and a copy will be laid before Parliament by Revenue Scotland before 1 April 2015.

5.3 Revenue Scotland retains the responsibility for the exercise of the functions delegated to RoS. Delegation does not affect the ability of Revenue Scotland to exercise those functions.

5.4 In exercising its responsibility for the functions delegated to RoS, Revenue Scotland, under section 4(2) of the RSTPA, may issue formal directions to RoS as to how the delegated functions are to be exercised. RoS will comply with such directions. These directions will be developed in consultation with RoS.

5.5 Under section 4(3) of the RSTPA both delegations and directions may be revoked or varied at any time by Revenue Scotland. Revenue Scotland will consult RoS before taking such action.

6. Financial Arrangements

6.1 Section 4(8) of the RSTPA allows for Revenue Scotland to reimburse RoS for any expenditure incurred which is attributable to the exercise by RoS of the delegated functions.

6.2 RoS will invoice Revenue Scotland on a quarterly basis in arrears for reimbursement of costs incurred in relation to the delegated functions. On an annual basis, RoS will provide Revenue Scotland with an estimated spending plan for the following year (see section 9.1). This will cover the costs of carrying out the delegated functions.

6.3 Following any necessary discussions, the estimated costs will inform Revenue Scotland's submissions to the Scottish Budget process. Initial estimates for annual operating costs have been given in the Financial Memoranda to the tax legislation.

6.4 Once the allocation is confirmed, Revenue Scotland will agree the estimated costs with RoS or discuss adequate modifications. The estimate will be reviewed in the course of a financial year (see section 8).

6.5 Reimbursement by Revenue Scotland to RoS in relation to delegated functions is outside the scope of VAT. To the extent that any other activity undertaken by RoS is within the scope of VAT, Revenue Scotland will pay VAT on the charge for that activity to RoS.

6.6 The parties acknowledge that in the course of any financial year, extraordinary or one off costs may be incurred by RoS with regard to the delegated functions, for example, in response to new operational requirements, system contingencies or changes in wider Scottish Government policy on digital public services strategy. Such costs will be agreed and met by Revenue Scotland on a case by case basis. Where possible, the parties will communicate about and discuss any such cost in advance.

7. Working Arrangements

7.1 Detailed processes for the functions that RoS will carry out in relation to LBTT have been agreed, and are set out in Appendices 1 and 2 to this document. In summary, RoS will carry out the following functions in respect of LBTT:

- process all paper LBTT Returns
- process all paper LBTT Return Amendments
- process all LBTT payments made by cheque

Returns Processing Officers

7.2 RoS will assign members of its staff to carry out the above functions as Returns Processing Officers (RPOs) in accordance with agreed roles and responsibilities (see Appendix 1). RoS will inform Revenue Scotland of names and starting dates for any new RPOs. The number of staff carrying out delegated functions will be agreed in accordance with the provisions of section 9 below.

Single Point of Contact

7.3 RoS and Revenue Scotland will each appoint a Single Point of Contact (SPoC). The SPoCs will communicate with each other if matters arise in respect of operational arrangements (see section 7.5) or performance (see section 7.4).

Service standards

7.4 RoS will exercise the above functions in compliance with the service standards, as set out in Appendix 3. Where for any reason RoS is unable to carry out its functions in accordance with the agreed service standards, RoS's SPoC will notify Revenue Scotland's SPoC of the issue in writing as soon as reasonably practicable, specifying the nature of divergence and timescales for remedying the issue. If the matter cannot be remedied within the specified timescales, the SPoCs will discuss and agree upon further actions and, where appropriate, will use the escalation route for issues to be resolved by senior management in their respective organisations.

Amendments to Operational Processes

7.5 Any amendments that either party wishes to make to the agreed processes in Appendices 1 and 2 will be communicated and agreed using the procedure set out in Appendix 4.

Security, Incident Management and Escalation Policies

7.6 Revenue Scotland will define an incident management and escalation policy, which will set out security and governance procedures and include relevant escalation routes in respect of downtime and system performance issues, and incident reporting procedures. RoS will comply with Revenue Scotland's incident management and escalation policy in its exercise of the devolved functions. Revenue Scotland will consult RoS before implementing or amending any of its policies which affect the ways in which RoS carries out its duties in respect of the delegated functions.

Training

7.7 Revenue Scotland has a mandatory training programme with the purpose of ensuring that all staff have consistent understanding of their legal duties in respect of collection and administration of the devolved taxes. RoS staff carrying out delegated functions will be given the opportunity to undertake any training sessions offered to Revenue Scotland staff, subject to the availability of necessary training facilities and resources.

Declaration of Confidentiality

7.8 RoS will ensure that all members of staff who exercise delegated functions on behalf of Revenue Scotland sign a declaration of confidentiality in accordance with section 16 of the RSTPA. Revenue Scotland will specify the form and content of this declaration. Once signed by members of RoS staff, declarations will be sent to and stored by Revenue Scotland, with copies being retained by RoS.

Operational Capability

7.9 As well as the required staff, RoS will ensure that other operational capability required for the exercise of the delegated functions (e.g. mail delivery, secure transfer of cheques) is in place.

8. Review Process

Review Group

8.1 Revenue Scotland and RoS will each appoint representatives to form a Review Group, which will meet on an agreed frequency. This is expected to be quarterly during the first year, and six monthly in subsequent years.

8.2 The Review Group will review the performance of both parties in relation to their obligations in connection with the delegated functions and make recommendations for improvement where necessary.

8.3 The remit of the Review Group includes measuring performance, monitoring resourcing and spending, reviewing the effectiveness of the operational arrangements, reviewing the effectiveness of the information sharing agreements in place, training needs and proposing changes.

8.4 The Review Group will recommend any amendments to senior managers in Revenue Scotland and RoS. Any variations or amendments will take effect only when recorded in writing and signed by both parties.

8.5 In the event that agreement on any of the above matters cannot be reached, the parties may escalate matters to the Chief Executive of Revenue Scotland and the Accountable Officer at RoS.

9. Monitoring and Reporting Arrangements

Forecasting

9.1 RoS and Revenue Scotland will agree a forecast of the volume of work likely to arise from the delegated duties, and the resource implications of that volume of work. For the initial set up of this function, Revenue Scotland and RoS have agreed a resourcing figure that will apply from 1 April 2015 for the first six months. An estimate was included in the Financial Memoranda to the LBTT(S)A and the RSTPA. The estimate which supports the resourcing figure from 1 April for the first six months is based on the following assumptions:

- 90% of transactions for LBTT will initially be completed online

- 10% of LBTT transactions will be completed manually and will require to be processed by RoS
- 70% of transactions for LBTT will initially be paid electronically
- 30% of transactions for LBTT will initially be paid by cheques

9.2 This estimate has been based on a forecast of 90% of returns being made online. While in practice we expect the proportion of returns being made online to be substantially higher than 90%, a precautionary estimate of 10% of returns being paper-based will ensure that the small number of taxpayers or agents who choose to submit via paper will receive the standard of service expected from go-live. The forecast resourcing figure will be reviewed on a three monthly basis for the first twelve months and six monthly after that.

Monitoring spending and resourcing requirements

9.3 To ensure effective monitoring and oversight of spending and resourcing needs, RoS will keep records of and report to Revenue Scotland on the following:

- number of staff trained and authorised to process LBTT returns
- time spent by RoS staff processing LBTT paper submissions and bank payments
- time spent by RoS staff dealing with matters related to delegated functions – this may include time spent on handling LBTT related enquiries, Freedom of Information Requests, Subject Access Requests and any complaints received
- details of any new starts and leavers, including names and appropriate dates

9.4 RoS will produce monthly reports in respect of the matters set out above and share these with Revenue Scotland by the fifth working day of the following month. The report will refer to figures as they appear at the last day of the preceding month.

9.5 Revenue Scotland will also consider relevant management information from its IT system with regards to the processing of paper returns by RPOs at RoS.

9.6 RoS will arrange for an annual statement of assurance from its auditors to be provided to Revenue Scotland confirming the amounts incurred by RoS in respect of delegated functions. Revenue Scotland will reimburse RoS for the costs of this audit.

10. Information

Dealing with External Enquiries

10.1 Ministerial correspondence and briefings – in the case of an enquiry by a Scottish Minister relating to delegated functions, to either Revenue Scotland or RoS, the party in receipt of the enquiry will notify the other party as to the nature of the enquiry and the intended response. The party preparing the response will be responsible, after consultation with the other party, for ensuring that the response is circulated as appropriate to Ministers with a portfolio interest and / or to relevant divisions of the Scottish Government.

10.2 Enquiries from taxpayers and agents – Revenue Scotland will be responsible, in the first instance, for all enquiries relating to LBTT generally, and land transaction returns and collection more specifically, both prior to and after filing a return. Revenue Scotland will also be responsible for any enquiries in relation to any decisions it takes in respect of any investigations and incomplete returns.

10.3 Revenue Scotland will publish contact details for enquiries about LBTT which will be available to customers during core office hours.

Publicity and Press Office Communications

10.4 Revenue Scotland will be the lead organisation in generating publicity and guidance materials and will adopt a proactive approach to raising awareness of the implementation of LBTT among external stakeholders, and for ensuring suitable channels are available and maintained for them to keep up to date on any developments under LBTT and the general tax framework in Scotland. This approach will include producing publicity materials, issuing information to the media, direct mailshots to stakeholders, and hosting or attending forums and events.

10.5 Revenue Scotland will have the primary responsibility for the co-ordination of stakeholder relations and management of stakeholder engagement in respect of LBTT. This may include the delegation of stakeholder engagement activities to RoS.

10.6 Where news releases and other communications are being drafted, or include reference to LBTT and the relationship between Revenue Scotland and RoS, such communications will be co-authored or written by one party and quality assured by the other. It will be agreed between Revenue Scotland and RoS on a case by case basis whether the release will be made by one party or jointly. This includes written media, radio and television broadcasting, websites, social media and blogs, whether aimed at a general or a professional audience. Lines to be taken will be drafted jointly, agreed by both parties, reserved for deployment and revised regularly.

10.7 Where more specific media enquiries are made to Revenue Scotland and / or RoS regarding LBTT or the relationship between the two parties, a response will be drafted by the party that receives the enquiry. The response will be shown in advance of release to the other party. It will be agreed between Revenue Scotland and RoS, on a case by case basis, whether the response will be made by one party or jointly. In all instances the response will be released by the press offices for both parties.

10.8 The respective contact details for matters raised by the media are as follows:

RoS Press Officer:
Head of Communications
0131 200 3975

Revenue Scotland Press Officer:
Corporate Affairs Manager
0131 244 5249

Freedom of Information (Scotland) Act 2002 ('FOISA') and Environmental Information (Scotland) Regulations 2004 ('EIRS')

10.9 Revenue Scotland and RoS are subject to the requirements of FOISA and EIRS. Each party will provide reasonable assistance and co-operation to enable the other party to comply with these information disclosure obligations.

10.10 Where either party receives a request for information under FOISA or EIRS, that party is responsible for determining whether such information is exempt under FOISA or EIRS and whether it may disclose such information without consulting any relevant third party, or following consultation, and having taken the other party's views into account.

10.11 Revenue Scotland and RoS agree that in the event that either party receives a request under FOISA or EIRS for information held in connection with LBTT, the party receiving the request will notify the other party of the request as soon as reasonably practicable after receipt and will allow the other party a period of five working days to make representations which will include details of any exemption which that party believes may apply under FOISA or EIRS as appropriate. The notification and representation processes will be carried out by the respective FOI Officers for Revenue Scotland and RoS. The respective contact details are:

RoS (FOISA & DPA):
Head of Secretariat
0131 200 3915

Revenue Scotland:
Corporate Services Officer
0131 244 7840

10.12 Neither party is permitted to release protected taxpayer information under the FOISA or the EIRS, except as provided for in section 15 RSTPA.

Data Protection/Subject Access Requests

10.13 Revenue Scotland and RoS are subject to the requirements of the Data Protection Act 1998 and may receive subject access requests under that Act.

10.14 In the event that either Revenue Scotland or RoS receives a Subject Access Request relating to information supplied by the other party to this MoU, it will:

(a) notify the other party as soon as reasonably practicable after receipt of the request;
(b) use best endeavours to obtain the view of the other party before responding to the request;
(c) have particular regard to the exemptions from disclosure under the Act, when preparing its response; and
(d) in the event that the requested information is in the possession of the other party, redirect the requester to the other party.

Complaints

10.15 Revenue Scotland and RoS will share information about, and work collaboratively in responding to complaints received by either party about, or including reference to, the relationship between the Revenue Scotland and RoS for the purposes of LBTT.

10.16 Where a complaint relates to a service provided by RoS on behalf of Revenue Scotland, the complainant should seek a resolution to their complaint through the RoS complaints handling procedure. This procedure should be compliant with the *Model Complaints Handling Procedure for the Scottish Government and Associated Public Authorities Sector in Scotland.* RoS will keep Revenue Scotland informed of the progress of any such complaint and will consult with Revenue Scotland on the response. If at the end of this process the complainant remains dissatisfied, they will have the right to approach the Scottish Public Services Ombudsman to seek an external review.

10.17 If RoS receives a complaint relating to a service which Revenue Scotland retains responsibility for, the complainant should be directed to seek a conclusion to this through the Revenue Scotland complaints handling procedure.

10.18 An issue that is in court or has already been heard by a court or a tribunal, such as a tax dispute from a taxpayer or their agent about an amount of tax to be paid, rulings or reliefs, will not be considered a complaint.

10.19 Revenue Scotland and RoS will set out their complaints processes on their websites.

Signatories

Organisation: Revenue Scotland

Name: Eleanor Emberson
Chief Executive

Signature: Eleanor A Emberson.

Date: 31 March 2015.

Organisation: RoS

Name: Janet Egdell
Operations Director and Accountable Officer

Signature: Janet Egdell

Date: 31 March 2015

Appendix 1

Operational Processes – Roles and Responsibilities of RPOs

The operational processes detailed below define the low level processes for the delegated functions from Revenue Scotland. These have been agreed between RoS and Revenue Scotland and form the basis of the activities performed on behalf of Revenue Scotland.

Tax Administration Programme – Tax Processes Project – RoS's Roles and Responsibilities	A9614881

Appendix 2:

Operational Processes – Processing Requirements

The operational processes detailed below define the low level processes for the delegated functions from Revenue Scotland. These have been agreed between RoS and Revenue Scotland and form the basis of the activities performed on behalf of Revenue Scotland.

Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Returns Process	A9606886
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Payments Process	A9687412
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Amendments Process	A9687587
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Rejected Returns Process	A9687143
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Rejected Payments Process	A9687251
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Unidentified Payments Process	A9688225
Tax Administration Programme – Tax Processes Project – RPO Processes – Manual Submission – Cheque Banking Process	A9820840
Tax Administration Programme – Tax Processes Project – RPO User Administration	A10298366
Tax Administration Programme - IT Implementation Project - Paper LBTT Return Process	A8902324

PLEASE NOTE – a full review of processes will take place following the completion of the IT implementation and outcomes of process design. These will then be confirmed.

Appendix 3

Service Standards

All paper submissions and cheque payments received by RoS in respect of the delegated functions will be processed in accordance with the defined processing procedures in Appendix 2 on the working day on which they are received, provided they are received no later than 4 pm.

In this respect, each of the operational procedures referred to in Appendix 2 defines the point at which 'processing' is completed and RoS's responsibilities are met for the purpose of the type of submission the procedure refers to.

RoS is required to meet this standard utilising the capacity of the resources agreed and allocated for this purpose. Revenue Scotland will not be liable for day to day overtime or allowances, unless increases to resourcing levels are agreed and authorised in advance.

Definitions

'Working day' - for the purposes of this appendix, a 'working day' is defined as any day between, and inclusive of, Monday and Friday. The definition excludes any public holidays recognised by Revenue Scotland.

Appendix 4

Amendments to Operational Protocols

The SPoC in the organisation wishing to make any amendments to the operational protocols ('the requesting SPoC') will contact the SPoC in the other organisation ('the receiving SPoC') advising of the proposed change.

The request should be communicated to the receiving SPoC in writing and any operational, quality, cost and efficiency impacts should be specified where appropriate.

Any amendments will be implemented only if approved by both parties.

Where an amendment is approved by both organisations, an implementation plan and effective date will be discussed and agreed between the SPoCs and amendments will be consolidated into revised versions of Appendices 1 and 2 as soon as practicable.

Where agreement cannot be reached at this stage, or where there are financial implications associated with agreed changes, the SPoCs will escalate the matter with senior management at their organisations for review and decisions.

Memorandum of Understanding
between
Revenue Scotland and Scottish Environment Protection Agency

Glossary

RSTPA	Revenue Scotland and Tax Powers Act 2014
LBTT(S)A	Land and Buildings Transaction (Scotland) Act 2013
SLfTA	Landfill Tax (Scotland) Act 2014
SLfT	Scottish Landfill Tax
SEPA	Scottish Environment Protection Agency
SLFC	Scottish Landfill Communities Fund
The 2015 Regulations	Scottish Landfill Tax (Administration) Regulations 2015 (SSI 2015/3)
MoU	Memorandum of Understanding
PoC	Point of Contact
FOISA	Freedom of Information (Scotland) Act 2002
EIRS	Environmental Information (Scotland) Regulations 2004

1. Introduction

Background to the devolved taxes

1.1 The Scotland Act 2012 amended the Scotland Act 1998 to devolve the power to the Scottish Parliament to introduce new taxes on land transactions and disposals to landfill. The existing UK Stamp Duty Land Tax and Landfill Tax will be disapplied in Scotland on 1 April 2015 and replaced with the 'devolved taxes'.

1.2 The Revenue Scotland and Tax Powers Act 2014 (RSTPA) sets out the overall framework for the devolved taxes. Detailed provisions for these two devolved taxes are made by the Land and Buildings Transaction Tax (Scotland) Act 2013 (LBTT(S)A) and the Landfill Tax (Scotland) Act 2014 (SLfTA) and associated subordinate legislation.

1.3 Under section 4(1)(b) of the RSTPA, Revenue Scotland has the power to delegate any of its functions relating to the Scottish Landfill Tax (SLfT) to the Scottish Environment Protection Agency (SEPA). Additionally, Revenue Scotland will approve SEPA as the regulator of the Scottish Landfill Communities Fund (SLCF) in terms of Regulation 32 of the Scottish Landfill Tax (Administration) Regulations 2015 (SSI 2015/3) (the 2015 Regulations).

The Adam Smith Principles of Taxation

1.4 In June 2012, the Cabinet Secretary for Finance and Sustainable Growth set out the Scottish Government's approach to taxation. The Scottish Government's approach is embedded in Adam Smith's four key maxims. These are:

- that the burden of tax is proportionate to ability to pay
- certainty for the taxpayer
- convenience of payment
- efficiency

1.5 Revenue Scotland and SEPA will carry out their duties in relation to SLfT in line with the Scottish approach to tax and Adam Smith's maxims, working collaboratively, efficiently and effectively for the benefit of the people of Scotland, supporting sustainable economic growth.

1.6 In carrying out those duties, Revenue Scotland and SEPA will also observe and comply with the provisions of the Revenue Scotland Charter of Standards and Values.

2. Revenue Scotland and SEPA

2.1 Revenue Scotland, established by section 2(1) of the RSTPA, is a body corporate and part of the Scottish Administration, accountable to the Scottish Parliament, rather than Ministers and separate from the Scottish Government. The RSTPA established Revenue Scotland as the independent tax authority responsible for the collection and management of the devolved taxes in Scotland.

2.2 SEPA is a non-departmental public body, accountable through Scottish Ministers to the Scottish Parliament. SEPA is established under section 20 of and schedule 6 to the Environment Act 1995. SEPA is Scotland's environmental regulator.

3. Purpose and Scope of the Memorandum of Understanding (MoU)

3.1 The key aims of this MoU are to set out:

- the terms of agreement between Revenue Scotland and SEPA in relation to joint working arrangements and collaboration in delivery of the functions carried out by SEPA in respect of SLfT and SLCF
- the roles and responsibilities of Revenue Scotland and SEPA in respect of each of the functions and
- the general framework for governance and management of the delegated functions and SLCF regulation

3.2 This MoU is not a contract, nor is it legally binding. Nothing in this MoU has the effect of delegating any of Revenue Scotland's statutory powers, functions or duties to SEPA. Delegation will be given effect through the Schedule of Delegation. SEPA will be approved as the regulator of SLCF by decision of the Board of Revenue Scotland.

3.3 Provisions of this MoU relating to the delegated functions within the terms of section 4(1)(b) of the RSTPA will come into effect on the date of the Schedule of Delegation and will continue for as long as SEPA undertakes the statutory responsibilities in relation to SLfT.

3.4 Provisions of this MoU relating to the regulation of SLCF under the 2015 Regulations will come into effect on the agreed date of the approval of SEPA as the regulator by the Board of Revenue Scotland and will continue for as long as SEPA undertakes the statutory responsibilities as the regulator.

3.5 This MoU does not remove, alter or reduce the prevailing legal obligations of each party, for example, obligations under the Data Protection Act 1998 and the Human Rights Act 1998.

3.6 The relationship between Revenue Scotland and SEPA will require information to be shared between the two organisations. This MoU does not include the detailed arrangements which require to be in place to allow this. A document will be developed by the parties.

4. Collaborative Working

4.1 While fully acknowledging their respective obligations with regard to delegation under section 4(1)(b) of the RSTPA and regulation of SLCF under Regulation 32 of the 2015 Regulations, the parties are committed to establishing and maintaining a collaborative relationship and working culture, underlined by the following principles:

- Revenue Scotland and SEPA will work openly and cooperatively in delivering the SLfT and SLCF arrangements
- Revenue Scotland will consult SEPA on any matters affecting the way in which SEPA carries out functions on behalf of Revenue Scotland before implementing them. This includes any delegation, changes to the scope of delegation, any revocation, any statutory directions (in accordance with sections 4(2) and 4(3) RSTPA), any conditions, any changes or revocation of conditions in terms of Regulation 31(2)(b) and (c), and any operational decisions.
- Revenue Scotland and SEPA will jointly monitor the delivery of those functions to ensure adequate resourcing, financing and working arrangements are in place to meet operational requirements.

5. Delegation of functions and approval of SLCF regulator

SLfT

5.1 Under section 4(1)(b) of the RSTPA, Revenue Scotland has the power to delegate any of its functions in relation to SLfT to SEPA.

5.2 Revenue Scotland will prepare a Schedule of Delegation, a document setting out the functions to be delegated by Revenue Scotland to SEPA. The Schedule of Delegation will be prepared in consultation with SEPA. Information about this document will be published by Revenue Scotland and a copy will be laid before Parliament by Revenue Scotland before 1 April 2015.

5.3 Revenue Scotland retains responsibility for the exercise of the functions delegated to SEPA. Delegation does not affect the ability of Revenue Scotland to exercise those functions.

5.4 In exercising its responsibility for the functions delegated to SEPA, Revenue Scotland, under section 4(2) of the RSTPA, may issue formal directions to SEPA as to how the delegated functions are to be exercised. SEPA will comply with such directions. These directions will be developed in consultation with SEPA.

5.5 Under section 4(3) of the RSTPA both delegations and directions may be revoked or varied at any time by Revenue Scotland. Revenue Scotland will consult SEPA before taking such action.

SLCF

5.6 SEPA will be approved by Revenue Scotland as the SLCF regulatory body in accordance with the provisions of the Regulation 32(1) of the 2015 Regulations.

5.7 As the approved regulator, SEPA will carry out the prescribed functions set out in Regulation 31(1) of the 2015 Regulations.

5.8 In accordance with Regulation 31(1)(j) of the 2015 Regulations, SEPA will comply with any conditions imposed on them in terms of its role as the regulator by Revenue Scotland. Such conditions may include the setting of a ceiling for the percentage at Regulation 30(1)(m), which will fund SEPA's regulatory role. Revenue Scotland will consult SEPA before imposing any such conditions.

6. Financial Arrangements

SLfT

6.1 SEPA will invoice Revenue Scotland on a quarterly basis in arrears for reimbursement of costs incurred in relation to the delegated functions. On an annual basis, SEPA will provide Revenue Scotland with an estimated spending plan for the following year (see section 9). This will cover the costs of carrying out the delegated functions.

6.2 Following any necessary discussions, the estimated costs will inform Revenue Scotland's submissions to the Scottish Budget process. Initial estimates for annual operating costs have been given in the Financial Memoranda to the tax legislation.

6.3 Once the allocation is confirmed, Revenue Scotland will agree the estimated costs with SEPA or discuss adequate modifications. The estimate will be reviewed in the course of a financial year (see section 8).

6.4 Reimbursement by Revenue Scotland to SEPA in relation to delegated functions is outside the scope of VAT. To the extent that any other activity undertaken by SEPA is within the scope of VAT, Revenue Scotland will pay VAT on the charge for that activity to SEPA.

6.5 The parties acknowledge that in the course of any financial year, extraordinary or one off costs may be incurred by SEPA with regard to the delegated functions, for example, in response to new operational requirements, system contingencies or changes in wider Scottish Government policy on digital public services strategy. Such costs will be agreed and met by Revenue Scotland on a case by case basis. Where possible, the parties will communicate about and discuss any such cost in advance (see section 7.18 below).

SLCF

6.6 SEPA's operational costs of acting as the regulatory body will be recovered in terms of Regulation 30(1)(m) of the 2015 Regulations, at the percentage set by the Board of Revenue Scotland.

6.7 The resource that SEPA puts into regulating the fund will set by the expected level of funding it is to receive, based on the percentage set by the Board of Revenue Scotland. In the event that SEPA incurs operational costs that cannot be met within the percentage – whether due to the level of contributions, the number of approved bodies, or some other cause – Revenue Scotland and SEPA will agree action to address the shortfall, providing additional funding where appropriate. Similarly, where the above causes would lead to SEPA having more funding than it needed to regulate the SLCF, Revenue Scotland and SEPA will agree appropriate action to address this.

6.8 The funding of SEPA's regulatory role in relation to the SLCF, whereby Approved Bodies pay SEPA a percentage of each qualifying contribution, is outside the scope of VAT. If any necessary cost to SEPA arises in relation to their regulatory role and such cost includes payment of VAT, Revenue Scotland will reimburse SEPA for this, including the VAT element.

7. Working Arrangements

7.1 Revenue Scotland and SEPA are working closely together to set out detailed roles and responsibilities and operational protocols in respect of the delegated functions and regulation of SLCF. The arrangements for the exercise of each function will be set out in the Appendices to this MoU and will be updated once the detailed processes are agreed between the parties and a revised MoU produced and signed.

Compliance

7.2 SEPA will undertake agreed SLfT compliance work. Details about the exercise of this function are set out in Appendix 1.

Intelligence

7.3 Subject to agreeing the resource required to fulfil the role SEPA will receive, store and process intelligence on behalf of Revenue Scotland. The details of the exercise of this function will be set out in a separate document.

Regulation of the SLCF

7.4 SEPA will act as regulator of the SLCF within the terms of the 2015 Regulations. Details about the exercise of this function are set out at in Appendix 2.

SEPA's Scottish Landfill Tax Team

7.5 SEPA will establish a 'SLfT team', consisting of officers carrying out the the above functions on behalf of Revenue Scotland. SEPA will have the responsibility to ensure that its staffing arrangements adequately correspond to the forecasted volumes of work (see section 9).

Points of Contact

7.6 SEPA and Revenue Scotland will each appoint Points of Contact (PoCs), who will communicate with each other if matters arise in respect of operational arrangements, operational decisions in individual cases (see section 7.8) or performance (see section 7.7). Communication arrangements in respect of individual compliance cases will be agreed by appointed operational managers at each organisation (see Appendix 1).

Performance Indicators

7.7 Revenue Scotland will set out procedures and mechanisms for monitoring and reviewing SEPA's performance of its SLfT compliance work and SLCF regulatory work as well as developing the criteria for assessment. This will be discussed and developed in collaboration with SEPA. SEPA will report on its performance against agreed standards and quality indicators to Revenue Scotland to allow for regular oversight of the effectiveness of SEPA's performance and joint working arrangements. SEPA will have the responsibility for ensuring compliance with performance requirements agreed between the parties.

Operational Protocols

7.8 Operational protocols in respect of joint working arrangements will be developed and agreed by appointed operational managers in Revenue Scotland and SEPA. Any amendments that either party wish to make to agreed processes in light of operational experience will be raised in writing by the PoC in the organisation requesting a change, specifying, where appropriate, any operational, quality, cost and efficiency impacts of the requested change. Any amendments will be implemented only if approved and signed by both parties. Where an amendment is approved by both organisations, an implementation plan and effective date will be discussed and agreed between the PoCs.

Security, Incident Management and Escalation Policies

7.9 In consultation with SEPA, Revenue Scotland will define an incident management and escalation policy, which will set out security and governance procedures and include relevant escalation routes in respect of downtime and system performance issues. SEPA will comply with Revenue Scotland's incident management and escalation policy in its exercise of the delegated functions, and in its regulatory role. Where the exercise of the delegated functions or the regulatory role impacts on SEPA's wider security responsibilities, Revenue Scotland and SEPA will agree an approach that ensures that all security requirements are met. Revenue Scotland will consult SEPA before implementing or amending any policies which refer and apply to both parties. Implementation plans and effective dates will also be agreed between the parties. Nothing in this paragraph determines or suggests the status of either party as a data controller or data processor, which will be covered by the document mentioned in section 3.6 above.

Training

7.10 Revenue Scotland and SEPA will jointly review training needs of staff involved in SLfT work across the organisations. In line with any identified training requirements, Revenue Scotland will provide relevant training sessions and materials to SEPA's SLfT team on SLfT tax specific issues; conversely training on environmental matters relevant to SLfT and on practical issues encountered during site visits will be provided by SEPA to Revenue Scotland officers.

7.11 Additionally, Revenue Scotland has a mandatory training programme with the purpose of ensuring that all staff have consistent understanding of their legal duties in respect of collection and administration of the devolved taxes. SEPA's SLfT staff will be given the opportunity to undertake any training sessions offered to Revenue Scotland staff, subject to availability of training facilities and resourcing.

Declaration of Confidentiality

7.12 SEPA will ensure that all members of staff who exercise delegated functions on behalf of Revenue Scotland sign a declaration of confidentiality in accordance with section 16 RSTPA. Revenue Scotland will specify the form and content of this declaration. Once signed by the members of SEPA staff, declarations will be sent to and stored by Revenue Scotland, with copies being retained by SEPA.

Operational Capability

7.13 As well as the required staff, Revenue Scotland and SEPA will ensure that operational capability necessary for the exercise of the delegated functions by SEPA (e.g. secure working areas, equipment for inspections etc.) is in place.

Legal Advice

7.14 In the case of both SLfT and SLCF, where legal advice is required in relation to a procedural, compliance or enforcement activity, Revenue Scotland will provide that advice, or will make arrangements to provide that advice, to SEPA.

Resource Management

7.15 In the course of a financial year, SEPA will be responsible for managing its workloads and resources efficiently so that it can deliver the agreed volumes of work at estimated cost. Revenue Scotland will not be liable for day to day overtime or allowances unless increases to resourcing levels correspond to increased or unplanned workloads as agreed between the parties (see section 7.17). The parties will carry out regular reviews of resourcing needs in light of operational experience (see section 8).

Unplanned workloads and resourcing needs

7.16 In view of operational experience, the parties may agree to increase or decrease the scope of the activities carried out by SEPA and this will be reflected in SEPA's spending plans for each year. However, the parties acknowledge that at any given time, there may be unanticipated peaks in work required to be carried out by SEPA under the existing arrangements, for example where complex compliance investigations are being carried out simultaneously, including investigations of criminal activities or where additional workloads emerge relating to legal proceedings.

7.17 Where either party becomes aware of any resourcing concerns caused by additional workloads which may affect agreed timeframes and quality standards in respect of its existing duties, these will be communicated through the appointed PoCs as soon as reasonably practicable and the nature of the concern should be specified by the party raising the matter.

7.18 Where both parties conclude that the unplanned increases in workloads cannot be met within the estimated costs, Revenue Scotland will assist SEPA in making decisions on prioritisation within agreed resources or agree arrangements for additional resources to be put in place.

8. Review Process

Review Group

8.1 Revenue Scotland and SEPA will each appoint representatives to form a Review Group, which will meet on an agreed frequency. This is expected to be quarterly during the first year, and six monthly in subsequent years.

8.2 The Review Group will review the performance of both parties in relation to their obligations in connection with SLfT and SLCF and make recommendations for improvement where necessary.

8.3 The remit of the Review Group includes measuring performance, monitoring resourcing and spending, reviewing the effectiveness of the operational arrangements, reviewing the effectiveness of the information sharing agreements in place, training needs and proposing changes.

8.4 The Review Group will recommend any amendments to senior managers in Revenue Scotland and SEPA. Any variations or amendments will take effect only when recorded in writing and signed by both parties.

8.5 In the event that agreement on any of the above matters cannot be reached, the parties will use escalation routes as prescribed by their respective organisational practices and policies for matters of disagreements to be resolved at senior management level. Where necessary, any such matters will be escalated to, and decided between, the Chief Executives of each organisation.

9. Monitoring and Reporting Arrangements

Forecasting

SLfT

9.1 Revenue Scotland and SEPA will agree a forecast of the likely volume of work required to comply with the delegated duties, and the resource implications of that volume of work. For the initial set up of this function, Revenue Scotland and SEPA have agreed a resourcing figure that will apply from 1 April 2015 for the first twelve months. The estimated figure was based on SEPA's operational experience in relation to inspecting and dealing with landfill sites and taking account of the anticipated increase in revenue generated as a result of investment in compliance and revenue increases. The estimate was included in the Financial Memoranda to the SLfTA and the RSTPA.

SLCF

9.2 Revenue Scotland and SEPA will agree annual forecast of likely volume of work to be undertaken by SEPA in relation to SLCF and the resource implications of that volume of work. For the initial set up of this function, Revenue Scotland and SEPA will agree a resourcing figure that will be in place from 1 April 2015 for the first twelve months. The parties will also agree annual forecasts of contributions to the SLCF. The resourcing figure will be monitored and reviewed by the parties in accordance to the process set out in section 8 above.

Monitoring spending and resourcing requirements

9.3 To ensure effective monitoring and oversight of spending and resourcing needs, SEPA will report to Revenue Scotland on a monthly basis with regard to its resourcing arrangements and staffing costs. The parties will agree on the reporting format and detailed timescales.

9.4 SEPA will arrange for an annual statement of assurance from its auditors to be provided to Revenue Scotland confirming the breakdown of the amounts incurred in respect of SLfT and SLCF. Revenue Scotland will reimburse SEPA for the costs of this audit.

10. Information

Dealing with External Enquiries

10.1 Ministerial correspondence and briefings - In the case of an enquiry by a Scottish Minister relating to joint working arrangements, to either Revenue Scotland or SEPA, the party in receipt of the enquiry shall notify the other party as to the nature of the enquiry and the intended response. The party preparing the response will be responsible, after consultation with the other party, for ensuring that the response is circulated as appropriate to Ministers with a portfolio interest and/or to relevant divisions of Scottish Government.

10.2 Enquiries from landfill operators and general public - In the course of individual compliance inspections, the parties will agree a framework for communicating with landfill operators on matters relating to the investigation and will ensure that the operator is made aware of the relevant contact details. General enquiries about tax matters should be directed to Revenue Scotland. SEPA will respond to enquiries concerned with environmental matters as well as any matters within the scope of its responsibilities as the SLCF regulator.

10.3 Contact details for SLfT and SLCF related enquiries will be published on Revenue Scotland's and SEPA's websites.

10.4 Stakeholder Engagement - Revenue Scotland will have the primary responsibility for the co-ordination of stakeholder relations and management of stakeholder engagement in respect of SLfT and SLCF. Coordination of stakeholder relations in respect of SLfT and SLCF will continue through the framework of the Joint Communications Group.

10.5 Publicity - Revenue Scotland will be the lead organisation in generating publicity and guidance materials. SEPA will consult Revenue Scotland in respect of any publicity materials intended to be published online which provide information, guidance or advice in respect of any matters relating to SLfT and SLCF. Consultation with Revenue Scotland prior to making the information available will not be required where reference to SEPA's delegated functions under SLfT and SLCF are published on SEPA's website as part of the reports, papers and minutes associated with SEPA's Agency Board.

10.6 Consultation with Revenue Scotland prior to making the information available will not be required in relation to any incidental references to SEPA's delegated functions in relation to SLfT or SLCF where the use of standard wording has been agreed in advance with Revenue Scotland.

10.7 Press Communications - Revenue Scotland will be responsible for all proactive communications and interaction with the media in respect of all aspects of SLfT. All media enquiries will be directed to Revenue Scotland and SEPA will not initiate communication with the media or respond to media enquiries on matters relating to SLfT. Where appropriate, press releases and other communications which include reference to the relationship between Revenue Scotland and SEPA, will be consulted with and quality assured by SEPA before being issued.

Freedom of Information (Scotland) Act 2002 ('FOISA') and Environmental Information (Scotland) Regulations 2004 ('EIRS')

10.8 Revenue Scotland and SEPA are subject to the requirements of FOISA and EIRS. Each party will provide reasonable assistance and co-operation to enable the other party to comply with these information disclosure obligations.

10.9 Where either party receives a request for information under FOISA or EIRS, that party is responsible for determining whether such information is exempt under FOISA or EIRS and may disclose such information without consulting any relevant third party, or following consultation and having taken the other party's views into account.

10.10 Revenue Scotland and SEPA agree that in the event that either party receives a request under FOISA or EIRS for information held in connection to SLfT, the party receiving the request will notify the other party of the request as soon as reasonably practicable after receipt thereof and will allow the other party a period of five working days to make representations which will include details of any exemption which that party believes may apply under FOISA or EIRS as appropriate. The notification and representation processes will be carried out by the respective FOI Officers for Revenue Scotland and SEPA.

10.11 Neither party is permitted to release protected taxpayer information, except as provided for in section 15 of the RSTPA.

Data Protection / Subject Access Requests

10.12 Revenue Scotland and SEPA are subject to the requirements of the Data Protection Act 1998 and may receive subject access requests under that Act.

10.13 In the event that either Revenue Scotland or SEPA receives a subject access request relating to information supplied by the other party to this MoU, it must:

(a) notify the other party as soon as reasonably practicable after receipt of the request;
(b) use best endeavours to obtain the view of the other party before responding to the request;
(c) will have particular regard to the exemptions from disclosure under the Act, when preparing its response;
(d) In the event that the requested information is in the possession of the other party, redirect the requester to the other party.

Complaints

10.14 Revenue Scotland and SEPA will share information about and work collaboratively in responding to complaints received by either party about, or including reference to, the relationship between the parties for the purposes of SLfT and SLCF.

10.15 Where a complaint relates to activities carried out by SEPA on behalf of Revenue Scotland, the complainant should seek a resolution to their complaint through the SEPA's complaints handling procedure. This procedure will be compliant with the *Model Complaints Handling Procedure for the Scottish Government and Associated Public Authorities Sector in Scotland.* SEPA will keep Revenue Scotland informed of the progress of any such complaint and will consult with Revenue Scotland on the process. If at the end of this process the complainant remains dissatisfied, they would have the right to approach the Scottish Public Service Ombudsman to seek an external review.

10.16 If SEPA receives a complaint relating to a service for which Revenue Scotland retains responsibility for, and which is not relevant to SEPA the complainant should be directed to seek a conclusion to this through the Revenue Scotland complaints handling procedure.

10.17 Revenue Scotland will inform SEPA of a complaint received about its own performance or service, where matters raised in the complaint may be of relevance to both parties or have implications for SEPA's work.

10.18 An issue that is in court or has already been heard by a court or a tribunal, such as a tax dispute from a taxpayer or their agent about an amount of tax to be paid, rulings or reliefs, will not be considered a complaint.

10.19 Revenue Scotland and SEPA will set out their complaints processes on their websites.

Signatories

Organisation: Revenue Scotland

Name: Eleanor Emberson
Chief Executive

Signature: Eleanor A Emberson.

Date: 1 April 2015.

Organisation: SEPA

Name: James Curran
Chief Executive

Signature: James C. Curran

Date: 7/4/2015

Appendix 1

Working Arrangements - Compliance

- SEPA will contribute its information, knowledge and expertise to the Revenue Scotland risk analysis system for SLfT. Revenue Scotland will operate this system to identify potential sites for compliance activity. Revenue Scotland will communicate potential compliance activity to SEPA. In doing so, Revenue Scotland will state which sites and activity are mandatory and which are discretionary, and the parameters for the compliance activity.

- SEPA's SLfT officers will communicate directly with taxpayers where appropriate, for example in order to arrange visits and deal with other communications from the taxpayer.

- On a daily basis, SEPA's SLfT staff will be managed by SEPA, who will be responsible for ensuring compliance with Revenue Scotland's delegations, directions and operational protocols. This also includes compliance with agreed timeframes and performance standards for SEPA.

- Revenue Scotland and SEPA will jointly agree a communication framework for exchanging information in the course of compliance work, in line with the principle of confidentiality of protected taxpayer information.

- Revenue Scotland will provide relevant training sessions and materials to SEPA's SLfT team on SLfT tax specific issues; conversely training on environmental matters relevant to SLfT and on practical issues encountered during site visits will be provided by SEPA to Revenue Scotland officers.

- SEPA's SLfT officers will carry out SLfT compliance inspections of landfill sites for SLfT compliance purposes as agreed with Revenue Scotland. In the course of individual inspections, SEPA's SLfT officers will collect information and evidence to check the landfill operator's tax position.

- In support of the above functions, SEPA will notify Revenue Scotland of any relevant changes to landfill operator status, share data from landfill operators' waste returns and inform Revenue Scotland of any potential tax compliance issues identified by SEPA's officers in the course of environmental inspections. Conversely, Revenue Scotland will inform SEPA of any relevant changes to landfill operator status, changes to landfill operators' waste returns and inform SEPA of any potential tax or environmental compliance issues identified by Revenue Scotland officers in the course of its functions.

- SEPA staff will undertake targeted activities at non-landfill sites, including sites of waste production and waste treatment, in order to support the delivery of its delegated functions.

- In the course of conducting compliance, SEPA may make tax liability decisions about matters relating to a site. SEPA will refer any cases of doubt, or cases with wider potential impact, to Revenue Scotland before making such a ruling.

- In accordance with the provisions of RSTPA, statutory notices in relation to compliance inspections to landfill sites will be issued in accordance with the agreed processes.

- When working jointly on individual cases, Revenue Scotland will discuss and agree the scope of compliance activities to be carried out by Revenue Scotland officers and SEPA officers. This may be amended by agreement in light of developments in the course of the case.

- SEPA will provide a report for each compliance inspection to Revenue Scotland through the Case Management System.

- Revenue Scotland and SEPA will inform each other of any expected or planned changes to their internal systems, and / or operational arrangements which may impact the other party, as soon as reasonably practicable.

Appendix 2

Regulation of the Scottish Landfill Communities Fund

Registration Process

SEPA will assess applications to register as an Approved Body against the criteria specified in the Regulations and will register those Bodies which meet the requirements. The registration process will consist of an assessment of a declaration by applicant Approved Bodies against criteria specified in the Regulations. In addition, as part of routine compliance activity, SEPA will check whether Approved Bodies declare any change to these registration requirements. Registration and ongoing compliance with registration requirements will be evaluated by SEPA as it sees fit. SEPA will allocate a registration number to each Approved Body. Approved Bodies will be registered from 1 April 2015.

Register of Approved Bodies

SEPA will maintain and publish a register of bodies which it has approved and will ensure this register is kept up to date by removing any body from the register whose approval has been revoked.

Regulatory Role

SEPA's regulatory role is to determine whether Approved Bodies comply with the relevant requirements of the Regulations and the conditions placed on them as conditions of registration. There is no expectation or requirement on SEPA that it will regulate or investigate projects as part of the regulatory role. However, SEPA does have the power to investigate projects. It is expected that this power would only be used if SEPA consider that such investigation would assist the regulation of an Approved Body, for example, where there is a suspicion that an Approved Body is non-compliant with the requirements of the Regulations. SEPA cannot apply any sanctions to projects. SEPA will focus on auditing and inspecting Approved Bodies to ensure that they have systems and procedures in place and are meeting the requirements of the Regulations.

Reporting

Landfill operators will claim any credit in relation to contributions to the SLCF to Revenue Scotland on their quarterly tax return. SEPA will arrange to receive information on:

- funds received by Approved Bodies
- funds transferred by Approved Bodies
- any third party contributions made to landfill operators

SEPA will report on the performance of Approved Bodies to Revenue Scotland in an agreed format.

Non-payments

Where there is non-payment of SEPA's regulatory costs by an Approved Body, SEPA may take appropriate enforcement action against that body.

SEPA may pursue Approved Bodies for outstanding/overdue invoices and will notify Revenue Scotland when doing so.

In the event that SEPA invoices Approved Bodies for the percentage contribution and this is not received, and where reasonable debt recovery options are exhausted, Revenue Scotland and SEPA will discuss appropriate actions.

By virtue of paragraph(s) vi of Standing Order 17.42

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