

Audit Detailed Report

January 2007



Social Services Budgetary Control

Wirral MBC

Audit 2006-2007

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Summary Report

Introduction

- 1 In our 2005 Annual Audit and Inspection Letter we summarised the issues arising from our overview of the circumstances that led to the £5.3m overspend incurred by the Social Services Department (SSD) during 2004/05. We also referred to our intention to do a more detailed review of the department's budget monitoring arrangements as part of our planned work in 2005/06. This report summarises the findings from that review.

Audit approach

- 2 Our review took place during February to July 2006, building on earlier work carried out during 2005. It focused on budget monitoring arrangements within the then Social Services department (SSD) based on discussions with key officers and a review of documentation including year-end closedown papers and reports to Members. The review has been updated between August and October 2006 to reflect:
 - recent progress in the Department for Adult Social Services (DASS);
 - and issues arising from our 2005/06 accounts audit.
- 3 For some of the issues referred to in the report, future performance will be the responsibility of the Children and Young Peoples department (C&YPD). We have not considered here any action taken by the C&YPD since transfer of responsibility.
- 4 We have not considered the wider aspects of financial management including budget setting, service priorities, cost and value for money.

Main findings and conclusions

- 5 Following the £5.3m overspend in 2004/05, there has been a clear commitment by officers and Members to address the significant budget pressures facing the Council's Social Services, in keeping with many Councils with Social Services responsibilities, as demand for services and expectations continues to rise. This has included the provision of additional funding and the introduction of improved procedures for budgetary control and reporting. However, significant issues remain. The 2005/06 outturn was £1m overspent and budget pressures continue to apply in 2006/07. Key areas to address include:
 - ensure the effective implementation of new procedures for budget monitoring, accountability and reporting;
 - ensure prompt action is taken to resolve and recover outstanding income due from PCTs in respect of joint funded care packages.

- 6 The SSD budget for 2005/06 was adjusted during the year to reflect the budget pressures evident in the 2004/05 overspend. This resulted in a £3.4m approved budget increase. Despite this increase, the SSD incurred an additional underlying budget overspend of approximately £1m.
- 7 There were improvements in the content and timing of budget monitoring reports to Members during 2005/06. However, in some reports the range of forecast overspend was too wide for effective reporting and the report to Social Care and Health Select Committee Members in February 2006 did not forecast the additional overspend of £1m.
- 8 Cabinet Members received limited information on the reasons for the year-end over-spend. Information was communicated to them via summary comments in the Director of Finance's council-wide revenue outturn report. This report referred to a subsequent further report to Cabinet by the Director of Social Services (DSS) on the causes of the overspend. The DSS has not presented a further report as this has not been requested by the Social Care, Health and Inclusion Overview Scrutiny Committee (SCH&I O&S). Reporting arrangements could be improved by providing more detailed explanations for significant year-end budget variances. It is recognised that the new Scrutiny Committee has identified budget management as a key area of scrutiny in its work programme with party spokespersons now receiving more detailed monthly reports.
- 9 Reporting arrangements have been strengthened during the first six months of 2006/07. Going forward, it will be important to review the effectiveness of these revised reporting arrangements including outturn forecasts. It will also be important to ensure key strategic financial documents, such as the Adult Social Services medium term financial plan, are effectively linked to the Council's corporate medium term financial strategy and revised corporate plan
- 10 A contributory factor to the 2005/06 overspend was that the SSD achieved reported savings of £4.443m compared to a budget stabilisation target of £5.613m. The main area where savings were not achieved was in relation to the planned reduction of the Looked After Children (LAC) residential population. Our review identified weaknesses in the quality of some of the available evidence to support some savings reported to Members. As regards 2006/07, the DASS has recently strengthened arrangements to improve the accountability for achieving savings targets. However, officers will need to ensure that reports to Members are sufficiently detailed to allow Members to effectively monitor and challenge the achievement and realism of savings targets, and that reported savings can be adequately supported.

- 11 The budget monitoring arrangements within the SSD and more recently the DASS have been strengthened in several areas. Recent improvements have included revised financial policies and strengthened arrangements for budget management and accountability. It is, as yet, too early to comment on whether the revised procedures have proved successful, and ultimately contributed to ensuring the DASS succeeds in managing its budget within its available resources. Plans are in place to further develop the use of budget profiles within the department. Further improvements are planned to follow with the implementation of SWIFT financial modules in April 2007. However, there is a need to strengthen arrangements for the reconciliation and use made of commitments information in respect of LAC, now the responsibility of the Department for Children and Young People (CYP).
- 12 Although the 2006/07 budget for children and adult social services reflected additional resources of approximately £9m, the scale of the overspend in 2005/06, when compared to the original budget and taking into additional PCT income, mean that significant budgetary pressures will continue to face adult and children's social services. The need remains therefore for the ASS and CYP departments to apply rigorous budget monitoring and control procedures if they are to successfully manage to remain within their overall resource allocation for 2006/07 and avoid a further budget overspend.
- 13 There has been an inconsistency of treatment in respect of invoicing PCTs for the health share of the joint funded care packages. In contrast to *out of area* PCTs that were billed in December 2005, *local* PCTs have not been billed for approximately £0.92m of costs incurred by the Council for care provided prior to 1/4/05 . The Director of DASS has described the PCTs' liability for this period as 'hypothetical'. No agreement to share these costs had actually been made at the time. The agreement with the local PCTs to back date claims for joint funding only applies from 1 April 2005.
- 14 This situation reflects the general lack of clarity over agreements and responsibility for funding the health care aspects of jointly funded care packages. This is evident in that:
 - for *out of area* PCTs no income has been received in respect of the £1.86m invoiced;
 - for *local* PCTs, at the time of writing this report, no income has been received for the period 1/4/05-31/8/05. But some £370,000 of £425,000 (invoiced between October 2005 and March 2006) has been received in respect of costs incurred since 1/9/05.

The Council needs, as a matter of urgency, to seek legal advice to confirm the status of these arrears and then take prompt recovery action in the light of such advice.

- 15 The Council has continued to experience disputes with some health partners as formal funding arrangements have not been in place for all aspects of partnership working with health bodies. Progress has been made in 2005/06 and 2006/07 to settle long standing disputes in respect of some funding arrangements. However, problems remain, particularly in respect of some older schemes where responsibility for funding and payment terms were not clearly established at the outset. These risk undermining the otherwise good working relationships and the effectiveness of the partnership. It is important that outstanding disputes are settled promptly and that for all future arrangements, clear funding agreements are established when work is commissioned. These should clearly set out the respective funding responsibilities of partner organisations and the payment terms.
- 16 In recent months there has been an increased focus within the Council, including several reports to Members by Internal Audit and the Director of Finance, on the adequacy of debt collection and recovery arrangements across the Adult Social Services department, including from service users. There is a need to ensure prompt action is taken to address the issues and recommendations arising from these reviews. Recent improvements have included strengthening the arrangements for the more coordinated monthly billing of PCTs.
- 17 The Council has agreed action to ensure the consistent treatment of potential income and liabilities due from and to PCTs within the 2006/07 accounts. This will involve making an appropriate provision for bad debts, based on a thorough assessment of the likelihood of collecting outstanding arrears, and fully accounting for the costs of outstanding liabilities with the PCT, potentially up to £800k.

Key recommendations

- 18 The detailed report sets out a number of recommendations to strengthen budget monitoring arrangements. The key ones are highlighted here:
 - monitor the effectiveness of the new procedures for budget monitoring and accountability to ensure the DASS succeeds in managing its budget within its available resources in 2006/07 and subsequent years;
 - review the effectiveness of the revised reporting arrangements and ensure the DASS medium term financial plan is effectively linked to the Council's corporate medium term financial strategy and revised corporate plan, due in 2007;
 - ensure budget monitoring reports to Members are sufficiently detailed to allow them to effectively monitor and challenge the achievement and realism of savings targets. Ensure reported savings can be adequately supported;
 - confirm the legal status of arrears in respect of the health share of the costs of care provided prior to 31/8/05 and ensure prompt and appropriate recovery action; and

- resolve any outstanding financial disputes with PCTs and ensure clear funding agreements are established when future joint work with partners is commissioned. These should clearly set out the respective funding responsibilities of partner organisations and the payment terms.

Next steps

- 19 The draft report will be discussed and agreed with the Directors of the Adult Social Service, Finance and Children and Young Peoples departments. The report will then be presented to Members of the Executive Board. Officers will be asked to prepare an action plan setting out the Council's response to our recommendations.
- 20 Given the importance of budget monitoring performance in the DASS and CYP to the Council's overall financial position, we will follow up the findings of the report during 2007 and use it to inform our Use of Resources and Direction of Travel assessments.

Detailed Report

2005/06 Budget Outturn

- 21 The SSD budget for 2005/06 was adjusted during the year to reflect the budget pressures evident in the 2004/05 overspend. This resulted in a £3.4m approved budget increase. Despite this increase, the SSD incurred an additional underlying budget overspend of approximately £1m. Reporting arrangements could be improved by providing more detailed explanations for significant year-end budget variances. Continuing budget pressures in 2006/07 will require departments providing social services to apply effective budget monitoring and control procedures if they are to successfully manage to remain within their overall resource allocation and avoid a further budget overspend.
- 22 By June 2005, officers and Members had recognised the need to revise the Social Services Department (SSD) budget for 2005/06 in the light of the significant budget pressures evident in the £5.3m overspend in 2004/05.
- 23 Following this overspend, the DSS reported to the 6 July 2005 Social Care & Health Select Committee (SC&HSC). In this report he identified a best case scenario projected overspend of £2.775m for 2005/06 (worst case scenario £7.3m). The budget revisions were based on the first three months expenditure in 2005/06 and reflected an assessment of the financial implications for 2005/06 of the budget pressures which had become apparent during the 2004/05 closedown and had not previously been clearly reported to Members.
- 24 During 2005/06 there were regular updates to Members on the likely budget outturn. The Financial Monitoring report to 13 October SC&H Select provided a more detailed update on the budget position. This indicated a projected overspend, before savings measures, for 2005/06 of £6.064m, (primarily Learning Disability and Mental Health £3.866m & Children's services £2.466m). After taking into account projected savings as a result of the Budget Stabilisation Plan, the projected overspend was £3.264m. The 1/12/05 Cabinet endorsed the increase in the 2005/06 budget of £2.8m. A potential SSD overspend of £3.4m was reported to the 9/2/06 Cabinet and subsequently included in the approved 'probable' budget for 2005/06.
- 25 The DoF final outturn report for 2005/06 (presented to Cabinet 28 June 06) showed an overspend of £1.398m. After removing adjustments for corporate items including the increase in capital charges following asset revaluations, the underlying SSD overspend for 2005/06 was stated as £1m.

- 26 The Outturn report to Cabinet included a summary of the main reasons for the overspend. We have considered the reasons for the overspend as part of our review. The main reasons given were:
- **Mental Health and Learning Difficulties** overspend of £690,000. This was reported as due to the:
 - settlement of a long standing issue with a *local* PCT relating to 2004/05 and 2005/06 at a cost of £400,000 to the Council. The Council had delayed settling until it had been provided with a copy of the signed agreement for the scheme. Although anticipated, these costs were not included in the *probable* budget as no agreement had been received. The costs were settled as part of the 2005/06 closedown.
 - incorrect coding of costs in respect of a number of clients transferred to the Older People budget, for which we understand there was a corresponding budget under-spend of £192,000.
 - **Children's Services** overspend of £475,000. This was reported as due to :
 - 'the plans to reduce the number of Out-of-Borough placements was not achieved and there was actually an increase in the numbers', when comparing the number of placements at the year-end to those at the time when the plan was implemented. 'This pattern continued during the final period of 2005/06 with the additional costs fairly evenly divided between residential care and foster care'. Our review has shown that not reducing the number of LAC placements in line with planned targets resulted in an expected overspend of £753,000 in the year.
 - an unexplained increase in the amount of foster care payments in March which totalled £100,000. After taking into account other budget variances, the net position was as reported to Members.
- 27 Reporting arrangements could be improved by providing more detailed explanations for year-end budget variances. The DoF outturn report to Cabinet reported that the Director of Adult Social Services would present further reports on the cause of this overspend and the projected medium term financial implications. But there have been no further reports to Cabinet providing additional detail on the reasons for the overspend. The DASS has told us that this is because no further reports on the outturn have been requested by the Social Care, Health and Inclusion Overview Scrutiny Committee.
- 28 Although the 2005/06 overspend represented approximately only 1 per cent of the revised overall budget, the overspend remains significant in the light of the £3.4m budget increase and the low level of revenue balances. The reported overspend is also somewhat artificially low as it is the net position after taking into account the accrual of approximately £2.6m of additional windfall income arising from the expected contribution by PCTs towards the cost of joint funded care packages, of which £1.26m relates to periods prior to 2005/06 (see later section for details.)

- 29 Recognising the budget pressures facing the department, Members approved a budget increase of approximately £9m for adult and children social services in 2006/07. Although a considerable budget increase, the budget overspend in 2005/06, after taking into account additional income, indicate that the department will still need to apply rigorous budget monitoring and control procedures if it is to avoid a further budget overspend in 2006/07.

Recommendations

R1 Strengthen procedures for reporting significant year-end budget variances to Members. (DASS)

R2 Ensure rigorous budget monitoring and control procedures are effectively applied to avoid a further budget overspend in 2006/07.(DASS)

Budget Reporting

- 30 There were some improvements in the content and timing of budget monitoring reports to Members during 2005/06. Reporting arrangements have been further strengthened during the first six months of 2006/07. Going forward, it will be important to ensure the effectiveness of revised reporting arrangements are reviewed and the Adult Social Services medium term financial plan is appropriately linked to the Council's key strategic plans.
- 31 A key weakness in the arrangements in 2004/05 was the lack of prompt and clear reporting to members. Although committee members received, a report in April 2005 highlighting areas of overspend, the projected level of overspend was not reported and there was no further reporting to members until three months after the end of the financial year when the final figure of £5.3m overspend was reported.
- 32 It is clear that valuable lessons have been learned from the overspend in 2004/05 and there have been improvements in reporting to Members during 2005/06. For example , following an initial report by the DSS to the SC&HSC in July 2005, which identified a best case scenario projected overspend of £2.775m in 2005/06, there have been regular reports to members, updating the financial projections for the department for 2005/06 and 2006/07.
- 33 However, the quality of budget forecasts included in reports has been mixed. The reports to July 2005 and October 2005 SC&HSC included a forecast overspend ranging from £2.77m to £7.23m and £3.264m to £6.064m respectively. The “best case” scenario represented expected overspend if the SSD delivered all of the hard to achieve targets. The worst case scenario referred to a situation in which the department failed to achieve any more savings during the year. Whilst providing an indicative risk assessment, the value of these reports was limited by the range of forecast overspends reported. Although there can be a number of factors to take into account in considering likely budget outturns, the effective control of limited financial resources by the Council does require more indicative and accurate financial projections. It is noted that later reports have provided a more defined picture of the projected outturn.

- 34 There have been further improvements in financial monitoring and reporting to Members in 2006/07. The Social Care, Health & Inclusion Overview and Scrutiny Committee (SCH&I O&SC) had identified budget forecasting as one of its key areas for scrutiny in 2006/07. In line with this, current arrangements now include:
- a Financial Monitoring report is taken to each meeting of the SCH&I O&SC. The report updates members on budget variations to date and progress against departmental savings targets and bridging finance and is supplemented, since October 2006, by a presentation by each Head of Service on their respective budget performance; and
 - the three Party spokespersons for the SCH&I O&SC now receive a monthly budget briefing memorandum which provides an update on key budget pressures and the action being taken. This includes actions identified by Heads of Service in response to budget pressures identified.
- 35 Further recent developments have included the recent publication of the DASS draft Medium Term Financial Plan for the period 2007/08 to 2009/10. The plan includes consideration of the local and national context, summary information on the VFM of services and the impact on future funding of service pressures and forecast new demand, which together help to inform the current assessments of likely unavoidable growth requirement over medium term. The plan will help to inform future planning and is planned to go to the virtual committee on 1 December 2006 to be available to all Members. To gain the maximum corporate benefit, it will be important to ensure the medium term financial plan is effectively linked to the Council's corporate medium term financial strategy and revised corporate plan, due in 2007.

Recommendations

R3 Review the effectiveness of the revised reporting arrangements and ensure the DASS MTFP is effectively linked to the Council's corporate medium term financial plan and revised corporate plan, due in 2007. (DASS / DoF)

Budget monitoring arrangements

- 36 The budget monitoring arrangements within the SSD and more recently the DASS department have been strengthened in several areas. Recent improvements have included revised financial policies and strengthened arrangements for budget management and accountability. It is, as yet, too early to comment on whether the revised procedures have proved successful and ultimately contributed to ensuring the ADSS succeeds in managing its 2006/07 budget within its available resources. Plans are in place to further develop the use of budget profiles within the department. Further improvements are planned to follow with the implementation of SWIFT financial modules in April 2007. However there is a need to strengthen arrangements for the reconciliation and use of commitments information in respect of LAC.

- 37 The arrangements for budget monitoring within the SSD and subsequently the DASS have improved during 2005 /06. These have included :
- rolling-out the training programme for budget holders;
 - further widening of the accountability for budgetary control; and
 - prompt reporting to budget managers.
- 38 Budget delegation has continued to be extended in recent years. From 2005/06, all budgets had been delegated to team level with the exception of Repairs & Maintenance which is centrally controlled and the Care budget for Older People which has been delegated to team level in 2006/07 following a restructuring.
- 39 The guidance and training to support the increase in delegation has, until 2006, been relatively limited. Effective delegated budget management requires clear budgetary procedures and guidance. Corporate guidelines were in place and the SSD had provided earlier training for budget holders. However, during 2005/06 there was no additional departmental written guidance available detailing the responsibilities of budget holders for identifying, managing and reporting budget variances.
- 40 During 2006, the DASS have undertaken a review of its policies. This has resulted in a consolidation of existing policies into eight 'pillar' policies. The 'Managing Resources' policy has been approved by DMT and will be presented to Members early in the new year. Underpinning the 'Managing Resources' policy is a draft revised set of procedures, including areas such as financial planning and budget management.
- 41 The revised policy and procedures are designed to clearly assign the responsibility and accountability of budget holders for monitoring budgets and taking action on variances. The new budget monitoring arrangements require budget managers to produce monthly variance reports providing explanations and responses for all variances in excess of 10 per cent or £10,000, whichever is the lower. Budget managers are also required to present to a monthly performance surgery chaired by the Head of Service, which will challenge budget and service performance and consequently managers' understanding of underlying budget performance and the links to underlying service activity. To equip budget managers for this extended role, advanced budget training is being provided to team managers.
- 42 The new arrangements have for the most part been introduced since May 2006. They reflect a strengthening of the arrangements for budget delegation and accountability within the department. It is, as yet, too early to comment on whether the revised procedures have proved successful and ultimately contributed to ensuring the ADSS succeeds in managing its budget within its available resources. The effectiveness of the new procedures will need to be monitored by the DMT over the next few months.
- 43 The department's use of budget profiles is an area that can be further developed.

- 44 Our 2005 Annual Audit & Inspection, issued in January 2006, noted that in practice monthly profiles have lacked realism as they have tended to not adequately reflect known seasonal, demand or activity based variations. The 2005/06 overspend in Social Services also supports the need to strengthen the profiles in use in the department.
- 45 Social services expenditure has been monitored by comparing actual expenditure for each budget with the projected expenditure calculated from the financial profile. Non care services have been monitored on a monthly straight line basis. Community Care forecasts have previously been projected on a 3 month moving average, but there is more emphasis placed on actual commitments as the activity data sets continue to improve to support in-year monitoring and medium term financial planning. During 2005/06 LAC expenditure was profiled in FIS on a straight line basis and in FPMS on a straight line basis supplemented by the inclusion of actual commitments. The timing and amount of actual LAC payments during 2005/06 proved to be volatile and varied considerably from the expenditure totals profiled in FIS and FPMS. As a result it was more difficult to accurately calculate the total amount of projected LAC expenditure for the financial year. This is now done on an actual commitment basis.
- 46 Going forward, officers within the Adult Social Services department have recognised the need to develop budget profiles and work is underway to prepare profiles on a divisional basis that provide a more accurate reflection of activity. This includes plans to develop profiles to reflect the seasonal fluctuations in community care and foster child care services. In line with this, it is noted that the draft Medium Term Financial Plan for DASS includes, for the four main divisions of service, a monthly profile of the subjective analysis of the 2006/07 budget, based on previous year's experience, contracted expenditure and estimated seasonal variations.
- 47 Officers are committed to developing the rigour of profiles in use in the DASS. Without further progress, the effectiveness of monitoring variances will be limited and Members will be unable to have assurance that financial plans are being achieved. It would assist SC&H Overview and Scrutiny Members to further improve budget scrutiny if budget monitoring reports periodically include an update on the development of budget profiles.
- 48 A further area to develop is the need to ensure reported expenditure appropriately reflects financial commitments. This is evident from our review of some of the factors contributing to the 2005/06 overspend in relation to LAC, where weaknesses in the process of identifying commitments contributed to the overspend.
- 49 There were weaknesses in the procedures within the DSS for monitoring the budget for LAC during 2005/06. These included:
- The budget did not reflect the commitments recorded on the LAC database and there were differences between the budget profile for LAC recorded in FIS and The Social Services Finance and Performance Management System (FPMS) projection which was based on actual data.

- During the first part of the year there was no reconciliation between the commitments information in the LAC database, the information held by the teams and the updated information recorded on SWIFT. As a result the commitments recorded were not kept up to date.
- 50 Improvements were implemented during the year and new placement and new placement procedures were put in place. All placements required the signature of Head of Service and this was administered through the Children's Contracts Section, and updated in the commitments. Further checks were carried out weekly by data matching SWIFT to information held by teams and reported to the Permanency Options Task Group on a fortnightly basis. This information was also checked by the group against the commitments.
 - 51 Progress has also been made since the time of the review. At the year end Officers checked the database to the information held by the teams and ensured that the commitments identified were correct. The data cleansing exercise for SWIFT, which will have removed old cases, has now been completed.
 - 52 Officers within the Children and Young Peoples department need to ensure that the LAC database is regularly reconciled with the financial information logged in SWIFT so that the budget reflects the demand for the service. There is also a need to ensure that the reconciliation between the commitments information held in the LAC database and the general ledger is kept up to date on a regular basis.
 - 53 Other improvements to the DASS's budgetary control arrangements are linked to the implementation of the SWIFT system. Improvements during 2006 have included inclusion within the revised budget monitoring arrangements for 2006/07 of the need to reconcile community care forecasts with procurement data held in SWIFT.
 - 54 Further improvements are planned to follow with the implementation of SWIFT financial modules. The SWIFT package was originally bought in 2003, however, the implementation of the financial modules have continued to be delayed, with reasons including the implementation of electronic social care records and corporate 1 business systems.
 - 55 The implementation of the SWIFT financial modules is now being planned as part of a 'Care Procurement Solution' change project under the 1Business Programme. This is currently undergoing User Acceptance Testing. This approach is planned to ensure that the modules are fully integrated with the new corporate Oracle system for billing, payments and calculation of commitment accounting data. It will help to ensure that all payments and billing data is processed through corporate financial systems, thereby providing a clear audit trail for every financial transaction
 - 56 The financial modules are scheduled to go live on 1 April 2007. It is envisaged that by recording all expenditure relating to care services at team level cost centre and account code lever, the system will facilitate analysis of expenditure and inform future profiling of budgets within the financial ledger. The system will capture actual costs for 2007/08, although it will not be able to provide the Oracle ledger with a cost profile until April 2008.

Recommendations

R4 Monitor the effectiveness of the new procedures for budget monitoring and accountability to ensure the DASS succeeds in managing its budget within its available resources in 2006/07 and subsequent years. (DASS)

R5 Continue to develop more sophisticated budget profiles, particularly making use of the information to be available from SWIFT financial modules. (DASS / DoF)

R6 Ensure the LAC database is regularly reconciled with the financial information logged in SWIFT and the regular reconciliation between the commitments information held in the LAC database and the general ledger is kept up to date on a regular basis. (DCYP)

Achievement of savings plans

- 57** In 2005/06, the SSD reported savings of £4.443m against its budget stabilisation target of £5.613m. The main area where savings were not achieved was in relation to the planned reduction of the LAC residential population. The review identified weaknesses in the quality of some of the available evidence to support some savings reported to Members. As regards 2006/07, the DASS has recently strengthened arrangements to improve the accountability for achieving savings targets. However, officers will need to ensure that reports to Members are sufficiently detailed to allow Members to effectively monitor and challenge the achievement and realism of savings targets, and that reported savings can be adequately supported.
- 58** In May 2005 a budget stabilisation plan was prepared to address the underlying reasons behind the budget overspend and to achieve target savings of £5.6m. The budget stabilisation plan consisted of 21 primary targets and each target had a calculated saving for 2005/06. The plan was initially submitted to DMT on 23 May 2005 and detailed action plans were agreed for SMT's to develop and sign off. The detailed action plans clearly identified the task, success measures and responsibilities.
- 59** In overall terms, as reported to the Social Care and Health Select Committee in February 2006, the Department achieved savings of £4.443m against a target of £5.613m. Savings targets were achieved in most areas. The main areas where savings plans were not fully achieved were in respect of not achieving the planned reduction in LAC in out of borough placements (approximate shortfall £900k), and not meeting the planned 10% reduction in the cost of complex cases (£240k).

- 60** The budget stabilisation plan agreed by DMT included a target reduction of the LAC residential population by 30, saving approximately £2.050m. The implementation plan for the reduction in placements was unrealistic and while some progress was made in reducing the number of looked after children the target was not achieved. The reduction in the LAC population was offset by new placements resulting in an overall net reduction of 14 placements generating a saving of approximately £0.8m.
- 61** Our review of the amount of achieved savings reported to the Social Care and Health Select Committee in February 2006 found weaknesses in the quality of some of the supporting evidence:
- Extra income of £801,000 from new joint funded care packages.
Evidence provided to support the saving consisted of a summary working paper listing the value of the new agreements in total. There was insufficient evidence to support the savings reported to Members. In addition it is not clear whether the additional cost of the care packages had been netted off the cost of the saving.
 - Saving in the block nursing care contract of £897,000.
This was based on a calculation of the reduction in charges for the delayed transfers of care, and assumes the additional Block purchased beds would otherwise be lost to the Department as they would be taken up by private residents. There was little further evidence to support the reported actual savings.
- 62** Information reported to Members during 2006/07 to support some savings targets could be improved. The report to the 8 November SC,H&I O&S committee summarises the bridging finance (£350k & £500k) and savings targets (£250k & £460k) facing the department in 2006/07. Although summary information on progress is routinely included in the report to committee, in some cases the information reported is not sufficiently detailed to enable Members to have a clear view on progress and the achievability of the savings. This was the case for example, with reference to the November 06 report, for bridging finance, including the Invest to Save schemes.
- 63** However, the DASS has strengthened arrangements for the accountability for the delivery of 2006/07 savings. To achieve departmental savings targets, in November 2006 the DASS DMT approved a budget stabilisation plan. The department has strengthened arrangements to ensure clear accountability for the delivery of these savings through the preparation of a 'Statement of Management Accountability' for each financial target underpinning the overall plan. The statements include for example the responsible officers, the management action, financial outcome, contingency and performance management arrangements.
- 64** The achievement of savings is clearly crucial to the Department successfully remaining within its budget for 2006/07. Although arrangements have recently been strengthened, officers will need to ensure that reports to Members are sufficiently detailed to allow Members to effectively monitor and challenge the achievement and realism of savings targets. It will also be important for officers to ensure that reported savings can be adequately supported.

Recommendations

R7 Ensure budget monitoring reports to Members are sufficiently detailed to allow them to effectively monitor and challenge the achievement and realism of savings targets. Ensure reported savings can be adequately supported. (DASS)

Funding arrangements with Health

- 65** There has been an inconsistency of treatment in respect of invoicing PCTs. This in a large part reflects the general lack of clarity over agreements and responsibility for funding the health share of joint funded care packages. The Council needs, as a matter of urgency, to seek legal advice to confirm the status of these arrears and then take prompt recovery action in the light of such advice. In wider sense, there is a need to ensure formal legal and funding arrangements are in place for all aspects of partnership working with health bodies. Progress is being made in this area. It is important to ensure that any remaining historic disputes over funding arrangements are settled promptly and that for all future arrangements, clear funding agreements are established when work is commissioned. Reports by the Director of Finance and Internal Audit have highlighted a number of areas where there is a need to strengthen debt collection and recovery arrangements within the Adult Social Services department. There is a need to ensure consistent treatment of potential income and liabilities due to and from PCTs within the 2006/07 accounts.
- 66** A key factor contributing to the SSD overspend in 2004/05 was that the department's financial projections had assumed receipt of £2.1m from PCTs in respect of a contribution towards complex care packages for adults with learning disabilities. This issue has been considered as part of the review.
- 67** The Joint Commissioning Manager who represents both the Council and the PCT identified 27 individuals in 2004/05 who would qualify for Health funding once formal agreements were in place. The total cost of the care packages for the 27 cases were estimated to be £4.063m and Social Services estimated that a contribution of 50 per cent of the costs would result in income to the Council of £2.1m for retrospective claims and £1m for recurring expenditure. The Council had incurred the cost of the care packages in its accounts for 2004/05 but ultimately could not include the PCT contributions in its accounts because agreement had not been reached with the PCTs.
- 68** On 1 September 2005 the NHS Continuing Care Panel approved the allocation of costs between the Council and the PCT. As a result during the period October 2005 to March 2006 the Council invoiced its PCT partners for their contribution towards the cost of the care packages, as set out in table 1 below and included in the Council's accounts for 2005/06.

Table 1 Joint Funded Care Packages

Summary of bills raised and amounts received to 30 October 2006

Health share of package costs	Out of Area PCTs	Birkenhead & Wallasey PCT	Bebington & West Wirral PCT
Costs from the date of placement to 31/3/05.	£1,255,612	£661,540	£259,537
Invoices raised.	15/12/05	N/A	N/A
Received as at 30/10/06.	£0	N/A	N/A
Costs from 1/4/05 to 31/8/05.	£252,777	£217,337	£95,260
Invoices raised.	15/12/05	24/3/06	24/3/06
Received as at 30/10/06.	£0	£0	£0
Costs from 1/9/05 to 31/3/06.	£350,339	£336,633	£88,743
Invoices raised.	24/3/06	25/10/05, 2/2/06, 24/3/06.	25/10/05, 2/2/06, 24/3/06
Received as at 31/10/06.	£0	£314,227	£55,247
Total costs to be recharged	£1,858,729	£553,970	£184,004
Amount received	£0 *1	£314,227	£55,247

*1 - 2 invoices cancelled to the value of £90,541.72.

- 69 It is recognised that since 2005 funding agreements have helped to provide greater clarity in respect of joint funding for future cases and the future costs of current cases.

- 70 However the above review has identified issues in the following areas :
- Inconsistency of treatment of debts across PCTs.
 - Lack of clarity over funding agreements with PCTs.
 - Collection of debts.
 - Inconsistent accounting treatment within the Council's accounts of debtor and creditor balances with the PCTs.
- 71 There has been an inconsistency of treatment in respect of invoicing PCTs for costs incurred by the Council from the date of placement to 31/3/05.
- 72 Out of Area PCTs were billed on 15/12/05 for £1.256m for the health share of the care package costs for six cases. Each of the placements had been in place for some time. In one case the invoice was backdated to 23 September 2000.
- 73 In contrast, local PCTs were not billed for the health share of the costs incurred of approximately £0.92m, relating to periods prior to April 2005. The Director of DASS reports that the Joint care Panel was first established in July 2005 and that a local agreement was reached with Wirral PCTs to backdate Panel decisions to 1st April 2005. No such agreement was reached with PCTs in other areas where it was assumed once the Panel had made its decision liability could be backdated to when they moved to that area. We understand from the Director of Adult Services that the issue of responsibility for funding has been discussed with the local PCTs and the Cabinet lead and party spokespersons for Social Services were kept informed of the situation, although we have not seen any evidence of a decision by Members or the Director of Finance that endorses this approach.
- 74 In practice, the inconsistency of treatment likely reflects the more direct contact with local PCTs and the general lack of clarity over agreements to funding that has existed for periods prior to September 2005.
- 75 During 2005/06 local PCTs initially disputed their responsibility for the costs for the period 1/4/05-31/8/05, and implicitly earlier periods, being of the view that no formal agreement has been in place for funding costs pre-Sept 05. The DASS has informed us that this has now been agreed, although at the time of writing this report no income has been received from the PCTs for the costs of care packages in this period. The lack of clarity over the liability of the PCTs for joint funding this care is evident by the Council being slow in raising bills for this period, with bills not raised until 24/3/06, three months after the issuing of similar bills to out of area PCTs.
- 76 For Out of Area PCTs, the responsibility for funding the health share of joint funded care packages appears even more in doubt. As at 30 October 2006, no income has been received in respect of the £1.86m of bills raised.

- 77 We understand from the Director of Adult Social Services that prior to raising these invoices, the legal standing of the liabilities was confirmed by the Head of Legal services. The Council maintains the view that the costs from the date of placement are recoverable. DASS officers have also stated that if liabilities are not recoverable from Out of Area PCTs, they would become the financial responsibility of the local PCT. The Council is seeking guidance from the Strategic Health Authority and the Department of Health. However, given the position of the local PCT in respect of the health costs of local care packages, their liability for the costs in relation to Out of Area PCTs remains uncertain.
- 78 Prompt action needs to be taken to resolve these outstanding disputes with PCTs in respect of invoices previously raised. For the outstanding arrears in respect of joint funded care packages referred to in Table1, it is imperative that the legal status of the arrears in respect of the health share of the costs for care provided prior to 31/8/05, local and Out of Area PCTs, is urgently confirmed. Prompt and appropriate recovery action should be implemented in the light of this legal advice
- 79 The lack of funding agreements in place clearly gives rise to concern over the financial treatment of such debtor accounts in the Council's accounts and the potential current and future impact on revenue accounts. This is an issue we return to below.
- 80 Although Table 1 specifically refers to joint funded care packages, the issue of a lack of formal agreements does arise in other areas of partnership working with local health bodies.
- 81 The issue of formal financial arrangements remains a difficult area. Adult and children's social services and the local health economy continue to face significant financial pressures faced with achieving challenging financial targets. The Council and the local PCT remain committed to working in partnership and keen to ensure that the partnership is not undermined by financial disputes.
- 82 There has been progress in 2005/06. Some long standing disputes have been settled, including the Council's payment to the PCT of approximately £300k in respect of the Rapid Response Team and the PCT's agreement to write-off debts of approximately £470k in respect of the Hospital at Home scheme
- 83 Although in many areas partnership arrangements are good, there remain problems in respect of some funding arrangements. This is particularly the case in respect of some older schemes where responsibility for funding and payment terms were not clearly established at the outset. Examples include the Council's claim for the outstanding health contribution to joint funded care packages referred to above and funding for the Total Care Team (Home Care) where the PCT have reclaimed £680k dating back to 2002/03 by recently deducting this sum from their payment of monies owed to the Council.

- 84 The continuing delays in finalising some joint funding agreements and settling liabilities where agreements exist, risks undermining the otherwise good working relationships and the effectiveness of the partnership. Progress is being made in establishing arrangements to address some of these specific historical issues. It is important that these are settled promptly and that for all future arrangements, clear funding agreements are established when work is commissioned. These should clearly set out the respective funding responsibilities of partner organisations and the payment terms
- 85 In recent months there has been an increased focus on the adequacy of debt collection and recovery arrangements within the Adult Social Services department. Director of Finance reports to the 26/9/06 Finance and Best Value Overview and Scrutiny Committee (F&BV O&SC) noted that:
- the Council had total sundry debtor arrears at 31/8/06 of £12.249m (£6.5m 31/8/05), of which £9.876m related to invoices sourced from the Director of Social Services:
 - too many invoices are paid outside the settlement period, and where there are disputes over elements of an invoice, this should not prevent payment of those elements that are not in dispute; and
 - particular emphasis needed to be put on older debts and a more aggressive approach taken with regard to non Wirral Trust debts, with all uncollectable debts recommended to be written off in a timely manner.
- 86 The Internal Audit review of the Income System within the Adult Social Services department was presented, on request, to the September 2006 Audit and Risk Management Committee. The report identified a number of weaknesses in the Department's arrangements for debt recovery, resulting in seven high priority recommendations. These are currently being followed up by Internal Audit, with satisfactory progress to date reported to the Audit and Risk Management Committee in November 2006.
- 87 It is important that issues raised by the Director of Finance and Internal Audit are acted upon and kept under review by Overview & Scrutiny and as necessary Audit & Risk Management Committees.
- 88 Looking forward, the Director of Adult Social Services has advised that attempts are being made to rationalise the joint funded care packages and service level agreements into fewer invoices. From September/October, the Council will issue the PCT one invoice one month in arrears. The invoice will reflect the overall net indebtedness between the two bodies in relation to services provided, with the exception of amounts owed in relation to 'free nursing care'. The intention is that variations will be raised every two months, relating for example to new placements and the deceased, and a "live" balance sheet will be maintained showing the current balance due from or owing to the PCT's.
- 89 The final issue in respect of funding issues with health bodies relates to the potential impact of year-end accounting treatment on current and future revenue accounts for adult social services.

- 90 Within the Council's 2005/06 financial statements, there was an inconsistent treatment of sums due to and from PCTs. The Council had accounted in full for all Social Services income potentially due from PCTs, including instances where there appears uncertainty as to whether legal agreements exist. At the time of closing the 2005/06 accounts, no provision was made for the uncertainty surrounding some of the PCT income included in the accounts. In contrast likely liabilities to the PCT, potentially up to approximately £800k, had not been provided for within the revenue accounts, other than a Contingent Liability note relating to potential costs of £500k.
- 91 The Council has agreed action to ensure there is consistent treatment of such sums within the 2006/07 accounts and the accounts fully reflect the amounts due to and from external agencies including PCTs. This will involve making an appropriate provision for bad debts, based on a thorough assessment of the likelihood of collecting outstanding arrears, and fully accounting for the costs of outstanding liabilities with the PCT.

<i>Recommendations</i>
<i>R8 Confirm the legal status of arrears in respect of the health share of the costs for care provided prior to 31/8/05 and ensure prompt and appropriate recovery action. (DASS / HoLS)</i>
<i>R9 Resolve any outstanding financial disputes with PCTs and ensure clear funding agreements are established when future joint work with partners is commissioned. These should clearly set out the respective funding responsibilities of partner organisations and the payment terms. (DASS)</i>
<i>R10 Strengthen debt collection arrangements through the implementation of Internal Audit recommendations. (DASS)</i>
<i>R11 Implement agreed action to ensure 2006/07 accounts appropriately reflect all amounts due to and from external agencies including PCTs.(DASS / DoF).</i>