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## **NORTH AYRSHIRE COUNCIL**

**27 March 2018**

### **Audit and Scrutiny Committee**

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**Title:** **Operational Budget Management in the Health and Social Care Partnership**

**Purpose:** To advise Committee of the findings and action being taken from the review of financial management within the Health and Social Care Partnership

**Recommendation:** That the Committee (a) notes the findings of the review (b) notes the action being taken by the Health and Social Care Partnership to strengthen financial management and accountability and (c) agrees to consider an update report at the May Committee.

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### **1. Executive Summary**

- 1.1. The Health and Social Care Partnership (HSCP) has overspent in each of the years since it was established. Like all Services there is a requirement for the HSCP to ensure that it delivers services within its allocated budget.
- 1.2. This was identified as an issue in both the Council's and the Integrated Joint Board's (IJB) 2016/17 External Audit reports.
- 1.3. To establish whether a robust framework for financial management and accountability was in place an audit was carried out by the Council's Head of Finance.
- 1.4. The findings of this audit together with the report that was presented to the IJB's Performance and Audit Committee on 8 March 2018 is attached at Appendix 1. This report outlines the actions being taken by the HSCP to address the weaknesses identified in the management of budgets within the HSCP and ensure a more robust framework is established.
- 1.5. The actions outlined in the report should establish a more robust financial accountability framework supporting the HSCP to deliver services within budget.

### **2. Background**

- 2.1. The Executive Summary highlights the background to this report.

2.2. The key finding emerging from the review are summarised below;

- The need for further training for all budget holders;
- Approval of expenditure should be restricted to budget holders;
- Guidance requires to be provided to budget holders on managing demand within available budget;
- Implementation of Challenge Fund initiatives to establish a universal framework for accessing care and applying charges; and
- Effective communication of all budget decisions.

2.3. A number of the responses to the actions within the audit report have been assigned to the Partnership Senior Management Team. It is essential that accountability for actions is clear to ensure these are progressed.

2.4. Significant progress is being made in developing a financial framework for the HSCP to ensure that it starts 2018/19 with a clear understanding of its budgets, savings and pressures, supporting delivery of service within the agreed financial envelope. To provide assurance to the Committee of the approach being taken by the HSCP it is proposed that a presentation of this is provided to the May meeting of the Committee.

### 3. Proposals

3.1. That the Committee (a) notes the findings of the review (b) notes the action being taken by the Health and Social Care Partnership to strengthen financial management and accountability and (c) agrees to consider an update report at the May Committee.

### 4. Implications

<b>Financial:</b>	There are no direct financial implications. However it is essential that operational budget management arrangements are effective and ensure service delivery is contained within the financial envelope.
<b>Human Resources:</b>	No direct implications.
<b>Legal:</b>	No direct implications.
<b>Equality:</b>	No direct implications.
<b>Children and Young People:</b>	No direct implications.
<b>Environmental &amp; Sustainability:</b>	No direct implications.
<b>Key Priorities:</b>	Effective financial control ensure that key priorities are delivered within the financial envelope.
<b>Community Benefits:</b>	No direct implications.

## **5 Consultation**

- 5.1 The report has been discussed with the Director and Chief Finance and Transformation Officer of the HSCP.



Laura Friel  
Executive Director (Finance & Corporate Support)

For further information please contact Laura Friel on 01294-324554.

## **Background Papers**

None

## Performance and Audit Committee

8<sup>th</sup> March 2018

### Agenda Item No.

**Subject:** **Audit of Operational Budget Management**

**Purpose:** To inform the Performance and Audit Committee of the findings of the audit into operational budget management.

**Recommendation:** That the Committee considers the outcomes from the audit which has been carried out and the action plan attached.

Glossary of Terms	
PSMT	Partnership Senior Management Team
SMT	Senior Management Team (Service)
ARG	Adult Review Group

<b>1.</b>	<b>EXECUTIVE SUMMARY</b>
1.1	On 14 September 2017, Deloitte LLP reported on the outcome of their audit work for 2016/17. As part of this report Deloitte LLP recommended that the Board assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set.
1.2	An audit of operational budget management has been undertaken across the Health and Social Care Partnership and has reviewed budget management arrangements in a range of services including looked after and accommodated children, physical disabilities, care homes, learning disability, through care, equipment, MH inpatients, community mental health and rehab and reablement services.
1.3	This has identified a number of actions which are required to be undertaken to increase the effectiveness of operational budget management arrangements within the Partnership.
<b>2.</b>	<b>BACKGROUND</b>
2.1	On 14 September 2017, Deloitte LLP reported on the outcome of their audit work for 2016/17. As part of this report Deloitte LLP recommended that the Board assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set.
2.2	In response to this action, a review of operational budget management has been undertaken with a focus on high risk areas and is the subject of this report.

<b>3.</b>	<b>AUDIT OF OPERATIONAL BUDGET MANAGEMENT</b>										
3.1	An audit of operational budget management has been undertaken across the Health and Social Care Partnership and has reviewed budget management arrangements in a range of services which have a total budget of £136m and are currently forecasting an overspend of £3.249m, representing 55% of the annual budget and 61% of the forecasted overspend. The services covered were looked after and accommodated children, physical disabilities, care homes, learning disability, through care, equipment, MH inpatients, community mental health and rehab and reablement services.										
3.2	<p>The audit has been undertaken through interviews with a range of budget holders, operating at different management levels across the partnership. A summary of this is shown in the table below:-</p> <table border="1"> <thead> <tr> <th>Management Level</th><th>No</th></tr> </thead> <tbody> <tr> <td>Head of Service</td><td>1</td></tr> <tr> <td>Senior Manager</td><td>6</td></tr> <tr> <td>Manager/Team Leader</td><td>5</td></tr> <tr> <td>Total</td><td>12</td></tr> </tbody> </table>	Management Level	No	Head of Service	1	Senior Manager	6	Manager/Team Leader	5	Total	12
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3.3	The discussions with budget holders focused on 3 key areas to gain an insight into the level of understanding that budget holders have in relation to their budget, how they manage their budgets on a daily basis and how they deal with service levels and demands which are higher than the budget available.										
3.4	In general terms, budget holders were able to demonstrate a good understanding of the budget that they have responsibility for and understand what factors influence both expenditure and income recovery. Integration of services has resulted in staff employed by one partner body also being responsible for services from another partner body and this has required some budget holders to become familiar with financial management processes and reporting from another partner body. This is impacting on how comfortable budget holders are in reviewing financial reports and understanding their content. The recent implementation of a new financial management system for North Ayrshire Council has also impacted on this. 50% of those interviewed requested additional support to assist with this. (Action a)										
3.5	The majority of budget holders interviewed were able to provide evidence that there is a focus on financial performance across the Partnership with updates and discussions taking place at a variety of forums including the Partnership Senior Management Team (PSMT), service Senior Management Team (SMT), individual team meetings and supervision meetings between individual employees and managers. The nature of these discussions varied with some being at a high level and others being more detailed. This variation tended to reflect either the nature of the meeting or the financial performance of the service. However it is evident that in some cases there is limited discussion on how to recover overspends or manage demand within the budgets available. This is concerning given the responsibility of all budget holders to deliver services within budgets and demonstrates a lack of willingness in some service areas to tackle overspends when they occur. This will be explored further in section 3.8 – 3.11.										

3.6	<p>There was evidence in some areas of budgets been delegated down to team leader/manager level. However in other areas there was evidence of limited delegation, with control of the budget being retained at senior manager level in 50% of the services reviewed. This was reflected in discussions with managers and team leaders, with 40% confirming that they did not feel they had budget responsibility, despite them recommending packages of care to the Adult Review Group (ARG) which commits spend, authorising invoices up to £20,000 each for their service and authorising variations to care packages. This results in managers and team leaders not being held directly accountable for the expenditure they incur. It also makes it difficult for the senior manager to co-ordinate and manage spend with some managing spend by reviewing actual expenditure after it has been incurred. This way of managing spend results in a review after the event. In these circumstances it can be too late to take corrective action as the commitment has already been made. (Action b)</p>
3.7	<p>Discussions with Senior Managers (50%) identified concerns about this and recognised the need for there to be increased accountability at manager/team leader level in relation to budgets and spend. One Senior Manager has already put plans in place to address this.</p>
3.8	<p>Budget holders at all levels were able to provide good evidence in relation to how they controlled employee budgets (44% of total budget). This included:-</p> <ul style="list-style-type: none"> <li>• the use of the vacancy scrutiny panel to control recruitment</li> <li>• working flexibly across teams to manage staffing requirements, reducing the need for bank and agency</li> <li>• using toil to minimise overtime costs and where this is not possible utilising plain overtime before premium rates are considered</li> <li>• active management of sickness absence including alternative duties to enable employees to return to work and commence the transition back to normal duties</li> <li>• escalation processes to Senior Managers and Heads of Service where required</li> </ul>
3.9	<p>However a different attitude to spend was evidenced in relation to care (94% of total budget excluding employee costs). 41 % of those budget holders interviewed understood the need to manage care within the budget which was available and used a number of methods to do this including the use of waiting lists when no other alternative was available. As a result these budget holders are not contributing to the overspend forecast.</p>
3.10	<p>The remaining 59% of budget holders are not limiting expenditure in relation to care. One budget holder stated that they felt like their hands were tied, with no control over demand and the need to meet an assessed need which meets the eligibility criteria. This is reflective of the views of the other budget holders who were not limiting expenditure. The management of demand for care is complex, however budget resources are not unlimited and spend must be managed within the overall budget which is set for the Partnership. The lack of focus on demand and ultimately cost management in these areas is concerning and will be contributing to the scale of the overspend being experienced. The differences in approaches between services could also lead to inequality in service provision across the Partnership. (Action c)</p>
3.11	<p>Budget holders recognised that there is a need to change the culture of the organisation in relation to risk. There is also a need for strategies to enable client groups to have less dependency on care services and for services to pro-actively</p>

	manage service demand and care support with strategies to increase independence and reduce care over time. The Partnership has identified a number of proposals under the Challenge Fund which will support this change in culture and it is essential that these are progressed as soon as possible to support a change in how we assess and manage care services. Further work will also be undertaken in relation to charging, criteria and thresholds and Self Directed Support offer an opportunity to provide a universal framework which will support operational management of care budgets and support equality of service delivery across the Partnership. (Action d)
3.12	Integration of services within the Partnership has resulted in a number of budget areas where full control does not lie with the budget holder. 50% of budget holders were able to provide examples in their areas where this was the case with other budget holders able to spend against their budgets directly. Again this prevents budget holders from co-ordinating spend and being held accountable for spend against their budgets. (Action e)
3.13	A number of budget holders raised concerns about poor communication in relation to decisions taken by PSMT or the IJB. Examples provided were in relation to mitigation plans to recover overspends and proposals linked to savings. If budget holders are not informed about decisions which are taken to support budget management there is a risk that the intended outcome will not be achieved. (Action f)
<b>3.</b>	<b>PROPOSAL</b>
3.1	Performance and Audit Committee are asked to consider the outcomes from the audit which has been carried out and the action plan attached.
3.2	<b><u>Anticipated Outcomes</u></b>
	Implementation of the action plan will improve budget management arrangements within the Partnership and offer a framework and support for operational budget holders to actively manage their financial performance.
3.3	<b><u>Measuring Impact</u></b>
	Progress against the action plan will be monitored to ensure all actions are completed.
<b>4.</b>	<b>IMPLICATIONS</b>

<b>Financial :</b>	There are no direct financial implications. However it is essential that operational budget management arrangements are tightened to improve financial performance.
<b>Human Resources :</b>	None.
<b>Legal :</b>	None.
<b>Equality :</b>	The introduction of a universal framework for thresholds, criteria, Self Directed Support and charging should assist in ensuring equality of access to services across the Partnership.
<b>Environmental &amp; Sustainability :</b>	None
<b>Key Priorities :</b>	There are no Key Priority implications.
<b>Risk Implications :</b>	The risks associated with financial performance are recognised on the Partnerships Risk Register.

<b>Community Benefits :</b>	None.

<b>Direction Required to Council, Health Board or Both</b> <i>(where Directions are required please complete Directions Template)</i>	Direction to :-	
	1. No Direction Required	
	2. North Ayrshire Council	
	3. NHS Ayrshire & Arran	
	4. North Ayrshire Council and NHS Ayrshire & Arran	

<b>5.</b>	<b>CONSULTATION</b>
5.1	This audit was undertaken in conjunction with a number of budget holders across the Partnership. The Action Plan has been agreed with the PSMT.
<b>6.</b>	<b>CONCLUSION</b>
6.1	This audit has identified a number of actions which are required to be undertaken to increase the effectiveness of operational budget management arrangements within the Partnership.

**For more information please contact Eleanor Currie, Principal Manager on 01294 317814**



## ACTION PLAN

### AUDIT OF OPERATIONAL BUDGET MANAGEMENT

<b>Action</b>	a
<b>Action Description</b>	The Chief Financial Officer should consider offering additional support to budget holders to aid their budget management of all budgets, irrespective of the host partner body.
<b>Risk</b>	A failure to support budget holders to access and engage with financial monitoring could impact on the effectiveness of operational budget management.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.4
<b>Assigned to</b>	Chief Financial Officer
<b>Due Date</b>	30 <sup>th</sup> June 2018
<b>Management Response</b>	Training needs will be identified and training materials developed. A training schedule will be delivered by a combination of the principal manager and corporate finance. The Budget Holders Charter will be reviewed, updated and reissued.

<b>Action</b>	b
<b>Action Description</b>	Heads of Service to consider operational budget management arrangements and how budget responsibility can be delegated to those budget holders who are responsible for incurring expenditure.
<b>Risk</b>	A failure to delegate budget management responsibility to those responsible for incurring expenditure impacts on the ability to hold budget holders to account for expenditure.
<b>Priority (1, 2, 3)</b>	1
<b>Paragraph Reference</b>	3.6
<b>Assigned to</b>	Partnership Senior Management Team
<b>Due Date</b>	31 <sup>st</sup> July 2018
<b>Management Response</b>	Initially key risk areas (LD care packages and residential school placements) will continue to be signed off at Head of Service level until the training is complete and the projected spend is controlled. All other areas will remain as but will be delegated to those responsible for incurring spend once the training is complete.

<b>Action</b>	C
<b>Action Description</b>	All budget holders to be given management guidance in relation to the management of care budgets to ensure consistency of service provision across all service areas, and the use of waiting lists to control demand where this is appropriate.

<b>Risk</b>	The lack of controls on expenditure could result in further overspends which will contribute further to the Partnerships deficit. Different approaches to demand management could also result in an inequality of service across the Partnership.
<b>Priority (1, 2, 3)</b>	1
<b>Paragraph Reference</b>	3.10
<b>Assigned to</b>	Partnership Senior Management Team
<b>Due Date</b>	31 <sup>st</sup> March 2018
<b>Management Response</b>	Management guidance will be issued where all care packages (except those in relation to child or adult protection) will only be approved if they are within budget or funded by reductions in other care packages. Exceptions to this must meet criteria which will be outlined in the guidance. Managed waiting lists will be operated to control demand.

<b>Action</b>	d
<b>Action Description</b>	The Challenge Fund projects are to be implemented as soon as possible and specifically the review of thresholds and criteria, roll out of Self Directed Support and the review and development of the Partnerships charging policy to provide a universal framework to support the operational management of care budgets.
<b>Risk</b>	A failure to establish a universal framework for assessments of care could lead to inequality in service provision and the continuation of thresholds and criteria being employed which are financially unsustainable for the Partnership.
<b>Priority (1, 2, 3)</b>	1
<b>Paragraph Reference</b>	3.11
<b>Assigned to</b>	Partnership Senior Management Team
<b>Due Date</b>	30 <sup>th</sup> September 2018
<b>Management Response</b>	Phase 1 of the Challenge Fund is underway but some projects have been delayed due to difficulties securing the necessary post resource to implement the projects. Phase 2 funding has still to be released but will be requested with a view to commencing projects in April 2018.

<b>Action</b>	E
<b>Action Description</b>	A review of budgets to be undertaken to identify areas where budget holders do not have full control and new processes implemented to ensure budget holders approve spend or delegate the budget further to those who currently incur expenditure.
<b>Risk</b>	Budget holders cannot fully control expenditure and therefore cannot effectively manage the budgets under their direct responsibility.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.12
<b>Assigned to</b>	Partnership Senior Management Team
<b>Due Date</b>	30 <sup>th</sup> April 2018

<b>Management Response</b>	A full review of budgets will be undertaken and if required budgets will be split to the relevant budget holder.
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<b>Action</b>	f
<b>Action Description</b>	PSMT to review how budget decisions are communicated to senior managers, team leaders and managers and implement a process to increase the effectiveness of this communication.
<b>Risk</b>	If budget holders are not informed about decisions which are taken about budgets they directly manage there is a risk that the intended outcome will not be achieved.
<b>Priority (1, 2, 3)</b>	1
<b>Paragraph Reference</b>	3.13
<b>Assigned to</b>	Partnership Senior Management Team
<b>Due Date</b>	30 <sup>th</sup> June 2018
<b>Management Response</b>	Initial awareness sessions will be held with all senior managers, managers and team leaders to give them an overview of the partnership budget and financial position. Regular updates (the double sided graphic report) will be emailed to all senior managers, managers and team leaders. A regular update will be included in the Directors update to all staff.

#### Priority Key used in Action Plan

<b>1 (High)</b>	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
<b>2 (Medium)</b>	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
<b>3 (Low)</b>	Minor weakness or points for improvement.