

Financial Management in Social Services

Bury Metropolitan Borough Council

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Action Plan

Reference:	BU007 Financial Management in Social Care
Date:	October 2004

Introduction

Local Authorities face many challenges in the management and delivery of effective Social Services. Good financial management is essential to the ongoing financial security of the Council and the resourcing of essential services. The most common issues affecting Social Services are:

- changes to specific grants;
- increased demand for services;
- increased public expectations;
- increased responsibilities; and
- a fragile independent sector market.

National surveys have publicised the pressures placed on most social services departments with many reporting regular budget overspends. Similarly, Councils in general have undergone significant changes to the allocation of resources with the Standard Spending Assessment system being replaced by the Formula Spending Share.

In 2003/2004, the particular changes likely to impact on social services resources include:

- implementation of Fairer Charging for home care and other non-residential social services;
- the impact of fines under the Community Care (Delayed Discharge) Act 2003;
- development of Intermediate Care Services;
- implications of the Victoria Climbié Report; and
- use of the Health Act Flexibilities.

Background

The 2000/2001 Annual Audit Letter for Bury MBC included a recommendation made under Section 11 of the Audit Commission Act 1998 relating to the need to develop and monitor action plans to address social services budget pressures to which the Council responded positively. The 2000/2001 Annual Audit Letter also included an assessment of the situation for the following and subsequent years suggested that there would be an underlying shortfall in resources of around £4 million if no action was taken to address the situation.

Following an injection of additional resources during the year and the setting up of a project board to oversee savings initiatives pressures were managed. Pressures continued into 2002/2003 when it was necessary to increase the budget by a further £1.3 million part way through the year. An outturn underspend of £253,000 was achieved in 2002/2003.

The "Corporate Financial Monitoring Report – April to June 2003" showed that the projected overspend for 2003/2004 was expected to be £1.3 million and the Project Board led by the Director of Social Services, Health and Housing was re-convened to identify ways to address this projected overspend. Officers confidence remained that the financial position would be controlled within budget, however there has been some volatility in the figures as they were reported during the year.

Projected outturn figures showed a month on month volatility beyond that which would reasonably be expected, due to the difficulties in systems and monitoring processes outlined within the report. The final overspend at year end was £1.2 million overspend, showing that difficulties in budget management are still evident. The Council has allocated an additional £1.2 million to Social Services in 2004/2005 in recognition of the pressures, however this is against £2.7 million of identified budget pressures over and above existing overspending.

Objectives and scope

The terms of reference for the Social Services Project Board focus on a long term goal of making practical improvements to financial management and a short term goal of containing expenditure within the current budget allocation. This review has supported the process by examining the strategic framework for budget setting and budgetary control, and tested the potential adequacy of the arrangements. In particular the audit has focused on:

- arrangements to address current and future budget pressures within social services;
- strategic financial management within Social Services; and
- budgetary control arrangements.

Audit approach

The audit consisted of the following:

- review of reports and documentation;
- interviews with key staff;
- comment on the draft Medium Term Financial Strategy for Social Services 2004/2006; and
- review of key development areas against good practice described in "Making Ends Meet".

Overall conclusions

The Council is committed to improving the financial management of the Social Services Department. This is demonstrated by the corporate support provided to improve budget setting and monitoring, plans for the procurement of a new ledger system and through additional resources allocated to meet increased budget pressures. The Council however still has much to do to ensure improve financial controls. Our audit has identified that:

- The Council plans to replace its corporate ledger system to overcome the limitations of the existing system, which include no commitment accounting facilities, inflexible data extraction facilities and non-user friendly report formatting. Whilst the Council's procurement of a replacement system will significantly improve the quality of budget information in the long term, steps should be taken in the interim to improve the reliability of budget monitoring data. Replacement of the ledger system should take into consideration the existing processes to provide maximum benefits to service departments.
- The number and complexity of specific grants in social services has resulted in some confusion within the budget monitoring process. One grant of approximately £300k was overlooked in the completion of the 2002/2003 Probable Outturn calculations. Lack of clarity on the grant position has recurred in 2003/2004 and is being addressed during the preparation of the outturn statement. It is important that in addition to general budget monitoring, specific grants are reported separately. This will identify potential slippage that could be used to fund other budget pressures.

- The budget had been calculated on a "Continuation of Service" basis ie current year budgets are inflated and directors are invited to submit details of budget pressures for the following year. These are considered in the light of available resources, and budgets are allocated to the highest priorities. When the 2003/2004 budget was prepared, pressures for social services amounted to approximately £4 million. The Council was unable to fund this level of demand and allocated its limited resources accordingly. As a result, some budget pressures identified prior to 2003/2004 remained unfunded, resulting in projected overspends or under-recovery of income against the current budgets. Some of the significant pressures reported in the year were Adult Community Care, Childrens Residential Agency, loss of rent income from Pay As You Eat schemes and loss of income from the introduction of Fairer Charging.
- Whilst action is being taken in a number of areas to contain expenditure, most measures require long term implementation. The result of the approach to budget setting in 2003/2004 is that some managers are allocated budgets within which they are unable to contain expenditure on agreed Council policies. Managers recognise their inability to manage the budget effectively and overspending becomes almost inevitable. Similarly, where policy changes significantly reduce the income to the Council, we found that no account had been taken of the loss of income and budgets had been set at the same level as in previous years.

The way forward

The detailed findings and conclusions from our review are set out in the section that follows. The recommendations for action are brought together in the attached action plan. The actions planned have been commented on and agreed by the Director of Finance and e-government and Director of Social Services, Health and Housing. It is important that steps are taken to improve the budget setting and monitoring arrangements to address some of the particular pressures of delivering social services. Much of the action is underway as shown by the action plan.

The main recommendations from our review are set out below:

Key recommendations	
R2	Ensure that unfunded budget pressures are fully considered and managers are informed of action to be taken to contain expenditure within budget.
R3	Develop and communicate the social services medium term financial strategy.
R5	Establish interim arrangements for budget monitoring covering current gaps pending the implementation of the new ledger system.
R8	Introduce budget monitoring against individual specific grants.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Councillors or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Councillor or officer in their individual capacity, or to any third party.

Detailed findings

1. This section reports progress in three key areas. Firstly it comments on the contribution of the Social Services Project Board, recognising the progress in financial management already being made within the Council. The report then covers the budget setting process and budget monitoring arrangements.

SECTION 1

Social Services Project Board

2. The specification for this review recognised the role of the Project Board in addressing a range of financial issues affecting social services and sought not to duplicate the work of the Board. However, explaining the progress made in the improving financial management of social services, it is important to draw attention to some of the Board's successes and to propose further ways in which it could have greater impact.
3. The Project Board, established in 2002/2003 was chaired by the Deputy Chief Executive. The main purpose of the Project Board was to examine issues of budgetary control in Social Services and to reduce the projected budget overspend for that financial year.
4. This approach, received positively by staff across the Council resulted in several improvements. Some of the most notable are as follows:
 - The Project Board provided a challenge to the financial management arrangements within Social Services and has highlighted the significant risks involved in meeting service user needs within budgetary limits. As a result, the Council allocated a further £1.3 million specifically to the social services base budget for that and future years.
 - Often, partner agencies share responsibility for care costs. The Project Board was successful in clarifying and agreeing the proportionate financial responsibilities in some cases. This reduced the financial burden on Social Services.
 - Similarly, with its corporate approach to financial management, the Project Board played an influential role in the implementation of Supporting People, resulting in additional income to the Council.
5. In 2003/2004 the Project Board was re-established, this time chaired by the Director of Social Services Health and Housing. The focus of the Board changed slightly; it remained committed to managing within the current year budgetary provision, but the main aims were to improve the longer term financial management of the department.
6. We found that whilst the Project Board has played a role in improving the financial management of the department, the expectations from some of the subgroups, such as the unit cost and benchmarking sub groups, was unclear. This is a weakness to the current arrangements, which could be rectified by each group developing a project plan showing actions to be taken and the proposed outcomes in each area.

Recommendations

R1 Clarify the actions and proposed outcomes for each Project Board subgroup.

Budget setting process

7. In considering the budget setting process, we examined some of the known budget pressures to identify potential weaknesses and opportunities for improvement.
8. The budget had been calculated on a "continuation of service" basis in line with Council practice ie current year budgets are increased by the rate of inflation and directors are invited to submit details of budget pressures for the following year. These are considered in the light of available resources, and budgets are allocated to the highest priorities. In preparation for the 2003/2004 budget, pressures for social services amounted to approximately £4 million. The Council was unable to fund this level of demand and allocated its limited resources accordingly. As a result, some budget pressures identified prior to the current year have remained unfunded, resulting in projected overspends or under-recovery of income against the current budgets. Some of the most significant pressures are Adult Community Care, Children's Residential Agency, loss of rent income from Pay As You Eat schemes and loss of income from the introduction of Fairer Charging.
9. Whilst action was taken to contain expenditure in a number of areas, most measures require long term implementation. The result of this approach to budget setting is that some managers are allocated budgets within which they are unable to contain expenditure on agreed Council policies. Managers recognise their inability to manage the budget effectively, which can lead to overspending. Similarly, where policy changes significantly reduce the income to the Council, we found that no account had been taken of the loss of income and budgets had been set at the same level as in previous years.
10. Where budgetary control measures are likely to take a number of years, the Council should clarify the plans in a financial strategy highlighting the actions, spending milestones, interim funding arrangements and individual responsibilities.
11. The Council is considering the introduction of "Policy Led Budgeting" in the near future. This means that budgets will be set to reflect council policy and thus expected demand. It is important that in doing so, where budget pressures are identified and resources cannot be allocated to meet these demands that the full policy implications are considered by the Council and managers are informed of the actions required to contain expenditure within budget.
12. In 2003/2004, the Council established a pooled budget using the Health Act Flexibilities in partnership with the Primary Care Trust. In 2003 a projected overspend of £433,000; actual £648,000 was identified which under the terms of the Partnership Agreement is the responsibility of the Learning Disability Partnership Board. Bury MBC's share of the outturn overspend is £463,000. It is unclear whether the contributions by the partner agencies are adequate to fund the service expected under the Partnership Agreement. In view of the financial difficulties being identified at such an early stage of the partnership it would be prudent to clarify the reason for the overspending which could include poor management, underfunding by partner agencies or increased demand. Action should then be taken to resolve any budget imbalance.

Recommendations

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| R2 | Ensure that unfunded budget pressures are fully considered and managers are informed of action to be taken to contain expenditure within budget. |
| R3 | Develop and communicate the social services medium term financial strategy. |
| R4 | Investigate the reasons for the projected Learning Disability Partnership overspend in conjunction with partner agencies and ensure that the budget and policy intentions are consistent. |

Budgetary control

13. A comparison between in year budget monitoring and the Revenue Outturn for 2002/2003 identified some weaknesses in the accurate forecasting of expenditure. These difficulties continued into 2003/2004, with concerns remaining over the accuracy of the budget monitoring reports. There are several areas where improvements to the budget monitoring arrangements are recommended:
- The Council plans to replace its corporate ledger system to overcome the limitations of the existing system which include no commitment accounting facilities, inflexible data extraction facilities and non-user friendly report formatting. Whilst the Council's procurement of a replacement system will significantly improve the quality of budget information in the long term, steps should be taken in the interim to improve the reliability of budget monitoring data. Replacement of the ledger system should give consideration to the existing processes to provide maximum benefits to service departments. This will require a review of the processes and systems involved in budget monitoring with a view to re-engineering to improve efficiency wherever possible.
 - The calculation of the salaries and wages probable outturn was done on the basis that current vacancies would be filled immediately and that posts currently filled would remain so until the year end. No allowance was therefore made for savings resulting from vacancies for the remainder of the year. This results in projected spending being overstated and distorts the overall financial position. The method of forecasting expenditure should take account of actual spending to date, but should also reflect likely operational activity to provide a better projection.
 - Feedback from managers was that individual support from Finance staff is welcomed. It provides an opportunity to discuss the financial data, query individual budget areas and recognise actual budget pressures. This approach gives managers' confidence in the data and focuses effort on resolving budget pressures instead of checking data quality. Where budget reports are provided without this type of support, managers expressed concern over the accuracy and usefulness of the data. Some financial advice/support is provided by Social Services staff and some is provided by the Finance Department accountant. This is confusing to some operational managers and could result in confusion of roles between the Social Services and Finance Department staff. There is an opportunity for the Council to review and clarify these roles and reporting arrangements.
 - The number and complexity of specific grants in social services has resulted in some confusion within the budget monitoring process. One grant of approximately £300k was overlooked in the completion of the 2002/2003 Probable Outturn calculations. Lack of clarity on the grant position has recurred in 2003/2004 and is being addressed during the preparation of the outturn statement. It is important that in addition to general budget monitoring, specific grants are reported separately. This will identify potential slippage that could be used to fund other budget pressures.

- The budget monitoring timetable provides managers with clear guidance as to when monitoring reports will be received. Budget monitoring is a regular agenda item for the Social Services Management Team and is discussed in one to one meetings with Heads of Service. Examination of the timetable showed that although budget monitoring reports are provided monthly, the April to October monitoring report is not considered by the Social Services Management Team until 4 December 2003, five weeks after the end of October. The reason for this delay is due initially to the time taken in extracting the information from the ledger, then a cumbersome process of re-inputting data into a spreadsheet in order that operational validation can take place. As this is a key period of the budget setting process, it is recommended that the processes and timetable be reviewed so that up to date information is provided throughout the year.

Recommendations

R5 Establish interim arrangements for budget monitoring covering current gaps pending the implementation of the new ledger system.

R6 Review the method of projecting expenditure on salaries and wages.

R7 Evaluate the support given by Finance staff and consider extending this in other areas. The opportunity can be taken to review and clarify the roles and reporting arrangements.

R8 Introduce budget monitoring against individual specific grants.

R9 Review the budget monitoring timetable to ensure that data is provided to managers promptly.

Comments on draft "Medium Term Financial Strategy for Social Services 2004/2006"

During the review, the Council provided an early draft "Medium Term Financial Strategy for Social Services 2004/2006." This addressed some of the findings from the review and we suggested some improvements to the document.

Structure

- Introduction (as laid out in the draft).
- National issues for Social Services (Reference to some of the major changes that will affect or are affecting the department's financial position. These could include the Green Paper, Health Act Flexibilities, Supporting People).
- The current position in Bury (as laid out under Section A of the draft).
- Short term strategy (actions that will help to reduce the projected overspend).
- Medium term strategy (Actions that are likely to improve financial management in 2004/2005).
- Long term strategy (proposals such as the replacement ledger system that will not help for the next year or so).

Outcome focus

In addition to the "Action required", "By whom" and "When" columns, a further column entitled "Expected outcomes" should be added. This will make it clear that every action is intended to have a positive impact on the financial management of the department. For example, you may calculate unit costs and circulate them, but unless you then intend to use this information to set a target for reduction or compare with other providers, the calculation alone will result in no real benefit.

Project Board

Each action should be assigned to one of the Project Board sub groups and this should be referred to in the matrix. A project plan for each sub group can therefore be clearly cross referenced back to the Medium Term Financial Strategy.

Links to corporate and operational responsibilities

These additions will help to pull the threads of the strategy together and give a clearer view of the operational implications of meeting budgetary expectations (or vice versa). This should be helpful in focusing the work of the Project Board and other key groups in the department. It is also useful that the document makes the connection with the corporate financial strategy as this builds on the strong support from the centre.

“Making Ends Meet” – A website for managing the money in social services

Following discussion of the preliminary findings of the review with senior managers, we were asked for advice on any models of good practice that had been identified in social services financial management. In October 2003, the Social Services Inspectorate and Audit Commission published “Making Ends Meet”. The introduction to the document describes it as “A tool for councillors and senior managers on how to get the best out of the resources allocated to social services. It provides answers that many local authorities are grappling with.” The website address is <http://www.joint-reviews.gov.uk/money>

“Making Ends Meet” provides advice then supports this by examples of good practice in specific local authorities. In particular, it covers the following areas which may be particularly helpful in Bury:

- Budget setting generally but there is also reference to setting up a pooled budget.
- Managing income.
- Organisational structure and culture. This includes Powerpoint files used in training operational managers in financial management.
- Unit and marginal costing.
- Commissioning services.
- Risk management.

Improvements in financial management in social services often involve significant changes to culture. This website provides a range of information against which Bury MBC can measure itself, and consider ways of further developing financial management.

Recommendations

R10 Identify areas of good practice referred to in “Making Ends Meet” that will improve financial management in Social Services and implement changes.