

EAST RENFREWSHIRE COUNCIL

CABINET

20 August 2015

Report by Julie Murray, Chief Officer Designate (Health and Social Care Partnership)

CHCP FINANCE SYSTEMS AND PROCESS UPDATE

**PURPOSE OF REPORT**

1. The purpose of this report is to remind Cabinet members of the circumstances which led to the overpayment of providers; update on actions taken to reconcile payments and the recovery of funds, and to describe in more detail the actions being taken to improve our finance systems and ensure good financial governance and internal controls.

**RECOMMENDATIONS**

2. The Cabinet is asked to note the contents of this report and members are invited to comment on its contents.

**BACKGROUND**

3. The CHCP senior team embarked on a process of service transformation in 2011. A key part of that transformation programme was the development of CareFinance, an electronic system linked to our CareFirst social work records system, which would provide a robust system for authorising and paying for care packages enabling strong financial control and good budget management.

4. Modernising the CHCP finance system was seen as a fundamental part of the transformation programme as it was recognised the existing payment processes being operated by the finance team were inadequate, consisting as they did of multiple fragmented spreadsheets which were manually intensive to support and with high potential for error.

5. An update on the actions taken to implement the CareFinance system and the development of stronger financial controls is set out from paragraph 31 of this report.

6. To understand how the problems with reconciliations arose it is helpful to understand the historical context for support packages for people with learning disabilities.

7. There was significant growth in the number of support services purchased for people with learning disabilities and other long term support needs as a consequence of hospital resettlement programmes in the 1990s and with the introduction of Supporting People funding in 2004. This new funding helped to support people who had previously been in residential care or hospital to move to supported homes in the community.

8. This increase in the volume of support packages resulted in a number of block funded arrangements being developed with some providers to provide support in shared houses and accommodation. Payment for these was made on a schedule basis, i.e. fixed sums being paid to providers monthly without invoices being issued, based around the annual agreed total value of the support in place for the group of clients. Approximately £4M per annum has been spent with these providers. The practice adopted going back a number of years has been that the finance team leader met each provider once or twice per year to

agree any year end adjustments required, based on client records held by the finance team and the provider. The provider then repaid any overpayment amount. An adjustment to the ongoing monthly fixed sum should then have been made. These providers were third sector not for profit organisations with whom the council had a longstanding partnership.

9. Following an initial review of financial processes during 2012 it was identified that the schedule payment process was outdated and supporting processes were weak. It was also recognised that the block funding arrangement was not in keeping with the developing self directed support agenda, and the requirement for individual budgets. A review of all such packages was started to establish that payment information was in line with current support delivery, and that developing processes were fit for purpose.

10. The launch of the Public Social Partnership in 2012 provided a strengthened opportunity to ensure that finance, commissioning, care managers, and service providers were working together to drive forward the identified improvements for existing supported living packages. The East Renfrewshire PSP is funded by the Scottish Government and comprises an alliance of third sector organisations called Ready4Business, together with those third sector providers who are providing services locally. The PSP ethos was to co-produce solutions with all stake holders, including provider partners, our staff, and carers but above all the people that use supported living services.

11. The Public Social Partnership (PSP) was established as a means of reviewing and redesigning the range of supported living services that we had in place at that moment in time. From 2012 all new learning disability packages were commissioned within a Framework Agreement. This was a bold departure from other local authorities who were taking a purely procurement driven approach to service redesign. The process has worked with 120 people with learning disabilities to personalise and plan their support arrangements. Many of the existing services were configured around group living arrangements that had never been reviewed, both in terms of best value and in terms of personal outcomes.

12. Since 2012 we have been working through all the learning disability packages, with a number of overpayments identified and reclaimed from providers by the CHCP over recent financial years. During the 2012/13 financial year in particular it was highlighted that the increasing pressure on CHCP budgets had partly been off-set by non-recurring monies and efficiencies from the review of learning disability packages. In closing the accounts for the year 2012/13 non-recurring income of £68,268, relating to previous years, was recognised in addition to the normal reconciliations for that year. In closing the 2013/14 accounts a further £218,776 of non-recurring income was recovered. In total, increased income of £391,646, including in year reconciliations and non-recurring amounts, was recognised over the two years.

13. It is important to note that the CHCP Finance Business Partner was aware that a number of overpayments had still to be reconciled from 2013/14 and that discussions with providers were ongoing during the financial year 14/15.

14. In January 2015 the Finance business partner began sick leave. Temporary cover arrangements were put in place. However when the sickness was confirmed as long term and the period 8 finance report showed a predicted overspend at year end, the Head of Accountancy arranged for a full time temporary senior resource to be recruited to ensure that costs were brought under control.

15. An issue in relation to overpayment to a provider by the CHCP was highlighted in the press early in 2015. While the issue was already known to the CHCP and discussions with the provider were well progressed in reaching a satisfactory resolution, publication of this article, and the continued absence of the Finance Business Partner who was the lead negotiator with providers prompted the CHCP to further review the process and procedure of scheduled payments to providers, initially in the area of learning disability. The Director of the CHCP also requested that Internal Audit review the situation.

## REPORT

### Issues identified and initial actions taken to reconcile payments and recover funds

16. It was identified that the established practice for the annual reconciliation of the schedules to have been undertaken by the CHCP Finance team to agree changes and to adjust the payments, was not consistently delivered. An adjustment to the ongoing monthly fixed sum should then have been made but this did not always happen, resulting in further adjustments having to be made the following year.

17. During 2012/13 and 2013/14 competing workload demands resulted in some of these year end meetings with providers not taking place, therefore not all providers' accounts were reconciled each year. Liaison with all providers took place during 2014/15 with a view to adjustments being agreed to bring all providers up to date, however this exercise was delayed due to long term absence of the Finance Business Partner. In her absence there was no visibility of the anticipated recoveries of historic overpayments and a significant outturn overspend for 2014/15 was initially forecast. Subsequent enquiries from providers relating to year end adjustments, however, permitted the reconciliations to be performed and the required adjustments to be made in closing the 2014/15 accounts.

18. Adjustments made in closing the 2014/15 accounts were greater than those applied in earlier years for two reasons. Firstly, these adjustments covered more than one year for providers where reconciliation had not been done the previous year. Secondly, an exercise carried out by the commissioning team as part of the PSP process looked through each individual care package in great detail and provided much more up to date information than that held by the finance team. This information led to further significant adjustments

19. In summary, scrutiny of the process has identified the following process failures occurring:

- Failure to amend payments to providers timeously when known changes have taken place.
- Failure to undertake detailed reconciliation of care package provided to clients and payment made to care providers on at least an annual basis.
- Failure to issue invoices promptly to providers for agreed adjustments.

20. The identification of inconsistent reconciliation activity prompted the following actions:

- The additional resource to cover the absence of the Finance business partner was retained on the return to of the business partner from sick leave to oversee reconciliations
- Increased liaison with care providers to reconcile and agree payments/income recoveries relating to Learning Disability clients. A detailed review has now been completed with the main care providers within Learning Disability
- Additional income of £878,335 in respect of the overpayments identified from the recent reconciliation exercise was recognised in the Council's 2014/15 accounts through new invoices issued to care providers or offset against payments due to care providers. This sum was in addition to £391,646 of adjustments agreed with providers in past reconciliation exercises and already reflected in closing previous years' accounts.

21. The planned phasing out of payment by 4 weekly schedules was accelerated and replaced by invoicing. The 4 weekly schedules has reduced from £339k to £140K per 4 weeks, with only two providers still charging on this basis as at August 2015. By September this will have reduced to only one provider and an agreement has been reached that this provider will also move to invoice billing in future.

22. All clients paid via schedule for 2014/15 have now been reviewed by accountancy staff to ensure that commitments for 2015/16 reflect accurate charges aligning with the agreed care packages, whether the clients are now paid via invoice or on the last remaining schedule.

23. Since the position was reported to the CHCP Committee in June the full £878,335 has been recovered from care providers. Discussions are ongoing with certain providers in relation to a small number of outstanding queries and any further adjustment sums agreed will also be reflected in finalising the Council's accounts for 2014/15. The Chief Internal Auditor has reviewed the reconciliations and processes in this area and will issue a report on her findings later in the summer.

#### Actions taken to ensure the integrity of wider CHCP payments

24. Whilst the issue of delayed reconciliations related specifically to adult care clients whose care was paid on a schedule basis, checks have now been applied to all other CHCP client groups (i.e. those paid via invoices rather than schedules) to provide assurance as to the overall robustness of existing financial processes. The Chief Internal Auditor will report later in the summer on the issues identified with CHCP finance processes and the Council's external auditors will also comment in their report on the Council's 2014/15 accounts which is due to be finalised by the end of September.

25. For Adult Care Invoice Payments accountancy staff have carried out comparisons between total commitments and ledger figures and have reconciled records for major providers, passing relevant files to internal and external audit for further review. The auditors are currently performing sample checks between payments made and care records to provide assurance that the Council's 2014/15 accounts are materially correct.

26. Work has commenced to transfer adult care client records on to the new Care Finance system and additional temporary staff resource has been engaged with a view to having all adult care client records on the new system by autumn. This will strengthen assurance that both forecasts and payments align with the latest care packages agreed by care staff for this entire client group.

27. For older people's services accountancy staff provided comparisons between total commitments and ledger figures for this area. An independent senior officer also carried out reconciliations for various older people client groups. All of this information has been passed to external audit for review. External audit are currently performing sample checks in this area between payments made and care records.

28. Almost all older people's records have now been transferred on to the new Care Finance system, ensuring that payments made reflect the most up to date service agreement. The new system information is also now being used as the basis for forecasting expenditure on this client group for 2015/16 financial monitoring reports, rather than relying on the spreadsheet based commitment records used in the past.

29. For the children and families client group reconciliations have been kept up to date throughout the year by the CHCP accountancy team. External audit are currently reviewing these and performing sample checks between payments made and care records.

30. It is planned to move all Children and Families clients on to the new Care Finance system by autumn.

## Care Finance Processes, Controls and Governance

31. The implementation of the CareFinance project is a large and ambitious programme of work covering all care groups within the CHCP. It has been important to invest time in the preparatory stage to ensure accurate and reliable data for the future. The CareFinance project is still in the implementation stage predominately due to data quality and cleansing issues.

32. The potential for data quality issues was an identified risk from the outset due to the fragmented spreadsheets, however, the scale of the issue was underestimated and has resulted in delays in the implementation of CareFinance for certain care groups. Data cleansing is manually intensive and time consuming, however, the CHCP recognise this task is imperative to meet the future needs of the organisation. Overall the project is currently six months behind the planned completion date, however, elements of the project are already being implemented and the project is set to deliver to the amended milestones. Many councils have faced similar issues when transitioning to a centralised approach due to the volume, complexity and sensitivity of the data.

33. Extensive additional resources have been applied to the CareFinance project in order to ensure an improved control environment within CHCP in future. These include:-

- Additional temporary Finance Business Partner post funded from Spend to Save Fund since March 2013 with contract extended to ensure completion of project
- Additional staff and hours for data cleansing, input and invoice verification
- Several CHCP care managers allocated to verifying data
- Corporate project management support for both the system implementation and the associated restructuring of the CHCP Finance team
- Appointment of a new Temporary Finance Business Partner with significant senior social care finance experience to ensure that robust financial controls and processes are in place during the transition to the Care Finance system and new CHCP Finance team structure.

34. Significant progress has been made in moving to the new Care Finance system. All residential care package information has been entered on the CareFinance System. In addition the data cleansing and entry team have entered care package information for 95% of all older people, 35% for people with a learning disability and have commenced work on the small number of mental health care packages. For Older People services invoices are now being processed through CareFinance. This provides a robust invoice verification process i.e. where payments can only be made against a validated and authorised open service agreement. CareFirst commitment reports formed the basis of older people residential forecasts for Period 3 for the first time.

35. The full delivery of the CareFinance project will completely change the accessibility and visibility of financial information within the HSCP by:

- Providing a single record of client services replacing the existing fragmented spreadsheets
- Online authorisation of care packages by frontline team managers immediately updates the commitment
- Only authorised care packages can be paid for

- Both short term and permanent changes to care packages are recorded by frontline care managers and authorised by team managers again this ensures accurate commitment and payment information is in place
- Only payments completely matching the amount due shown on CareFirst can be processed. Any variation must be investigated and addressed and validated before payments can be made. This has resulted in re-submission of a number of invoices by providers now that invoice payment is live for the older people services
- Client financial details will be held and contributions due against the care package will be calculated by the system for non-residential/residential services
- On demand and scheduled reports on package costs, commitments and budgets and variations
- A range of compliance checks are conducted on the system:
  - Weekly check for open agreements against deceased clients to ensure no payments can be made against these packages.
  - Weekly review of unauthorised agreements to ensure timeous authorisation of care packages and associated commitment.
  - Duplicate record checks are also conducted weekly.
  - Ended and cancelled service agreements are scrutinised to ensure the validity of the closure.

36. As part of the move to CareFinance a review of the whole process from care management through to authorisation of financial payment is underway. A project has been established with the key objective of embedding strong financial procedures and governance fit for the future. The key deliverables of this project are:

- Review the client pathway to ensure full integration of financial processes with frontline staff
- Benchmark against other partnerships
- A robust scheme of delegation underpinning accountability and responsibility of staff throughout the organisation
- Documented process and procedures
- Rigorous financial scrutiny of costed care proposals
- Training programme to embed processes across the organisation
- Regular self evaluation, process reviews and audit to be instilled

#### Implications of the creation of the HSCP

37. The creation of the HSCP has led to a change in the structure and accountability of the finance team.

38. The post of Chief Finance Officer for the Integration Joint Board is required by statute. The post has been recruited to and the Chief Finance Officer designate takes up post on 17 August 2015. The decision has been made to move the CHCP finance team from the Accounting Department to the HSCP under the leadership of the Chief Officer and Chief Finance Officer. This will lead to clearer accountability.

39. The project to review the CHCP Finance team began in May 2015 and detailed workload analysis is underway. Final option expected to be agreed by autumn and in place prior to the new financial year.

40. The exempt report in June referred to a historic contract dispute with a former provider. This is reported in some detail in a separate exempt report to the Integration Joint Board on 19 August 2015.

## **FINANCE AND EFFICIENCY**

41. Overpayments totalling £878,335 have been recovered from a number of Learning Disability care providers and were taken into account in closing the Council's accounts for 2014/15. This resulted in CHCP operating within budget for 2014/15. This sum is in addition to £391,646 taken into account in previous years' accounts. The improved payment arrangements now being applied will assist in addressing the budget constraints facing the CHCP in future.

## **CONSULTATION**

42. Consultation in relation to the review of the CHCP Finance team will continue to take place as the "to be" structure and roles are defined.

## **PARTNERSHIP WORKING**

43. None

## **IMPLICATIONS OF THE PROPOSALS**

44. None

## **CONCLUSIONS**

45. The existing processes and procedures within the CHCP Finance team are manually intensive and fragmented. The manually intensive processes, heavy workload on the finance team and staffing issues have contributed to unacceptable delays in reconciliations of certain schedule payments. Since early 2015, significant resources have been allocated to negotiating with providers and agreeing reconciliations.

46. The £878,335 identified from the reconciliation of schedule payments and agreed with providers has now been recovered in full by the Council. Discussions are ongoing with certain providers in relation to a small number of outstanding queries and any further adjustment of sums agreed will be reflected in finalising the Council's accounts for 2014/15.

47. The CHCP had previously identified the need to improve financial management and control systems and processes and had established the CareFinance project to address this. The Care Finance project is due to be implemented fully by 2016 and will provide the CHCP with a centralised system, will enable visibility of financial processes, and will drive governance and accountability. This new system, backed up by robust processes will ensure that reconciliation problems do not occur in the future.

## **RECOMMENDATIONS**

48. The Cabinet is asked to note the contents of this report and members are invited to comment on its contents.

## **REPORT AUTHOR**

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## **BACKGROUND PAPERS**

None

## **KEY WORDS**

Overpayment; reconciliation; finance systems and processes;