PARTNERSHIP & POOLED BUDGETS WITH PCT

Final Distribution
Corporate Director, Neighbourhood
Head of Commissioning and Customer Care
Head of Finance, MKC (Client Officer, Finance)
Head of Finance, HBS
Finance Manager, Neighbourhood Services, HBS
Audit Manager, Audit Commission

Lynda Baker – Audit Manager
Jackie Haycock - Auditor

AUGUST 2006
EXECUTIVE SUMMARY

1 INTRODUCTION

1.1 Background

The first Section 31 Partnership Agreement between the Primary Care Trust (PCT) and Milton Keynes Council (MKC), for delivery of defined Mental Health and Learning Disabilities services, commenced on 1 October 2002. This covered the operational aspects of the service. The Agreement has been extended to include further Mental Health and Learning Disabilities service areas and the pooling of some of the budgets for the services. The Agreements are currently set in the following ways:

- The budgets for Mental Health and Older Person's Mental Health were first pooled on 1 April 2004 and the service is led by PCT.
- The budgets for Learning Disabilities were first pooled on 1 April 2005 and the service is led by MKC.
- The budgets for Aids and Adaptations have been pooled since 1 November 2003 and the service is led by MKC.

This audit reviewed MKC's implementation of the Partnership Agreements, Addenda and Variations, focusing on agreed management and financial activities. Audit testing took place during January to March 2006. The reconfiguration of PCT's had not been finalised at that time, the future of the Partnership depended upon Milton Keynes retention of its own PCT.
### 1.2 Objectives and Scope

The objectives of the audit were to ensure that:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
</table>
| a) | The Partnership Agreement is fully documented.  
|   | (Partnership Agreement) 3 |
| b) | The Partnership Agreement is fully implemented.  
|   | (Partnership Agreement) 1 |
| c) | Procedures and controls for payments and receipts of pooled budgets are appropriate.  
|   | (Transfer of funds) 2 |
| d) | Payments and receipts of pooled budgets are occurring per the agreement and in a timely manner.  
|   | (Transfer of funds) 1 |
| e) | There is adequate control over year-end procedures and final accounts.  
|   | (Year end) 2 |
| f) | There is adequate management control over budgets, budget monitoring and performance measures.  
|   | (Budgets) 3 |

Key: 1 = Poor, 3 = Good

### 2 AUDIT OPINION

**Limited Assurance** - Controls exist but inconsistency in application. Some risk of loss, fraud, impropriety or damage to reputation.
3 CONCLUSIONS

3.1 There is evidence of good practice in all areas reviewed. The overall budgets have been met and end of year figures were agreed in a timely manner.

3.2 The original Partnership Agreement has been amended on three occasions to expand the services delivered in partnership and the pooled budgets. The agreements are detailed and explicit, but it can be difficult to determine the requirements and agreed activities because each addenda refers to earlier clauses.

3.3 Management activities (meetings) are not operating as anticipated when the agreements were drafted and therefore do not comply with the terms of the Partnership Agreement. As a result strategic monitoring of Partnership objectives are ineffective.

3.4 Reporting is informal and not adequately documented for transparency.

3.5 There is a lack of assurance because financial requirements are not implemented per the Agreement.

4 WAY FORWARD

4.1 All recommendations are in the Management Action Plan (Page 6). Good controls are shown in section 5, overleaf.

4.2 Partnership Agreement

4.2.1 The Partnership Agreement should be reviewed and current methods of working should be considered for appropriateness. A new document should be compiled to reflect the agreed requirements and thereafter management and financial activities should be implemented as defined in the documented and signed Agreement.

4.2.2 Reporting processes and year end requirements, particularly between the Partnership organisations, should be formalised and documented

4.3 Transfer of Funds

4.3.1 Invoices should be raised on a timely basis.
FINDINGS SUMMARY

5 GOOD INTERNAL CONTROLS

The following areas were tested and confirmed as having good internal controls with no problems to report:-

5.1 Partnership Agreement

Partnership Agreements are in place for delivery of Mental Health, Older Persons' Mental Health and Learning Disability Services and the pooling of defined budgets for these services. Compilation of the Agreement and Addenda had commenced, but has been suspended pending the PCT reconfiguration. Cabinet had resolved that the Partnership should be extended for two years if a Milton Keynes PCT is retained, but only for one year if it was not retained. The outcome of the PCT reconfiguration was expected by 31 March 2006, but was delayed until May, when it was announced that Milton Keynes will retain a single PCT based on the current boundary. In the meantime a variation agreement was signed, extending the partnership until 1 July 2006.

There is also an agreement for the delivery of Aids and Adaptations and the pooling of the related budgets. This agreement will remain in force until terminated by either party.

The original, signed, Partnership Agreement documents are securely stored.

The agreement defines financial arrangements and routine financial procedures including exchange of information, monitoring requirements and payments between Partners.

5.2 Transfer of funds

The PCT sends a breakdown of the Learning Disabilities costs they recover every month. The Senior Accountant and Joint Services Manager (Disability Services) review the information and challenge and corrects it where necessary. The final agreed costs form the basis of the postings to MKC SAP codes.

The Aids and Adaptations agreement is for equipment only. The Senior Accountant confirmed that purchases are appropriately processed by MKC.

The Senior Accountant checks the accuracy of the PCT claimed expenditure and liaises with the PCT to agree any required changes. The time between initial presentation of costs and payment to the PCT is decreasing, November 2005 costs were paid on 8 December 2005.
5.3 Year end

The Senior Accountant confirmed that year-end information had been received from the PCT in a timely manner for the previous year and provided evidence that the final figures were agreed by 12 May 2005.

Aids & Adaptations Pooled Budget surpluses have been carried forward to the next year. This is the first year of the production of Learning Disabilities Pooled Budgets, therefore there have been no reimbursements to make to the PCT to date.

5.4 Budgets

The Joint Services Manager (Disability Services) meets at least once per month with the Senior Accountant to monitor the Learning Disabilities Pooled Budgets. The Senior Accountant is developing a single report within SAP to combine all the Pooled Budget codes. At the time of audit testing favourable outturn was projected for the financial year 2005/06, due to restructure and vacancies, but the savings are not expected to be recurrent.

The Aids and Adaptations Pooled Budget is monitored at Finance Meetings attended by the Senior Accountant, the Joint Commissioner physical disabilities and Service Manager physical disabilities. Meetings were held in June, September, October 2005 and January 2006.

Financial information regarding all pooled budgets is reported to the Partnership Project Team which meets bi-monthly. The team comprises PCT and MKC officers as well as managers in joint posts between MKC and the PCT.

The Agreement defines responsibilities for ensuring Grant conditions are met as resting with the Pooled Budget Manager.

The Mental Health grant has been received per Government circular LAC(2005)11 dated 19 November 2005. It is lower than was anticipated at the time of planning the Pooled Mental Health budget, the MKC contribution will be adjusted accordingly, at the time of audit testing the information had yet to be presented to the Performance Monitoring Forum. The Joint Commissioning Manager, working for both MKC and PCT, is responsible for monitoring expenditure and obtaining the required evidence.
# MANAGEMENT ACTION PLAN

The recommendations are categorised on the following basis:

- **Essential** - Implementation is required with immediate effect to address a weakness that fundamentally undermines the control of that system.
- **Important** - Implementation is required within a short period of time to address weaknesses that seriously undermine the control of that system.
- **Standard** - Management need to take recommended action within a reasonable period to address weaknesses that may undermine system control.

<table>
<thead>
<tr>
<th>Ref</th>
<th>Findings</th>
<th>Risk/ Implication</th>
<th>Recommendation</th>
<th>Management Comments</th>
<th>Manager Responsible &amp; Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Partnership Agreement</td>
<td>The Partnership Agreement Schedule 3 stipulates that Joint Health and Social Care Board meetings should be held bi-monthly, but only three meetings have been held during 2005/06 financial year. Attendance at the meetings during 2005 was low.</td>
<td>There is a lack of transparency about communications between the JHSCB and the Partner Organisations and it is not clear whether the Board fulfils its functions.</td>
<td><strong>Important</strong></td>
<td>Schedule 3 to the Agreement, that details the membership and terms of reference for the JHSCB, should be reviewed and consideration given to revisions including (i) the Board Membership (ii) frequency of meetings (iii) inclusion of quorum/minimum attendance requirements at meetings (iv) reporting requirements between JHSCB and other groups/committees/managers of the Partner organisations. Following this review the Chair should endeavour to ensure the Board adheres to the documented terms of reference.</td>
</tr>
<tr>
<td>Ref</td>
<td>Findings</td>
<td>Risk/Implication</td>
<td>Recommendation</td>
<td>Management Comments</td>
<td>Manager Responsible &amp; Target Date</td>
</tr>
<tr>
<td>-----</td>
<td>----------</td>
<td>------------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>2</td>
<td>Partnership Agreement</td>
<td>The Performance Monitoring Forum (PMF) meetings have not been attended or functioned per the Partnership Agreement and Terms of Reference. Partnership activities are monitored via the PMF, the meetings are particularly important for MKC to receive information about PCT led activities and for both Partners to scrutinise service and financial activities.</td>
<td>Inadequate contributions to the pooled budget or inappropriate expenditure may not be identified and appropriate action may not be taken. <strong>Important</strong> The PMF should meet as described in their Terms of Reference. Quorum requirements should be agreed and included in the Terms of Reference. Documented records of finance and activity reports presented should be retained to demonstrate transparency. (The location of these reports should be recorded in the agenda/minutes).</td>
<td>Agreed. The PMF fulfils its function, except at the most senior level. The issue about reporting was raised at the meeting held 27 March 2006 and it was agreed to formalise financial reporting procedures between the two Partners. Each Service Manager also meets with finance in both organisations and sees ledgers in both organisations.</td>
<td>Corporate Director, Neighbourhood Services 31/10/2006</td>
</tr>
<tr>
<td>3</td>
<td>Partnership Agreement</td>
<td>The Partnership Agreement includes requirements for dealing with under-spent and over-spent budgets, but does not give any other detail about year-end procedures. PCT and MKC Finance Officers informally liaise to confirm dates and provide appropriate end of year information for inclusion in the Partner's final accounts.</td>
<td>Compilation of MKC final accounts may be delayed, financial implications include penalties and higher external audit costs. <strong>Important</strong> Year end requirements and procedures should be improved and agreed between the Partners.</td>
<td>Agreed. Deadlines set for the closure of MKC accounts are worked back from the Government requirements to have the accounts closed by the 20th June 2006. Year end procedures were agreed this year (2005/06) for the first time. We do need to work closely together to achieve the requirements and timescales involved. There is a Government White Paper about aligning budgets between Local Authorities and PCT's, MKC and MKPCT have discussed the requirement to align. The Partnership Agreement will not include individual Corporate arrangements, but HBS, MKC and PCT timing issues need to be resolved.</td>
<td>Finance Manager, Neighbourhood Services, HBS 31/10/2006</td>
</tr>
<tr>
<td>Ref</td>
<td>Findings</td>
<td>Risk/ Implication</td>
<td>Recommendation</td>
<td>Management Comments</td>
<td>Manager Responsible &amp; Target Date</td>
</tr>
<tr>
<td>-----</td>
<td>----------</td>
<td>-------------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>Year end</td>
<td>The Senior Accountant raised some concerns around year-end closure of accounts to meet HBS/SAP deadlines. Procedures have not been developed for incorporating the MKC share into SAP for the final accounts.</td>
<td>A trade-off between timing and complete (final) accuracy could affect the accuracy of MKC Final Accounts. <strong>Important</strong> The Neighbourhood Services Finance Team and Central Finance Team should work closely to clarify arrangements and ensure information is received in an accurate and timely manner. The Central Finance Team should provide guidance to the Neighbourhood Finance Team on the correct procedure for accounting at year-end for the pooled budgets. The Central Finance Team should ensure this guidance complies with Audit Commission’s requirements.</td>
<td>Agreed. We have previously received conflicting information.</td>
<td>Head of Finance, HBS 31/08/2006</td>
</tr>
<tr>
<td>5</td>
<td>Transfer of funds</td>
<td>Clause 8.10 of the Aids and Adaptations agreement requires MKC to submit invoices for the PCT contribution on a quarterly basis, for payment in advance. Invoices were raised late and were not for the full amount due. Payment was not received from PCT until more than 6 weeks after the invoice date.</td>
<td>MKC suffers financial loss (interest) through late income to support cash-flow. <strong>Standard</strong> Invoices for the PCT contribution to the Aids and Adaptations Pooled budget should be raised quarterly for payment in advance. PCT payment against the invoices should be monitored.</td>
<td>Agreed. This was partly because relevant staff were at remote sites without access to SAP. Payment of invoices can be monitored in the regular joint budget monitoring meetings.</td>
<td>Finance Manager, Neighbourhood Services, HBS 31/08/2006</td>
</tr>
<tr>
<td>Ref</td>
<td>Findings</td>
<td>Risk/ Implication</td>
<td>Recommendation</td>
<td>Management Comments</td>
<td>Manager Responsible &amp; Target Date</td>
</tr>
<tr>
<td>-----</td>
<td>----------</td>
<td>-------------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>6</td>
<td>Transfer of funds</td>
<td>The April 2005 Addendum clause 7.6 (Agreement clause 10.38), requires MKC to submit invoices for the PCT contribution to the Learning Disabilities Pool monthly, on the last working day of the month. No invoices were raised until 30 June 2005 and were thereafter raised on a quarterly basis during 2005/06. The PCT has taken a minimum of 6 weeks and up to 10 weeks to pay the invoices.</td>
<td>MKC suffers financial loss (interest) through late income to support cash-flow. <strong>Standard</strong> Invoices for the PCT contribution to the Learning Disabilities Pool should be raised monthly. PCT payment against the invoices should be monitored.</td>
<td>Agreed. This is now in place. The delay was due to the introduction of SAP. Payment of invoices can be monitored in the regular joint budget monitoring meetings.</td>
<td>Finance Manager, Neighbourhood Services, HBS 31/08/2006</td>
</tr>
<tr>
<td>7</td>
<td>Transfer of funds</td>
<td>Clause 7.16 (updated March 2004, Addendum clause 3.14) requires the Joint Service Manager and Joint Commissioning Manager Mental Health to provide evidence to the Performance Monitoring Forum that the Mental Health pooled budget is appropriately used. MKC has not been receiving a full breakdown of expenditure from the PCT (they are the lead organisation for Mental Health).</td>
<td>It may not be noticed if the PCT made inadequate contributions to the pooled budget or incurred inappropriate expenditure. <strong>Standard</strong> For assurance and transparency purposes adequate financial and other information to assure MKC that Mental Health Pooled Budget money is spent appropriately should be obtained and reviewed by MKC on a regular basis.</td>
<td>Agreed. The PCT have not been giving us full monitoring details for the Mental Health pool in the past year, although MKC Finance have had regular meetings with the service manager.</td>
<td>Finance Manager, Neighbourhood Services, HBS 31/08/2006</td>
</tr>
<tr>
<td>Ref</td>
<td>Findings</td>
<td>Risk/ Implication</td>
<td>Recommendation</td>
<td>Management Comments</td>
<td>Manager Responsible &amp; Target Date</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>8</td>
<td><strong>Partnership Agreement</strong></td>
<td>MKC management are not monitoring Mental Health pooled budgets as was planned when the Agreement was drafted.</td>
<td><strong>Standard</strong></td>
<td>Neighbourhood Services DMT should receive and review monthly Mental Health Pooled Budget reports. However, if DMT considers this activity to be inappropriate, then the preferred method for review and reporting to MKC management should be documented and the Partnership Agreement should be amended.</td>
<td>Head of Commissioning and Customer Care</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Agreed.</td>
<td>31/08/2006</td>
</tr>
<tr>
<td>9</td>
<td><strong>Year end</strong></td>
<td>PCT interpretation of the Agreement Terms may not reflect interpretation.</td>
<td><strong>Standard</strong></td>
<td>Obtain copies of PCT Internal Audit Reports for information.</td>
<td>Head of Commissioning and Customer Care</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Agreed.</td>
<td>31/08/2006</td>
</tr>
</tbody>
</table>

NB Any cost implications arising from implementation of the recommendations by HBS must be agreed in advance with the appropriate Client Officer and the Partnership Delivery Manager.