

PRINCIPAL SCRUTINY COMMITTEE

12 September, 2005

CABINET

14 September, 2005

WINCHESTER ALLIANCE FOR MENTAL HEALTH

REPORT OF THE CHIEF EXECUTIVE

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RECENT REFERENCES:

CEN81: Winchester Alliance for Mental Health, 25th January, 2005

EXECUTIVE SUMMARY:

This paper presents an independent report commissioned by the Council and prepared by PricewaterhouseCoopers into the circumstances surrounding the creation of a debt owed by the Winchester Alliance for Mental Health. The report is presented to allow Members to discuss its findings and consider their implications for future financial management.

RECOMMENDATIONS:

- 1 That the broad financial management issues the PwC Report gives rise to (summarised in 3.3 – 3.17) and detailed matters raised (summarised in Appendix B) are discussed with a view to considering how the Council's systems and procedures should be further strengthened.
- 2 That it be recommended to Council that the debt outstanding for Winchester Alliance for Mental Health of £353,483.29 be written off.

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DETAIL:

1 Introduction

1.1 At Council on 5th January, the Director of Finance reported actions that she would be taking in relation to WAMH. These actions included:

- a) Provide a public report on the Council's involvement with WAMH covering the matters raised in committee papers presented to Members in the past
- b) Discuss the matter with the External Auditor and commission an independent investigation.

1.2 CEN81 (25th January, 2005, refers) outlined the Council's involvement with Winchester Alliance for Mental Health (WAMH) and fulfilled the first of the above actions. The detail in that paper is not reproduced here. The external auditors, PricewaterhouseCoopers (PwC), were commissioned by the Chief Executive to undertake an independent investigation into the Council's involvement with WAMH. This paper reports on the outcome of that investigation and the PwC report is appended in full. A senior representative from PwC will be available at both Member meetings to present their findings.

1.3 In addition, a short update is given on the liquidation of WAMH and a recommendation is made to Council that the debt of £353,483.29 be written off.

2 PwC Investigation

2.1 PwC was commissioned in February 2005 *to review the arrangements that the Council entered into with WAMH to provide payroll services with a view to establishing whether appropriate action has been taken in relation to the debt that was built up. In particular:*

- *the contractual arrangements agreed with WAMH*
- *the history of the WAMH debt and authorisation of the debt*
- *involvement of and communication to Members in the process*
- *monitoring of the debt and management of the risk*

- *provision for the debt and write off arrangements*

2.2 A first draft of the report was received from PwC in April 2005. Following this, it was concluded that PwC should conduct further investigations by interviewing some Members of the Central Services Performance Improvement Committee, which had been most closely involved in monitoring the WAMH debt. Following these interviews an updated draft report was received which was finalised in August.

2.3 The PwC report is attached at Appendix A and the key findings are outlined in Appendix B under the headings of the engagement letter, annotated to the appropriate paragraph numbers in the PwC report, together with appropriate commentary.

3 Significant Issues Arising

3.1 The PwC report gives a thorough record of events over the period that the Council was monitoring the WAMH debt. It would be wrong to appear complacent in the circumstances of such a loss. However, nothing in PwC's report leads the Chief Executive to conclude there was serious mismanagement, or that there were serious failings on the part of Officers or Members. It is clear that Members were able to debate the options open to them, and there is no suggestion that the Council's actions were wrong.

3.2 That said, the debt, and likely write-off, is very significant, and it is no surprise that PwC draw attention to several areas where Principal Scrutiny and Cabinet will want to consider the actions taken at the time and what lessons should be learned. Appendix B gives a detailed commentary on the Report, and this may give rise to issues of detail Members may wish to discuss. More broadly, Members may wish to consider four wider matters, both as they affect the decisions taken in this case and in terms of lessons for future financial management:

- Assessment of risk
- Financial review
- Involvement of Members
- Handling of policy issues

3.3 Assessment of Risk - the criticisms concerning risk assessment come in two parts – that no assessment was undertaken when the initial payroll service was provided for WAMH and that, with limited information about the financial position of WAMH, it was not possible to perform a robust risk assessment. This may have led to Members being less than clear as to the true implications of options before them.

3.4 The concept of formalised risk assessment is a recent one. When payroll services to WAMH were first provided the risk assessment process that the Council undertakes now was not in place, neither at Winchester nor more widely in local government. It is acknowledged that no formal assessment was done then, although, given the organisation's roots and the size of its operation, it is likely that a formal assessment of WAMH would have concluded that payroll services could be provided.

- 3.5 PwC acknowledge that the risks involved in continuing the payroll service and the effect of the alternative option were assessed and considered but the extent to which these were realistic given the information about the financial position is questioned. Their implication is that Members may have taken a different decision if a full assessment had been undertaken.
- 3.6 It is certainly fair to say that, were we entering into a similar arrangement today, we would now undertake a more formal risk assessment. This is not just a question of hindsight; the whole culture of risk management in local authorities has developed rapidly in the last couple of years, and our own processes are now fairly sophisticated. The issue Members will want to debate is whether they believe in this case they had a fair understanding of the risks, albeit without the benefit of the formal assessment that would be the norm today, and more generally how we can use a risk based approach more effectively in the future.
- 3.7 Financial Review - PwC conclude that a more robust risk assessment would have included a more thorough assessment of WAMH's financial position.
- 3.8 The financial position of WAMH was considered in increasing detail as the problems continued and escalated. It was known that the Charity had little in the way of reserves or assets, that it relied on revenue income to support its operation and that it had significant contracts providing income for core services. The Charity was a going concern, assessed as such by its external auditors, and this remained so until the core contracts were terminated.
- 3.9 Because WAMH was dependent on grant usually paid in arrears, the Council's assessment at the time focused on the likelihood of that income stream continuing, thus providing them with a good financial basis. In addition, we took some comfort from the view of WAMH's own auditors outlined above.
- 3.10 Once again, it is easy to conclude that, with hindsight, more financial information could have been obtained. The key questions is whether our understanding of WAMH's ability to continue trading and repay debt would have thus been enhanced and allowed a better basis for decisions in this case. Looking forward, Members will also wish to discuss what financial information about third parties would be helpful where we are entering into a variety of partnership relationships which could leave the Council exposed to risk.
- 3.11 Involvement of Members - PwC has concluded that there was significant detailed monitoring and communication of the debt to different Member meetings and that continuation of support for WAMH had Member approval and was a priority for the Council.
- 3.12 Whilst Members would undoubtedly accept that they led the decisions in this matter, there are two issues they may wish to discuss. The first of these is how best to ensure that appropriate Members are kept closely informed of progress and developments by officers who are handling cases on a day-to-day basis. Traditionally this has been through committees, with Portfolio Holders taking a role more recently. Members will wish to consider how well these mechanisms can be used to keep them aware of developing issues of this nature, without drawing them into management roles.

- 3.13 Secondly, we should consider the role each elected Member body involved played in this case, and where the 'ownership' of such issues ought to lie. The Central Services Performance Improvement Committee (CSPIC) received and considered the detailed reports relating to WAMH's debt. Minutes from these meetings went to Cabinet and Principal Scrutiny Committee where Members gave further consideration to the issues and had further debate. Cabinet considered recommendations made by the other committees, discussed matters and agreed or amended the various recommendations. Through these meetings Members expressed their concerns about WAMH's financial position, but ultimately concluded that the payroll service should continue.
- 3.14 However, the approach we pursued meant that the lead was seen as being with CSPIC, and it could be suggested that Principal Scrutiny and Cabinet were seen as providing some form of implicit endorsement, rather than being given a great ownership of actions as the debt grew in significance. This is, perhaps, a natural consequence of the structures we have put in place under the Cabinet system, rather than the unwillingness of either body to take a role, and Members will wish to discuss whether these implicit roles were the right ones.
- 3.15 Handling of policy issues – PwC note that Members had had in mind the implications of service failure should they opt to withdraw payroll support. WAMH provided an important local service, and Members took into account the case for that continuing.
- 3.16 Notwithstanding the recognition of the role WAMH played, the principal advice to Members came from the finance team. To give Members a more balanced picture, it may have helped to have involved other officers, including those from the County, which has a prime responsibility for the adult care service provided. Members will wish to consider whether they had a proper balance of professional advice.
- 3.17 It is also clear that Members wished to support the provision of services provided by WAMH even though it is not the City Council's lead area of responsibility. Whilst Members can provide financial support for a wide range of activity they believe to be of value, in this case the support continued without any detailed dialogue with the County Council or PCT about other options for support. Wider dialogue may have given a broader context within which to view WAMH's role.

OTHER CONSIDERATIONS:

4 CORPORATE STRATEGY (RELEVANCE TO):

- 4.1 Acting in a financially prudent manner is one of the Council's core values, as expressed in the Corporate Strategy. This external report provides an opportunity for critical examination of how we achieve that. Working with and supporting the voluntary sector, a key driver behind supporting WAMH, is one of the key priorities in the Corporate Strategy for the current year.

5 RESOURCE IMPLICATIONS:

- 5.1 Provision has been made in the Accounts in previous years for non recovery of debt in line with established accounting practice and the full amount was

provided for in the Accounts for 2004/05. There may be a small dividend payable once liquidation has been finalised and this will be credited to the Accounts when known. There is no direct impact on the level of the Council Tax, albeit if the debt had not arisen the Council's general reserves would have been higher and these funds would have been available for other purposes.

- 5.2 The liquidator has not yet concluded matters as he continues to deal with creditor claims and the sale of minor assets. He estimates that there may be a small dividend payable to unsecured creditors (of which the Council is one) once liquidation has been finalised – currently this is estimated at 4p in the £, about £14,000.
- 5.3 PwC were engaged for a fee of £12,000 to undertake this review and to report to the Council on the matters covered in this report. This money will be found from the budget for external audit fees, including appropriate virement if necessary.

BACKGROUND DOCUMENTS:

Report from PricewaterhouseCoopers, August 2005

Files held in the Finance Directorate (other than exempt papers)

APPENDICES:

Appendix A: PricewaterhouseCoopers Report – Debt of Winchester Alliance for Mental Health, August 2005

Appendix B: Commentary on PricewaterhouseCoopers Report