

## Referral from Audit & Accounts Committee

To:	Adults and Health Committee
Meeting Date:	25 January 2024
From:	Audit and Accounts Committee
Electoral division(s):	Not Applicable
Key decision:	No
Forward Plan ref:	N/A
Executive Summary:	At their meeting in December 2023, the Audit & Accounts Committee agreed to refer the matter “Contract management of the Healthy Child Programme and Integrated Drugs & Alcohol Systems contract management” set out in section 7.2.4 of the Internal Audit Progress Report to the attention of the Adults and Health Committee.
Recommendation:	The Adults & Health Committee consider the matter referred by the Audit & Accounts Committee.

### Officer contact:

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## 1. Background

- 1.1 On the 1st of December 2023, the Audit & Accounts Committee meeting resolved to refer the “Contract management of the Healthy Child Programme and Integrated Drugs & Alcohol Systems contract management” to the Adults & Health Committee for further review.
- 1.2 The minutes of the meeting record that:

*“A Member advised that he had previously expressed concern on the contract management of the Healthy Child Programme and Integrated Drugs & Alcohol Systems contract management, and he was puzzled why there had been a failure to move forward on this in the appropriate timescale. Whilst welcoming the information on this matter set out in section 7.2 of this report. He asked if the revised target date of 30/04/24 looked like slipping, a report could be provided to the Audit & Accounts Committee. The Member further requested that the information in paragraph 7.2 be referred to the Adults and Health Committee. The Committee agreed to this request.”*

## 2. Main Issues

- 2.1 The contents of Section 7.2 of the Internal Audit Progress report are therefore replicated below, for the information of the Adults & Health Committee:
- 2.2 PUBLIC HEALTH OPEN BOOK CONTRACT MANAGEMENT:
- 2.3 At the previous meeting of this Committee, two outstanding audit actions from within the Public Health directorate were discussed. These actions related to implementing ‘open book’ contract monitoring provisions which are written into two existing contracts within Public Health.
- 2.4 The concept of ‘open book’ contract management builds on the practice of ‘open book’ accounting within public contracts:
  - **Open Book Accounting** – A provision within the contract which ensures that the provider’s financial records relating to the service(s) provided are made available to the contracting authority. This includes all material data and information including staff costs, resources used, overhead calculations, payments to sub-contractors and providers, profit margins etc. etc. The use of this approach allows the contracting authority to verify that they are being charged a fair and accurate price for the service that is actually being delivered.
  - **Open Book Contract Management** - Using the information provided through open book accounting alongside operational and performance data to promote collaborative contract management behaviour between the supplier and the contracting authority in order to achieve: a fair price for the supplier; value for money for the contracting authority; and performance improvement for both over the contract life. It provides a basis to be able to review performance, agree the impact of change and to bring forward ideas for efficiency improvements.

2.5 The Open Book Contract Management approach is recommended by the Chartered Institute of Public Finance & Accountancy as representing best practice in managing all major public contracts, to maximise the value obtained. Specifically within the health and care sector, under NHS England guidance, Integrated Care Systems (ICSs) are required to have in place a System Collaboration and Financial Management Agreement (SCFMA) which requires open book accounting and financial transparency between its partner organisations.

2.6 In two previous audits of contracts within the Public Health Directorate, Internal Audit noted that although the wording of the contract included the right for the Council to undertake open book review of provider costs to enable an open book approach to contract management, there was no evidence that these rights had been used by the service or that an open book approach was being taken by contract managers. In both instances, actions were agreed with the service to implement open book monitoring practices within these contracts. The wording of the actions is set out below:

- **Healthy Child Programme Contract Audit** – Recommendation 6 – Quarterly Open Book Monitoring Against New Pricing Schedule: “Once a detailed Pricing Schedule has been developed for the contract, the Public Health team should implement quarterly open-book monitoring against the pricing schedule. This should include a detailed breakdown of actual costs incurred by the providers, with this information being reviewed and challenged by the Authority. The service should also ensure the year-end reconciliation of reported costs to actuals takes place in line with the Section 75 Agreement document.” [Target Implementation Date: 30th June 2023]
- **Integrated Drug & Alcohol Contract Audit** – Recommendation 8 – Budget Variances Are Not Reconciled to Prime Cost Evidence: “Public Health should alter financial monitoring so that, for budget variances as uncovered in the review of SMS reporting within quarterly contract monitoring meetings, are reconciled to prime evidence, as allowed by clauses 34.1 and 34.2 of the contract. This represents a shift to more open book financial reporting. To assist with this, Public Health should utilise the detailed pricing schedule which includes a detailed list of allowable costs against each pricing element. This pricing schedule can be the basis for challenge in contract monitoring meetings allowing for efficient detection of budget variances. It will also allow the council to distinguish costs that should be absorbed by CGL. If the Service considers this unfeasible, they should consult with the Head of Diligence and Best Value for advice and guidance on how to implement a more open book financial reporting approach.” [Target Implementation Date: 30th January 2023]

2.7 In both instances, the actions are currently outstanding for implementation. Internal Audit reported to the September meeting of this Committee that a discussion regarding open book accounting had been held at the Procurement Governance Board, and that the Public Health Directorate were exploring how to enhance the expertise within their service to implement an open book approach within these and other contracts. It was confirmed that a detailed update on progress would be sought from the Director of Public Health and brought back to this Committee.

- 2.8 On the 31<sup>st</sup> October, the Director of Public Health, the Deputy Director of Public Health, the Head of Procurement and Commercial and the Head of Internal Audit & Risk Management met to discuss these actions and open book contract management more generally.
- 2.9 The Director of Public Health noted that some NHS providers have expressed discontent at having to supply prime records to the Council despite this being a provision of the contract, which is a continuing challenge for the directorate to manage. Capacity is also an issue within Public Health due to staff turnover and the need for staff with sufficient expertise in open book contract management. Additionally, the open book provisions within the contracts are currently quite general, rather than being specific about a particular open book approach will be implemented. As a result, in order to implement these recommendations, that the commissioners for these contracts will need to conduct a risk assessment and identify an appropriate, detailed approach to open book contract management.
- 2.10 It was agreed that Commissioners within the Public Health Directorate should undertake formal training on open book contract management to help implement the approach throughout the directorate. It was also agreed that the service would report their plans for rolling out training to Procurement Governance Board, to identify whether other commissioning services may also wish to send staff on the training. In that case, it may be possible to arrange a larger-scale corporate training session which may be more cost-efficient and allow more staff to benefit from the training.
- 2.11 The Head of Procurement and Commercial noted that the Council's Commercial team have just opened a new Contract Management Teams channel to share best practice and it may be possible to use the channel to share information on open book approaches to contract management.
- 2.12 The audit recommendations regarding implementation of open book contract management within the two contracts highlighted above will therefore not be implemented until after this training has been rolled out to Commissioners. The Director of Public Health confirmed a revised target date for implementation of these actions is therefore 30<sup>th</sup> April 2024.

### 3. Alternative Options Considered

Not Applicable

### 4. Conclusion and reasons for recommendations

Not Applicable

### 5. Significant Implications

Not Applicable

#### 5.1 Finance Implications

Not Applicable

#### 5.2 Legal Implications

Not Applicable

### 5.3 Risk Implications

Not Applicable

### 5.4 Equality and Diversity Implications

Not Applicable

### 5.5 Climate Change and Environment Implications (Key decisions only)

Not Applicable

## 6. Source Documents

6.1 Internal Audit Progress Report - [IA Progress Report for Sept 2023 AAC - Draft \(cmis.uk.com\)](#)

Minutes of the Audit & Accounts Committee, December 2023 - [Document.ashx \(cmis.uk.com\)](#)