

## **OPEN BOOK ACCOUNTING – a best value tool**

One of the aims of contracting out social care is to provide services at a cost which represent Best Value and a degree of fairness between the contracting parties. Both providers and commissioners need to find their way to a win-win situation. Open book accounting can help provide that.

Open book accounting also helps develop clarity with commissioners about the differences between independent providers, especially the differences between charitable, not-for-profit and private businesses. There has long been belief that all independent providers operate in the same way and for the same motives. Open book accounting assists in opening up this area to scrutiny and to consider the risks that lead to the need for agreed margins and re-investment in services.

This article examines what is involved and illustrates possible practice.

The phrase “open book accounting” does not have a specific meaning. It is rather an expression of intent. That intent is to demonstrate the commitment and confidence of partners in a contractual relationship to share information on income and expenditure.

The commitment between commissioners and providers to enter into this way of working needs to be made early in the relationship. This will enable them to describe the type and depth of information to be made available for discussion. The arrangements will depend largely on the nature of the service and length of contract. The purpose of this arrangement will always be:-

- ? for performance to be monitored,
- ? initial tender promises and costings to be given developmental consideration by both sides , especially in longer term contracts,
- ? that future expenditure and investment will be discussed,
- ? to ensure that efficiency gains are accounted for in a suitable and agreed manner,
- ? the benefits of the developing contract can be described.

Arrangement to access accounts should be clear as vagueness could lead to misinterpretation or confusion. For instance the process may be annual and use independently audited accounts or be more frequent using working figures to identify changes to assumptions in order that joint considerations can be given to these. An exception clause could leave the possibility of more frequent dialogue where circumstances can be described (such as legislative changes) that require this from one side or the other.

However this arrangement is not to be viewed as cosy or non-commercial. Indeed those involved in the commitment, both commissioners and providers, must take the trouble to make sure that they do not create a partnership as it is defined in the Partnership Act of 1890. To do so would render parties “jointly and severally” liable for debts of the other. The intention of open book accounting is to create proactive attitudes, improved performance and greater shared benefits.

Arrangements for open book accounting will vary and the principles underpinning those may place lesser or greater emphasis on some areas. Nonetheless participants will have to consider and jointly agree at least-

- ? Which data will be used and when – Open book accounting should never mean unrestricted access to unrefined data.
- ? The range of data which is needed - Arrangements for access to data should be no more than adequate.
- ? Management interpretation – Management interpretation of figures for debate will always require the rationale behind them. This allows a full discussion and may lead to other suggestions or ideas for interpretation which in turn can contribute to a different outcome or series of outcomes. It is this ability to discuss contractual issues in a consensual manner that helps set open book accounting apart from more adversarial forms of contract management and monitoring.
- ? Genuineness versus accuracy – Figures may never be accurate but they can be genuine. That is to say that figures can be presented on the best information currently available but may have failed to take account of unknown factors or overlooked developments.

It will be necessary to define who should be involved in the process. For instance checking and agreeing low level outcomes may be left solely to accounting staff on both sides of the contract whilst significant discussions regarding information which comes to light as a result of earlier work may require director level input to reach agreements on ways forward.

Perhaps it is now easier to illustrate the way in which such an agreement might work.

*A local authority contracts for ten years with an independent provider. The contract suggests that annual accounts for the provider are made available with a annual commentary. This aims to ensure the provider has spent money as promised in their tender in a number of defined areas which could include management support, recruitment, training, quality monitoring, IT development, staff or service user communications etc.. Cash not spent as promised may become recoverable.*

*At the end of the first year of the contract a meeting between the accountancy staff identifies a significant amount over and above that envisaged has been spent on IT development. This seems to be at the expense of staff training and quality monitoring. They decide to pass this information to respective managers. Another meeting then puts forward a number of options enabling the situation to be corrected. This involves slowing the pace of IT infrastructure development, even though this may have an adverse effect, in order to provide more training which will improve staff's ability and enhance quality. The meeting would have identified risks in the possible courses of action and arrived at a mutual agreement about the way forward.*

*Six months further into the contract a significant piece of employment legislation forces unforeseen costs into the contract. A further meeting is called, despite the fact*

*that this is not due and there are only partial accounts available. Having identified possible effects on the contract and ways forward commissioners and providers have independent discussions to decide their response and eventually report back. A joint solution is eventually arrived at which involves a partial management restructure and a small increase in the fee to cover the differences which remain. This agreement is then subject to renewed discussion and review once the audited accounts are published.*

*The purchaser does not preclude the supplier from making changes that enabled the more effective and efficient running of the service, especially when efficiencies may give benefits elsewhere.*

*By the end of year four a series of decisions have led to the provider not reaching their surplus target for the second year in succession. Whilst this was set at 10% in the tender assumptions it has now slipped below 5%. They wish to adjust some areas of operation in order to improve this margin and use the opportunity to discuss this with commissioners. Once again the risks to all involved are considered and a compromise solution is reached which ensures the provider can meet the obligations set out in their tender figures. However it is also agreed that the 10% figure for the surplus will fall to 8% when the commissioners agree to underwrite some potential risks. The commissioners do this by agreeing to pay the cost of meeting defined risks which materialise. For instance the provider is concerned about enhancing IT systems to link with improved commissioner systems. They believe this would have the impact of reducing administration costs and heralding smarter working practices. The commissioner agrees and underwrites the costs of improvements (with a number of caveats) thereby reducing the need size of margin sought. However the discussion still ensures that the surplus required to operate the business safely (for instance to meet future legal or redundancy costs) is available.*

This method of accountability and risk management is not widely used. Yet this is surprising. Most local authorities want services to operate well but operate to tightly controlled and limited budgets and would value ongoing input into service development and continual improvement. Yet they shy away from a commitment such as this. This may sometimes be due to the numbers of providers and commissioners can't give time to developing more trusting relationships. But it is more likely they feel that the method will be used to drive up prices at a time when money is in short supply. This latter fear is also partly because many local authorities do not possess an intimate knowledge of how independent operators work. If they more systematically developed these vital skills value for money would improve immensely along with commissioning methods.

Equally independent providers may be shy of opening their books in some cases as they fear their practices will not stand up to scrutiny. This is not necessarily because they wish to cut corners (although in some cases this will also be true) but if they win contracts at low costs that do not allow them to fulfil their obligations they then fear losing the contracts due to non-compliance.

Open book accounting allows better knowledge and understanding to develop, greater sharing of risks and more accountability for public money in a way that will drive up service standards to a level which vulnerable people deserve.

Open book accounting will not suit every type of contract, for instance where the market is varied and has many providers with differing cost bases as in most local markets for residential and nursing care. However where the market should bear similar issues, as with domiciliary care or some specialist services where costs can be fairly and reasonably described, it can work extremely well and build significant trust between commissioners and providers.

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