Cost-Effective Implementation of Direct Payments

Supporting Brief

Compiled by
Care Services Efficiency Delivery

Direct Payments (DPs) have been government policy for 10 years and are now increasingly important as a vehicle for Individual Budgets.

This research reviews Council experience and provides implementation advice.

Key points are:

- DPs must be embraced as a core component of delivering support – not as an exception or incremental process – so that savings from traditional provision may be realised
- There will be initial costs associated with setting up or commissioning an effective DP Support Service (DPSS) and training staff in DP processes
- Once fully operational, DPs should be cost neutral. There may even be savings associated with no longer having to undertake the three-way reconciliation of purchase orders, timesheets and invoices and generate variable payments to providers. Instead, the Council will simply send a regular monthly payment to the customer
- It is important to focus on cost control during the progressive move to a DP environment. This means:
  - Taking resource out of the traditional care provision process as the volumes decrease
  - Ensuring that any outsourced services (eg DPSS, payroll) are cost-effective
  - Considering a “light touch” audit and review of DP customers

DPs should be measured by outcome as well as cost: simplistic comparisons of the price of an hour’s delivered care are not appropriate.

www.csed.csip.org.uk
1. Introduction

Direct payments (DPs) are a recognised mechanism for getting money to individual customers to access social care services and personal assistance, as an adjunct or alternative to those services provided by the Council. DPs are widely recognised as offering greater benefit to customers – the users of the services – in terms of improved outcomes and greater flexibility, leading to “independence, social inclusion and enhanced self-esteem”.¹

There is a strong political drive towards self-directed support for social care. Despite this, some Councils have been slow to adopt and promote DPs as “business as usual”. There are a variety of reasons for this, but one is the perception that both Councils and the public would incur additional costs that make the introduction of DP less desirable.

There are indeed costs associated with the implementation of DP. There are, however, also savings to be made. The Audit Commission’s report, “Choosing Well” (May 2006) states that “benefits for local authorities (of DP) include lower administration costs…. and lower overall costs of provision”.

This paper supports that view. It looks at processes under the direct control of Councils, once a care assessment has been made and a specified financial amount has been allocated to a customer. It considers a logical “best practice” model, based on processes within Councils that have made DP work effectively, and shows potential cost savings compared to processes associated with traditional direct provision of services. The paper also highlights key issues around successful and cost-effective implementation.

¹ Department of Health (2003), Direct Payments Guidance
2. The Case for Cost-Effective DP Implementation

This paper demonstrates that a properly-implemented DP payment and administration process can be cost-effective.

A critical component in achieving a cost-effective implementation of DP is recognition by the Council that DP is not an exception or an incremental process, but is a core component of the care process. As such, this case is based on a future state where DP and IB are the norm, and where any redundant costs from the direct provision of services have been eliminated once DP has been established. By working back from the implementation of DP to define what needs to be in place, in terms of policy, organisation structure and processes to deliver DP efficiently and effectively, we can focus on the desired outcome (rather than on a series of incremental steps).

The main area where costs (both to the Council and overall) are demonstrably lower under DP than under direct provision of services is in the area of payments:

- Under direct provision, the funder (the Council) makes variable monthly payment to the service provider after a significant exercise in reconciliation between purchase order, timesheet and provider invoice (or equivalent process)
- Under DP, the funder (the Council) makes a fixed monthly (and possibly an initial one-off) payment to the customer, who will then pay the service provider, eliminating all other payment authorisation processes

In the future, as more cases are addressed with DP and consequently fewer handled under traditional provision methods, the Council will be able first to offset and then to reduce the cost of its payment processing.

All Councils interviewed as part of this study have acknowledged the costs associated with the payment reconciliation process for direct provision, and have consequently also acknowledged the fact that the payment process under DP is significantly simpler and therefore cheaper. An incremental cost for DP may be any additional BACS payments to customers (from the disaggregation of direct payments to providers), but this is more than
offset by savings in the purchase order/timesheet/invoice reconciliation and payment processes.

Another way of showing how significantly more simple the DP operational process can be is set out in the table below.

**Key Differences in the DP and Direct Provision Payment Processes**

<table>
<thead>
<tr>
<th>Traditional Direct Provision</th>
<th>Direct Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set up payee</td>
<td>Set up payee</td>
</tr>
<tr>
<td>Set up budget</td>
<td>Set up support plan/funding</td>
</tr>
<tr>
<td>Process requisition</td>
<td>Set up monthly payment</td>
</tr>
<tr>
<td>Produce purchase order</td>
<td></td>
</tr>
<tr>
<td>Receive/process timesheet</td>
<td>Make (variable) payment</td>
</tr>
<tr>
<td>Process invoice</td>
<td>Make (fixed) payment</td>
</tr>
<tr>
<td>Match PO, timesheet &amp; invoice</td>
<td></td>
</tr>
<tr>
<td>Authorise payment</td>
<td></td>
</tr>
<tr>
<td>Make (variable) payment</td>
<td></td>
</tr>
</tbody>
</table>

The way in which specific costs and savings accrue to the Council will depend on the migration sequence to a fully integrated Individual Budgets (IB) and DP environment. As shown in the illustration below, prioritising IB (a) will set up the appropriate infrastructure for managing DP payments. Prioritising DP (b) will, by implication, set up a significant component for future IB provision.

**Migrating to IB and DP**

DP implementation can and will be recognisably successful when:
- DP is a standard payment procedure within the Council
- The deployment of DP is a standard component of all Council sourcing strategies
- DPs (including charging, paying, monitoring, review and claw back) are routine Accounts Payable activities
• Redundant costs (both management and administration) of direct provision have been eliminated
• DP training is provided to all relevant council staff, partner agency staff, information providers and DP recipients
• All eligible customers are offered the DP option (at initial contact, assessment and review)
• Support for people about to, and using, DP is readily available
• DP is promoted by, and to, staff as a standard (and preferably a preferred) option
3. Preparing for Direct Payments

It is recognised that there will be a period in the transition to DP during which DP costs are incurred without commensurate savings in direct provision. These include, for example, an initial investment to ensure that DPs can become the norm.

Specifically, there will be management and staff costs involved in setting up a Direct Payments Support Service (DPSS) function that helps customers (and, where appropriate, their Personal Assistants) to set up and administer funds under a DP regime, and there will be further costs to train staff.

Once DPs and the DPSS have been implemented, however, these costs should be offset by significant savings from the elimination of payments for the direct provision of services.

**Total Costs (of Payments) as DP Replaces Direct Provision**

The DPSS is a key element of effective service provision which drives and champions DP across the Council, with practitioners and with customers. It offers, where appropriate:

- Support to customers to set up bank accounts and payroll services
- Support to customers to procure services and recruit PAs
- Brokerage of information on service providers

As part of its core function, the DPSS also:

- Sets up contracts with individual customers
- Manages payment to customers
- Manages financial reviews and (where appropriate) risk reviews
- Offers training to practitioners and administrators

Specific policy and practical implementation actions that Councils must adopt as a priority when moving to DP as “business as usual” also include:

- Make an initial investment to ensure that DPs are the norm
- Provide effective training for relevant Council staff and practitioners
- Help customers to fulfil their statutory obligation to use a discrete bank account (or accepted alternative financial arrangement) to manage DPs when there are multiple payments
- Set up simplified and easily-understandable contracts for individual customers to use with service providers
- Where customers are less likely to be able to provide accurate information for regular reviews, help them to use payroll services to guarantee that provision
- During assessment and implementation, focus on outcomes, not equivalent hour for hour costs of direct provision
4. “Best Practice” Processes, Prerequisites and Recommendations

As part of this study, a logical process model of best practice within DP has been produced. This is based on components of DP processes already implemented effectively by a number of Councils. It addresses the process of payment and administration of DPs once a financial assessment has been made and a specific financial amount has been allocated to an individual customer.

The left hand column shows a summary of the traditional process for direct provision as a "benchmark" of potential costs. In the right hand columns, in yellow, are those process steps that are potentially unique to DP. A larger – and more readable – version of the model is provided at Appendix A.

The Process Model (see Appendix A for detail)
It can be clearly seen that, while specific resource is needed to administer DPs (a DPSS), there is considerably less activity required to make a DP to a customer than is required to reconcile purchase orders, timesheets and invoices and to make payments under traditional direct provision.

The Audit Commission report, “Choosing Well” (May 2006), concludes that “Benefits for local authorities include lower administration costs…. and lower overall costs of provision”. “Choosing Well” also states, however, that “when choice is introduced inefficiently, it can add to costs and reduce value for money”. The conclusion of this study is that if a Council’s proposed method of payment for DP imposes significant cost increases, then that payment process is inappropriate.

For example, one Council made an arrangement with an external service provider that resulted in significant cost increases, and DP was given bad press as a result. When reviewed, however, this was found to be an example of poor specification and procurement rather than an issue with DP itself.

There are a number of prerequisites for managing best practice and containing costs that require a number of policy or “mindset” changes. These include:

- Recognise that DPs and IBs are gaining greater support by customers and support the initiative
- Consequently, treat DPs as the norm rather than as an exception. Exception management will always generate additional costs
- Do not misallocate costs when attempting to compare costs for DP and direct provision. “Choosing Well” warns that “DP users bear a higher proportion of fixed and overhead costs compared with the much larger number of domiciliary social care customers”
- To contain costs, actively seek to redeploy administrative effort away from redundant procedures and processes as the proportion of DPs and IBs increases. This will offset both initial investment and ongoing cost
- Actively seek to change the hearts and minds of practitioners and administrators, and provide effective training to support DP as “business as usual”. Specifically, recognise that:
  - The change to DPs does not change the provision of care and accountability for it
  - Many of the activities carried out under a DP regime (e.g. interviewing and recruitment of staff, requisition of services etc.) would also be carried out or paid for in a direct provision environment
  - The focus on outcomes means that more is available to customers than services equating to the “care hour £”
- Develop a pragmatic policy to simplify administration (contracts etc.) and financial risk management processes (consider the adoption of new lighter touch CIPFA guidelines)

The model sets out a DP process that has been validated by members of DP and finance management from a number of Councils that have applied “best practice”. It defines DP in terms of what needs to be done, and so leaves individual Councils free to decide how they will approach its implementation and indeed how they will manage the DPSS. There is no single “right” approach in terms of detail, as long as the approach taken works for the Council and the individual customer as well as demonstrating financial benefit.

For example:
• One council has an extremely light touch in relation to financial reviews; it has dramatically reduced overhead cost in this area and has had minimal problem with fraud
• Another council has a more rigorous approach, and can demonstrate the benefit of reallocating funds to other care packages as a result
• A third council carries out a financial review after six weeks as a matter of course to ensure that any problems are picked up early

In another area, for example:
• Several Councils outsource the DPSS to a third party
• Others manage the process in-house
• At least one Council interviewed has set up separate organisational units (and this can be done with these entities as separate companies) to manage customer set-up and advocacy, payroll and brokerage. This leaves the DPSS largely focusing on the efficient control of finance and on carrying out training

Appendix B looks at the component elements of the process model and shows where incremental costs and savings can be seen to apply to each component. This further demonstrates the degree to which the DP process covers tasks that would normally be carried out by the Council under direct provision, and so in effect represents no additional cost.
5. Conclusion

The conclusions included in this document illustrate the approach of several Councils as they move towards the effective processing of DPs. All have different ways of implementing operational detail, but all have found that the approach offers considerable social benefit to the customer alongside being a cost-effective solution to both the Council and the individual customer.

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Appendix A – Direct Payments “Best Practice” Process Model

<table>
<thead>
<tr>
<th>Pre-requisites</th>
<th>DP Support Service</th>
<th>Payroll Services</th>
<th>Client</th>
<th>Service Provider / PA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set up SS Budget</td>
<td>Enable clients to be set up as suppliers for payment by A/P</td>
<td>Agree care plan &amp; support plan</td>
<td>DP budget</td>
<td></td>
</tr>
<tr>
<td>Set up PA budget</td>
<td>Agree care plan and support plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment Completed &amp; approved</td>
<td>Source Services &amp; PAs</td>
<td>Agree letter of arrangement</td>
<td>Set up DP contract</td>
<td></td>
</tr>
<tr>
<td>Allocate Funding to client &amp; Client Resources</td>
<td>PA recruitment carried out by LA (if direct)</td>
<td>Set up bank account or alternative</td>
<td>Bank account</td>
<td></td>
</tr>
<tr>
<td>Cared Not Outourced</td>
<td>Set up letter of arrangement</td>
<td>Letter of arrangement</td>
<td>DP contract</td>
<td></td>
</tr>
<tr>
<td>Source: Services &amp; PAs</td>
<td>Set up letter of arrangement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PA recruitment</td>
<td>Accept PA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carried out by LA (if direct)</td>
<td>PA recruitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid for by client</td>
<td>PA recruitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No difference in accountability for care</td>
<td>PA recruitment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Monthly invoicing, three-way matching, payment & review cycle

- Regular payments
- Invoicing
- 3 month review
- Statement
- Review
- Frequency of payments
- Clear back
- Allocated funds
- Train: Council staff
- Partner agency staff
- Information providers
- Direct payment recipients

- Generate DP returns
- Agree DP returns
- Generate PAYE, NI etc.
- Payroll
- Maintain Payroll data
- Maintain Payroll data
- Inland Revenue
- Inland Revenue

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Appendix B – DP vs. Direct Provision: Financial Comparison

Appendix B sets out individual components of the DP processes and shows whether there is cost incurred or saved when compared to the equivalent process under direct provision. It also highlights guidance for best practice implementation where appropriate.

In some cases, at a component level, there is additional cost associated with setting up the DP process, but this is offset once cost savings from reduced resource in the more complex payment and reconciliation process associated with direct provision are realised.

Summary of Key Process Components

B.1 Initiate DP Process for Individual: target is no extra cost

In this component, the DPSS and care workers will set up customer details and budgets, complete the contract for DP, make an initial payment to fund the DP set up, and agree the support plan.

We have found this to represent no significant extra processing cost. Many Councils already track individual customers to enable timesheets to be cross-referenced to provider invoices. Existing accounts payable procedures and systems can normally be used to minimise cost; new discrete systems are not needed. In addition, budgets for individual customers will be a prerequisite for the introduction of IBs. The initial payment is usually allocated as part of the assessment process, before administration begins, and is offset against cheaper care costs.

Best practice advice includes:
- Set up simple standardised contracts and terms for customers
- Standardise the initial payment
- Treat each customer as a “supplier” for payments by standard accounts payable procedures, including payment authorisation and budget tracking.
B.2 DP Support Service (Advisory): target is small additional cost

In this component, the DPSS provides help and support to customers to set up and run DPs and to manage both financial administration and risk reviews. Sub-components of the DPSS (bank account, payroll services, sourcing advice, HR/recruitment, brokerage and training) are covered in more detail in B2.1 to B2.6.

The advisory element represents a small additional management and staff cost, offset by process savings in other areas.

Best practice advice includes:

- Regard DP as the norm
- Apply rigour and energy to making DP work
- Develop procedures and apply them
- Do not double-count cost
- Actively redeploy administrative resource from direct provision as DP volumes increase
- Effective advocacy can be enhanced through user-led organisations

B.2.1 DP Support Service (Bank Account): target is small additional cost

In this component, the DPSS provides help and support to the minority of customers who do not have a discrete bank account and who need to set one up. The DPSS will also manage (or facilitate the management of) third party supported accounts where required. They will also support alternative financial arrangements where policy dictates and where financial benefit can be shown.

This element represents a small additional management cost, but only for the small proportion of customers that do require support, not for all customers.

Best practice advice includes:

- Several Councils outsource this process effectively to third parties

B.2.2 DP Support Service (Payroll Service): target is small additional cost

In this component, the DPSS facilitates the provision of a payroll service for PAs and other service providers who are directly employed by customers. Statistics show that, while many customers do provide accurate and timely information themselves, it is more consistently provided when customers use a payroll service.

This element represents a small additional management cost, particularly if the service is not recharged back to customers. It does, of course, only relate to the small proportion of direct providers (i.e. not self-employed staff, agency staff or support organisations), and does not apply to that proportion of customers who do not require support. It should also be remembered that staff and service providers have to be paid (and so require payroll) whether this is done under DP or direct provision.
Best practice advice includes:
• Actively seek accurate and timely financial information, and encourage the use of a payroll service where there is a risk that this will not be provided
• Manage through a third party supplier
• Consider cross-charging the customer for the additional payroll costs

B.2.3 DP Support Service (Sourcing Advice): target is small additional cost

In this component, the DPSS helps customers to find suitable service providers, including agency suppliers and support organisations. Where the service is provided by a directly-employed PA, or where help with interviewing individuals is required, HR support is available via the DPSS (see B.2.4).

This element represents a small additional management cost for setting up the administrative “helpdesk” function. There will only be a minimal requirement for support for the proportion of customers who identify providers through relatives and friends. It should also be remembered that there is a sourcing requirement under both DP and direct provision.

Best practice advice includes:
• It is not always necessary to set up a new call centre or helpdesk where suitable operations already exist
• There is an option to outsource sourcing advice to a third party
• Councils may wish to continue to negotiate with agencies, support organisations and other providers to achieve economies of scale

B.2.4 DP Support Service (HR/Recruitment): target is small additional cost

In this component, the DPSS will manage the recruitment of a PA (self-employed or agency), including help where appropriate with job description, interviewing, CRB check, contract, liability insurance, holiday cover etc.

This element represents a small additional cost. The process of selecting and contracting with agencies under direct provision is (partially) replaced by supporting customers in appointing PAs. Where PAs leave, the service will need to be repeated. All components are required only when requested by customer who is directly recruiting and employing staff. Some interview help may also be needed when the customer deals with an agency or support organisation.

Best practice advice includes:
• There is an option to outsource HR and recruitment advice to a third party
• Councils may wish to continue to negotiate with agencies, support organisations and other providers to achieve economies of scale

B.2.5 DP Support Service (Brokerage): target is no additional cost
In this component, the DPSS maintains an overview of supplier (agency) costs and capabilities, and acts as a broker to provide this information to customers where appropriate, thus providing additional benefit and managing the cost base.

This element represents no additional management cost. Brokerage services under direct provision already research the market, in order to make best use of Council contracts. The new role is minimal effort, more than offset by the reduced cost of procurement of direct provision.

Best practice advice includes:
- There is an option to outsource this advice and brokerage to a third party
- Councils may wish to continue to negotiate with agencies, support organisations and other providers to achieve economies of scale

**B.2.6 DP Support Service (Training): target is no extra cost after initial investment**

In this component, the DPSS provides training to practitioners, administrators and (where appropriate) customers. This training is critical for a smooth process and “buy in” to DP.

This element represents no additional cost once the initial training cycle is complete, other than for new staff and for “refresher” purposes. Councils have tended to regard the investment in training as a negative impact of a new process, but once DP is incorporated into normal training cycles there should be no significant extra cost.

Best practice advice includes:
- Introduce DP as part of the normal training cycle as soon as possible
- Continue to have ad hoc support available

**B.3 DP Support Service (Payment Management): target is significant cost savings**

In this component, the DPSS will make a monthly BACS payment to the client’s bank account (or alternative) once the DP has been properly set up.

This element represents a significant cost saving by reducing the three-way reconciliation (purchase order, timesheets, provider invoice) and variable provider payments. A simple BACS payment replaces the significant financial processing for direct provision.

Best practice advice includes:
- Treat each client individually as a “supplier” for payments by standard accounts payable procedures, including payment authorisation and budget tracking
- Use existing accounts payable systems

**B.4 DP Support Service (Risk Management): target is no additional cost**
In this component, the DPSS carries out regular financial reviews, over and above (but often linked to) the normal care reviews. As a result of the reviews, there is potential, when and where appropriate, for the claw back of unused funds.

New CIPFA guidelines will recommend a “light touch”:
- The minimum requirement will be for a review three months after the programme starts, together with an annual check of the bank account and supporting paperwork
- Additional quarterly or ad hoc reviews will be carried out as required, based on risk or on request from customer, carer or social worker

A light touch approach will minimise additional cost and, while risk-led or requested financial reviews will be an extra cost, these will be on an exception basis. The introduction of DP does not affect the requirement for care reviews.

Best practice advice includes:
- Balance light touch and appropriate diligence, in line with new CIPFA guidelines
- Only carry out more frequent reviews where justified by the risk reduction or benefits (e.g. claw back)

**B.5 DP Support Service (Service Delivery): potential cost savings**

The study that resulted in this analysis looked at costs/benefits under the control of the Council or the customer. It has not taken into account cost savings based on “care hour” documented in other reports.

While Service Delivery is therefore largely out of scope, it is important to highlight a real saving that falls into this area that is under the control of Councils. Once DP becomes the normal mode of operation, costs associated with commissioning and provider tender management can be reduced as traditional direct provision volumes reduce and resources are redeployed accordingly.