HFMA briefing
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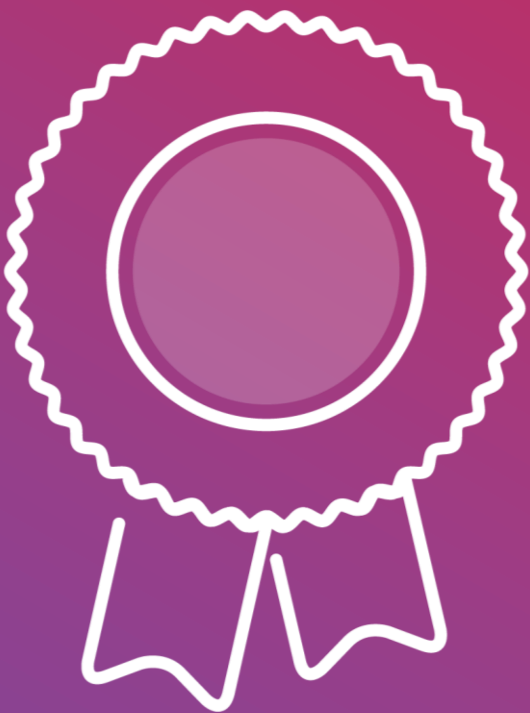
Responding to a financial crisis – case study from the finance team of the year award 2019



Responding to a financial crisis – case study from the finance team of the year award 2019

The HFMA's National Healthcare Finance Awards attract entries from across the NHS, showcasing good practice and demonstrating ways of working that have proved particularly effective. The Finance Team of the Year award seeks excellence across a number of areas and attracts high quality submissions.

In 2019, the shortlisted submission from Barking, Havering and Redbridge University Hospitals NHS Trusts demonstrated how a team can react in a crisis as well as the importance of basic financial governance.

Background

In October 2017, Barking, Havering and Redbridge University Hospitals NHS Trust hit the headlines for all of the wrong reasons – the trust essentially ran out of cash and was forced to apply for emergency loans from the government[1].

Between then and August 2018, when the trust was placed in special measures[2] due to its financial position, there was national regulatory focus on the financial management of the trust. There were high profile changes of staff at board level throughout that period. However, the finance team had to continue to operate throughout the crisis period and beyond.

The impact on the finance team

With very stretched cash balances, the trust was unable to pay its suppliers and was reporting only 8% compliance with the Better Payment Practice Code against the government target of 95% of suppliers being paid within 30 days of receipt of goods or a valid invoice (whichever is later).

The accounts payable team were subject to constant demands for payments by email and phone. Suppliers had started to refuse to deliver goods and services, and many had started legal action

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[1] Deloitte, *Independent review of Board governance arrangements at BHRUH*, August 2018
[2] NHS Improvement, *Barking, Havering and Redbridge University Hospitals NHS Trust - undertakings*, September 2018

against the trust. This coupled with the adverse focus on the trust's finances meant that morale was very low, and the team felt bruised from the publicity and criticism.

The finance team recognised the need to take immediate action to weather the crisis along with longer term changes to ensure that the situation did not occur again.

Engaging with suppliers

As soon as emergency DHSC loans were received the finance team were able to start to pay suppliers. The team recommended that the mission statement 'Our Trust is committed to dealing fairly and professionally with all of our supplier partners' was adopted along with a clear and simple approach to clearing the backlog of creditors. This was to ensure fairness in the payment of suppliers but also to ensure the continuation of the supply chain when cash was still limited.

The new process focused on paying the oldest creditors first and then, if not all payments could be made, they would be made on a clear tiered basis. Finance team members could explain this arrangement to suppliers to start to restore confidence in the trust as a customer. The accounts payable team understood the importance of communicating with suppliers, particularly small and medium sized entities, when they can expect payment and how much.

By the time that the submission was made for the finance team of the year award, the trust had achieved 90% compliance against the Better Payment Practice Code for over a year, relationships with suppliers were good and the finance team morale had improved.

Back to basics in financial reporting

This financial crisis, and others, may have been spotted earlier and possibly avoided, had the financial reports been clear and understandable. Clear and simply financial reports focusing on balance sheet metrics were developed and a training programme for all staff was put in place.

The training programme focused on understanding core financial statements, including the balance sheet. As a result, clinical staff began asking questions about the balance sheet position. The trust management and leadership understood the financial reports they were provided with, including the balance sheet and the new cash dashboard, and they now know what questions to ask.

Understandably, the focus of the new financial reports is cash – lack of cash and lack of clear reporting of cash flows is often the reason for high profile organisational failures such as Carillion and Enron.

Central to the new report is the cash dashboard – it shows the current cash position as well as a series of metrics and early warning signs. Where two red flags are reported this means that the metric has been going in the wrong direction for two months in a row and urgent management action is needed. To prepare the new reports, cashflow forecasting is now undertaken on a weekly basis.

Cash Dashboard

For the period to 29 February 2020

Summary of Cash status

	Number	out of	No. of double red flags
Number of red flags	3	8	0
Percentage of red flags	38%		
Overall Direction of travel	POSITIVE		

3 out of the 8 metrics have indicated red flag status, with no double red flag. The cash is £6.4m against aged creditors of over 60 days of £3.6m. The overall direction of travel is POSITIVE. The Trust needs to closely monitor the quick ratio, the BPPC, and the ratio of cash to 60 day creditors, as the current run rate of cash payments indicates a cash pressure of £9.0m by the end of the year. However the Trust's CCGs have agreed to support the Trust with £10.0m, ensuring the regularity of supplier payments and continuing maintenance of supplier key metrics.

Quick Ratio

	Performance	Target	Direction	RATING
December	0.26	1.00		
January	0.25	1.00		
February	0.24	1.00		

This ratio highlights the ability of the Trust to convert its short term assets to fully pay for short term creditors. The Quick Ratio is recorded at 0.24, representing a marginal change from previous month. The Ratio highlights a significant risk in the short/ medium term to the cash balance.

Suppliers on hold & legal action

	Performance	Target	Direction	RATING
December	0.0	0.0		
January	0.0	0.0		
February	0.0	0.0		

With the continuing receipt of working capital loan support, all supplier invoices are being settled as and when they fall due and therefore no suppliers are putting Trust on 'Hold' or taking legal action for lack of cash available to pay them.

Better Payment Practice Code (BPPC) by Volume (%)

	Performance	Target	Direction	Flag
December	92.7%	95.0%		
January	89.9%	95.0%		
February	91.3%	95.0%		

The current month performance stands at 91.3%, representing a percentage increase of 1.4% as suppliers continue to be paid on time where invoices are approved. The objective for this year is to keep this critical ratio at over 90% whilst seeking to consistently achieve the government target of 95%. The current run rate of cash payments now indicates a cash pressure of £9.9m by the end of the year which would impact the regularity of supplier payments unless action is taken to reduce the expenditure rate and achieve the FRP/QCIP plans. However the Trust's CCGs have agreed to support the Trust with £10.0m in meeting this cash deficit.

All Aged Creditors 90+ Days (£m)

	Performance	Target	Direction	RATING
December	4.4	10.0		
January	4.9	10.0		
February	3.2	10.0		

Following significant progress made with clearing all the backlog of NHS Propco invoices which have now been paid in full, further progress has been made in clearing Catalyst and CHP invoices which had been in indispute and for which the Estates team have worked with the suppliers to resolve, resulting in payment. Finance will continue to work with Procurement, Estates, and other divisions, compiling data of non compliance in approvals and reporting to OMG, where necessary.

Ratio of cash to 60+ creditors

	Performance	Target	Direction	RATING
December	0.31	1.00		
January	0.29	1.00		
February	1.75	1.00		

This ratio has seen a significant improvement in-month as a result of the improved cash balance compared to previous month. The Trust achieved a cash balance of £6.4m in February, above the minimum cash balance by £5.4m. The Trust drew down loans of £0.8m in February. The current run rate of cash payments now indicates a cash pressure of £9.9m by the end of the year which would impact the regularity of supplier payments unless action is taken to reduce the expenditure rate and achieve the FRP/QCIP plans. However the Trust's CCGs have agreed to support the Trust with £10.0m in meeting this cash deficit.

All Aged Creditors 60-90 Days (£m)

	Performance	Target	Direction	RATING
December	1.2	15.0		
January	0.5	15.0		
February	0.4	15.0		

Following significant progress made with clearing all the backlog of NHS Propco invoices which have now been paid in full, further progress has been made in clearing Catalyst and CHP invoices which had been in indispute and for which the Estates team have worked with the suppliers to resolve, resulting in payment. Finance will continue to work with Procurement, Estates, and other divisions, compiling data of non compliance in approvals and reporting to OMG, where necessary.

Cash Position

	Performance	Target	Direction	RATING
December	1.7	1.0		
January	1.6	1.0		
February	6.4	1.0		

The Trust achieved a cash balance of £6.4m in February, above the minimum cash balance by £5.4m, and in line with plan. The Trust drew down a loan of £0.8m in February, ytd £52.8m. The current run rate of cash payments now indicates a cash pressure of £9.9m by the end of the year which would impact the regularity of supplier payments unless action is taken to reduce the expenditure rate and achieve the FRP/QCIP plans. However the Trust's CCGs have agreed to support the Trust with £10.0m in meeting this cash deficit.

Supplier approval days

	Performance	Target	Direction	RATING
December	32.3	7.0		
January	20.6	7.0		
February	13.1	7.0		

The Trust is taking an average of 13.1 days to approve invoices. This represents a significant improvement from previous months. Previous month's deterioration had mainly been due to the final approval for some maternity pathway invoives which had been held for payment for a considerable period of time, having been put into dispute by the Trust. The plan continues to be to have divisional engagement and in OMG and other forums to drive improvements.

Key:

Green arrow	Represents an overall positive movement
Green Flag	Represents we are meeting our target

Key:

Red arrow	Represents an overall negative movement
Red Flag	Represents we are missing our target. Warning.
Double Red Flag	Represents two consecutive months of deterioration Urgent management action required

The financial reports are prepared by the financial controller and director of financial operations and are an opportunity for them to report directly to the board, independently of the director of finance. This shows that the director of finance has confidence in their team but also increases the board's confidence in the state of the trust's finances.

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