

## Cover report to the Trust Board meeting to be held on 4 June 2020

Trust Board paper E3

<b>Report Title:</b>	<b>Finance and Investment Committee assurance conference call – Committee Chair’s Report</b> <i>This was not a formally-constituted virtual Board Committee meeting, and was confined to any time-critical items/governance must-dos only. Its purpose was to provide information on, and assurance of, progress.</i>
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<b>Reporting Committee:</b>	<b>Finance and Investment Committee (assurance conference call)</b>
<b>Chaired by:</b>	Andrew Johnson, Non-Executive Director
<b>Lead Executive Director(s):</b>	Simon Lazarus, Interim Chief Financial Officer
<b>Date of FIC conference call:</b>	28 May 2020

**Summary of key public matters considered by the Committee:**

This report provides a summary of the key public issues considered during the Finance and Investment Committee assurance conference call on 28 May 2020 (*involving Mr A Johnson FIC Non-Executive Director Chair, Ms K Jenkins Non-Executive Director, Mr M Traynor Non-Executive Director, Mr S Lazarus Interim Chief Financial Officer, and Mr J Shuter Deputy Chief Financial Officer*):

- **Summary of the FIC assurance conference call held on 30 April 2020** – this was noted, having been submitted to the Trust Board on 7 May 2020.
- **Matters arising log** – the FIC Non-Executive Director Chair advised that he would be reviewing the more historic actions on the log, with a view to updating/removing them as appropriate.
- **2020/21 month 1 finance report** – the Interim Chief Financial Officer briefed FIC on the Trust’s financial position for month 1 of 2020/21, noting the national “top-up” funding arrangements in place from NHSE/I to support Trusts through the Covid-19 pandemic. This consisted of an upfront top-up payment (being an estimate of the additional funding required by an individual NHS Trust to meet its breakeven duty from April 2020-July 2020 and based on each Trust’s underlying costs in 2019/20); retrospective top-up funding was also available to address any further identified funding shortfall, including loss of other (non-patient related) income. Retrospective top-ups would be paid in mid-June 2020 but Trusts could accrue for this income in their reported position to break even. The Trust’s actual position for month 1 of 2020/21 – including £10.3m top-up funding and £2.3m accrual for retrospective top-up – was breakeven. Underlying performance was £12.5m deficit which was £2.5m adverse to that forecasted. This position also reflected reduced patient care income of £3.6m in month 1. Non-pay expenditure was lower than planned due to reduced elective activity levels, and the Deputy Chief Financial Officer noted an increased level of rigour and grip on pay expenditure. Interim forecasts had currently been set for months 1-4 of 2020/21, in order to establish control totals based on existing income and expenditure levels. A more comprehensive budget-setting process was anticipated for months 5-12 when more certainty was expected to be available re: the overall impact of Covid-19. Cost improvement plans were being finalised, for potential implementation from July 2020 onwards.

As requested at the April 2020 FIC assurance conference call, the Interim Chief Financial Officer briefed members on UHL’s year to date performance re: payments, which had improved significantly. In terms of non-NHS suppliers (% invoices paid within target), UHL had achieved 95% compliance with the Better Payments Practice Code by value, and 91.7% by number. The Trust was keen to move to payments within 7 days, and had reiterated the need for appropriately timely invoice authorisation processes to budget-holders. Mr M Traynor Non-Executive Director pressed the finance team on the actions needed to deliver 7-day payments – in response, the Interim Chief Financial Officer recognised this to be a challenging issue given the current Covid-19 pressures. Although 100% delivery could not be guaranteed, the Interim Chief Financial Officer was confident of delivering an improving trend. The Deputy Chief Financial Officer noted the Trust’s wish to focus on local suppliers as a priority – this was supported by Mr M Traynor Non-Executive Director who requested that small companies also be prioritised. The Deputy Chief Financial Officer further highlighted the need to understand the true underlying in-month performance (when any payment backlog had been cleared), and he noted a process review underway re: the number of invoices requiring manual authorisation, given UHL’s wish to maximise its use of the automated authorisation process. In response to a query from Ms K Jenkins Non-Executive Director (and Audit Committee Chair), the Interim Chief Financial Officer agreed to consider whether, in this case, any additional fraud detection measures were needed beyond those already in place; the Deputy Chief Financial Officer advised that UHL’s Internal Auditor (PwC) was including a control check in its planned audit of financial systems. Although welcoming

this, Ms K Jenkins Non-Executive Director emphasised the need for timely assurance on the issue of whether the manual and automated authorisation processes were robust.

In discussion on the 2020/21 month 1 financial position, the FIC Non-Executive Director Chair queried the pay position comparative to April 2019 – although that detail would need to be confirmed outside the meeting the Deputy Chief Financial Officer provided assurance that 20/21 pay expenditure was in line with Covid-19 plans for month 1. In response to a query from Ms K Jenkins Non-Executive Director, the Interim Chief Financial Officer confirmed that the month 1 position generally was in line with or slightly above expectations. Ms Jenkins also commented on the need for appropriate triangulation of staffing/other non-financial information to inform the financial numbers and highlight any variance from the expected position. The Interim Chief Financial Officer advised that the detailed pay/WTE information usually contained in the monthly finance reports had not been able to be incorporated for month 1 but would be included going forward.

Ms K Jenkins Non-Executive Director also requested that additional detail be included in the monthly financial report to the June 2020 Trust Board (and going forward monthly at FIC), clarifying how much of the month 1 deficit was covid-19 related (the broad outline of £4.9m now provided by the Deputy Chief Financial Officer). Given the underlying deficit reported for month 1 and the need to address this going forward, the FIC Non-Executive Director Chair emphasised the need for appropriately clear communication of the financial position to staff. The Interim Chief Financial Officer clarified that UHL's income for 2020/21 was on a fixed block contract basis rather than a Payment by Results basis – given that post-Covid-19 activity levels were not guaranteed to return to previous levels he therefore emphasised the need for whatever activity was done to be on as efficient and productive a basis as possible. He considered that regulators recognised that the Trust was likely to run at a deficit of £10m per month. Improvements were likely to be expected in the 2<sup>nd</sup> half of 20/21. Ms K Jenkins Non-Executive Director requested that a small number of KPIs be identified (for monthly monitoring by FIC), noting her wish that these be used to drive performance as appropriate. This request was supported by the FIC Non-Executive Director Chair. Although noting the need to avoid duplicating the performance monitoring work of the People, Process and Performance Committee, the Interim Chief Financial Officer agreed to identify activity-related financial KPIs as requested, appropriately reflecting the UHL Covid-19 restoration and recovery plan. In response to a query from Mr M Traynor Non-Executive Director, the Interim Chief Financial Officer advised that – in the short-term – the loss of ancillary non-patient-related income (eg catering and carparking income) was able to be included in Covid-19 funding returns. The Interim Chief Financial Officer also commented on the need to adapt to new circumstances going forward, including the on-site footfall impact of (for example) holding more virtual outpatient clinics.

With regard to the liquidity position, Ms K Jenkins Non-Executive Director queried whether the Interim Chief Financial Officer was comfortable with the level of accounts aged over 90 days receivable and payable (at circa £4.9m and £7.2m respectively). A query was raised on whether the Trust was sufficiently funded to carry the extra expenditure required by Covid-19 and to reduce payment days. In response, the Interim Chief Financial Officer provided assurance that sufficient funding was available in the form of loans – a thorough review of the numbers had been undertaken, with adjustments made where required. The Deputy Chief Financial Officer further confirmed that (in addition to the continuous rolling basis already in place) the accounts payable position would also be reviewed as part of the year-end annual accounts process. Although noting comments from the Interim Chief Financial Officer that the report was more streamlined than usual this month, Ms K Jenkins Non-Executive Director considered that, given the agreed intention above to review KPIs at FIC, the risks would be better managed. Ms K Jenkins Non-Executive Director also requested that the Trust's policy on provision for accounts payable and receivable be clarified at the June 2020 FIC assurance conference call. The FIC Non-Executive Director Chair further requested that all policies and controls be available at the June 2020 FIC call and that these be incorporated into a schedule for future reference and review.

***The 2020/21 month 1 financial position is highlighted to the Trust Board for information.***

- **Financial impact of Covid-19 on quarter 1 of 2020/21** (*verbal report*) – this issue had been broadly covered during the month 1 update above. The Interim Chief Financial Officer reiterated his view that Covid-19 expenditure would reduce over coming months, and his expectation that Trusts would continue to be reimbursed centrally for such expenditure (although guidance had been tightened recently). Elective activity income was expected to increase (gradually) over the coming months, and the Deputy Chief Financial Officer noted the need to remain clearly sighted to restoration and recovery costs. Overall, the Interim Chief Financial Officer considered that quarter 1 of 2020/21 was relatively low risk financially. However, he reiterated the need for the Trust's cost improvement programme to take effect from 1 July 2020, noting the £22m in-year CIP delivery assumption in UHL's 2020/21 financial plan – the FIC Non-Executive Director Chair voiced concerns over quarter 2 of 2020/21 and emphasised the crucial need to be preparing the CIP schemes now, in readiness for the currently-planned start date of 1 July 2020. The FIC Non-Executive Director Chair queried whether CMG-level activity KPIs were in place, which he considered would drive accountability. In response, the Interim Chief Financial Officer gave assurance that an appropriate level of granularity was provided on this issue at the Performance Review Meetings held by Executive Directors with the individual CMGs. The FIC Non-Executive Director Chair considered that it

would be helpful to review June 2019 activity levels, to provide a comparison to the 'norm' for that period. The Interim Chief Financial Officer noted this point, and agreed the need to be able to disaggregate the impact of Covid-19-related issues (eg additional infection prevention requirements going forward) in order to be able to understand the true current productivity and efficiency position. This was supported by Ms K Jenkins Non-Executive Director, who also requested further information and clarity on PLICS and the profit and loss position for each specialty. The Interim Chief Financial Officer confirmed that detailed Service Line Reporting and PLICS information was held by UHL but that it was not a real-time reporting tool – although noting that point, Ms K Jenkins Non-Executive Director considered that it would still be useful baseline information (eg to understand the cost-base and obtain a granular understanding of the activity-cost relationship. PLICS would also inform strategic discussions on services), and she requested FIC sight of it accordingly. The Interim Chief Financial Officer emphasised the need to move away from income generation as a means of delivering the financial position, with a need – particularly at the locally-commissioned level – to focus instead on driving down the cost of the work delivered. In further discussion on the financial impact of Covid-19 on quarter 1 of 2020/21, the FIC Non-Executive Director Chair advised of the need to understand the balance between the impact of actions on recovery, and their cost, and to understand the implications of the 'new normal' model and ensure that it was as efficient as possible.

- **Update on financial governance action plan** – the FIC Non-Executive Director Chair and Non-Executive Director members present were content with the action plan, subject to the addition of (1) actions to improve forecasting rigour and (2) process checks to ensure that any proposed changes to financial controls and policies were appropriately reviewed, scrutinised and authorised – including at Audit Committee. In her capacity as Audit Committee Non-Executive Director Chair, Ms K Jenkins Non-Executive Director confirmed that all changes to financial and accounting policies should be reviewed by the Audit Committee. Noting the FIC Non-Executive Director Chair's comments on the need to understand how the current financial position had been arrived at, it was agreed to revisit the action plan in June 2020 and incorporate any recommendations from the external financial review. In discussion, the Interim Chief Financial Officer suggested that it would be useful for FIC to receive a formal report from each FRB meeting (actions already on the agenda, as per the item below), and noted that he would consider this further outside the meeting. Discussion then took place on the merits of CMG management teams attending FIC to present their CMG financial position (which was supported in principle by those on the call) – Mr M Traynor Non-Executive Director (and former FIC Non-Executive Director Chair) reminded members that this had been the practice previously, and if reintroduced he emphasised the need for FIC to use those sessions to actively explore the issues in detail, rather than merely receive information from the CMGs. It was agreed to consider this after the Covid-19 recovery phase.
- **Financial Recovery Board (FRB)** – FIC received and noted the actions from the first meeting of the reconstituted Financial Recovery Board (19.5.20), which was now operating on a more formalised basis. In response to a query from the FIC Non-Executive Director Chair on whether that group would discuss CIP progress, the Interim Chief Financial Officer provided assurance that progress on financial recovery (which would include CIP delivery) would be a key report to every FRB meeting going forward. The FIC Non-Executive Director Chair also voiced his view that the FRB should be focusing on revenue rather than capital – this was acknowledged by the Interim Chief Financial Officer, who advised that it had been necessary for the first FRB meeting to discuss capital issues due to a 29.5.20 national submission deadline.
- **Items for noting** – the following reports were received for information:-
  - Executive Performance Board action notes 28 April 2020.

**Public matters requiring Trust Board consideration and/or approval:**

***Recommendations for approval***

None

***Items highlighted to the Trust Board for information***

2020/21 month 1 financial position

**Matters referred to other Committees:**

None

**Date of next FIC assurance conference call:**

25 June 2020