

Working Capital Management Policy

Reference No:	P_F_03
Version	2
Ratified by:	LCHS Trust Board
Date ratified:	11 May 2021
Name of author:	Operational Finance Manager
Name of responsible committee:	Finance, Performance & Investment Committee
Date approved by responsible committee:	22 April 2021
Date issued:	May 2021
Review date:	May 2023
Target audience:	Finance Staff, Budget Managers
Distributed via	LCHS website

Working Capital Management Policy
Version Control Sheet

Version	Section / Para / Appendix	Version / Description of Amendments	Date	Author / Amended by
1	Full document	New document	June 2018	Operational Finance
2	Full document	Review and updates	Mar 2021	Deputy Director of Finance & Business Intelligence
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(Working Capital Policy)

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LCHS Working Capital Management Policy

Background

NHS organisations are expected to operate in a climate of strong corporate governance and to ensure that public monies are used efficiently and effectively. Robust Working Capital management is a key component for Lincolnshire Community Health Services NHS Trust to ensure services can run smoothly and deliver high quality care to the local communities they serve.

Working Capital management relies on two key elements: An effective credit control and purchase ledger process and effective collection of invoiced debt.

- An effective purchase ledger policy will ensure that invoices are validated and are paid promptly.
- Cash collection has a direct impact on the ability of the organisation to meet its financial liabilities and an effective credit control policy will minimise the value of aged debt and ease recoverability.

Statement

The Trust must comply with its statutory, regulatory and performance management obligations.

From a finance and working capital management perspective, the Trust needs to ensure that it has in place effective working capital management practices, embedded in order to meet its duty to safeguard and properly account for its use of public money. In this way the Trust must promote fiscal responsibility and prudent management that does not compromise effective, efficient and economic delivery of services. In order to do this, it is essential that credit controls are applied to ensure the Trust's working capital management activities are undertaken in a controlled and properly reported manner.

Objectives

- The Trust recognises the important role it plays within the local economy and is committed to paying its suppliers on time
- To provide accurate cash forecasts
- To ensure the availability of adequate levels of funding at all times
- To identify and manage the financial risks associated with holding insufficient, or excessive cash balances, and with insufficient or excessive projected cash balances
- To ensure all cash transactions are adequately documented and authorised

Responsibilities

This policy sets out the key responsibilities for several key groups and roles within Lincolnshire Community Health Services NHS Trust. Key amongst these is as follows:

- Trust Board
- Director of Finance and Business Intelligence
- Trust Finance Function (incorporating accounts receivable function)
- Trust Budget Holders
- Accounts Payable and Cash Management Services (provided under Service Level Agreement by United Lincolnshire Hospitals NHS Trust)

Training

Training on the content areas of this policy will be primarily focused on those closely associated with its operation, i.e. the Trust finance function. Key individuals, within the Finance and Business Intelligence directorate, will also need to maintain broader appreciation of wider regulatory and economic factors which may directly or indirectly influence working capital management activities.

Dissemination

This document will be used by the finance department, particularly the financial operations team. It will also be used by the Finance, Performance and Investment Committee or any successor body in order that the committee's members may satisfy themselves that an appropriate working capital management system is in place and how these systems operate in practical terms.

Resource implication

Working capital management functions are part of the day-to-day processes of NHS organisations and as such, no additional resource implications are envisaged from the implementation or operation of this policy.

Equality Statement

As part of our on-going commitment to promoting equality, valuing diversity and protecting human rights, Lincolnshire Community Health Services NHS Trust is committed to eliminating discrimination against any individual (individual means employees, patients, services users and carers) on the grounds of gender, gender reassignment, disability, age, race, ethnicity, sexual orientation, socio-economic status, language, religion or beliefs, marriage or civil partnerships, pregnancy and maternity, appearance, nationality or culture.

1. Definitions

Receivables - Accounts receivable are the amounts the Trust has a right to collect because it has provided services (or goods) on credit to a customer. Accounts receivable are classified as current assets.

Payables - Accounts payable are amounts the Trust owes because it has purchased goods or services on credit from a supplier or vendor. Accounts payable are classified as current liabilities.

Purchase Ledger Management - A system in accountancy by which an organisation records and monitors its payables. The purchase ledger contains the individual accounts of suppliers from whom the organisation has made purchases on credit. Information on invoices and credit notes received, and payments made, are recorded in the supplier's account using the debits and credits system, with the balance of each account at a given moment representing the amount currently owed to that supplier.

Credit Control - The system used by an organisation to make certain that it gives credit only to customers who can pay, and that customers pay on time. Credit control is part of the financial controls that are employed by organisations to ensure that once sales are made, they may be realised as cash or liquid resources.

Key Performance Indicators (KPIs) - Have become the standard term for different sets of metrics that organisations use to define and measure progress towards organisational goals and objectives.

VAT (value-added tax) - Tax on spending on goods and services. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service.

Shared Services – LCHS has shared service arrangements with United Lincolnshire Hospitals NHS Trust for the provision of Purchase Ledger, Treasury Management and Finance Systems support.

NHS Resolution (previously called the NHS Litigation Authority) – NHS Resolution was established in 1995 as a Special Health Authority that provides indemnity cover for legal claims against the NHS, shares lessons from claims and provides other legal and professional services.

Policy - Sets out the aims and principles under which services, groups, or units will operate. A policy outlines roles and responsibilities, defines the scope of the subject covered, and provides a high level description of the controls that must be in place to ensure compliance.

2. Roles and Responsibilities

- **Board of Directors**
 - Delegates to the Director of Finance & Business Intelligence the approval of LCHS detailed working capital management processes and controls.
 - Ratifies the Working Capital Management Policy
- **The Audit Committee**
 - Receives and reviews the reports of work undertaken by internal and external auditors in respect of working capital management. The Trust's Working Capital management activities will be subject to periodic review by Internal or External auditors as part of their audit undertakings and any significant deviations from agreed policies and procedures will be reported where appropriate to the Trust Board via the Audit Committee.
- **Finance, Performance and Investment Committee**
 - Approves the working capital management strategy and policies
 - Reviews and monitors working capital policy and performance against relevant benchmarks
 - Monitors compliance with working capital policies and procedures
- **Director of Finance & Business Intelligence**
 - Holds overall responsibility for the proper operation of accounting systems including working capital management
 - Reviews Working Capital reports and prepares Working Capital information for the Board of Directors
- **Head of Financial Accounts**
 - Ensures that processes and procedures are in place for the day to day running of the Working Capital function and that these are followed, and has delegated responsibility to authorise sales and purchase transactions in line with Standing Financial Orders
 - Reviews working capital reports and prepares working capital information for the Board of Directors
- **Operational Finance Manager**
 - Holds overall responsibility for the proper operation of accounting systems including working capital management
 - Manages the Working Capital management function, ensuring that all procedures are followed, all transactions are recorded and relevant working capital reports prepared
 - Delegated responsibility to authorise individual transactions in line with delegated Standing Financial Instructions (SFI)
 - Responsible for ensuring the policy is disseminated and communicated to all relevant

- parties
- Defines the working capital approach to FPIC for approval
- Ensures working capital activities are reported regularly and accurately
- Manages working capital activities within the agreed policies and procedures
- Manages key stakeholder relationships
- **Financial Accountant**
 - Maintains oversight and control of financial accounting activities in relation to working capital management
 - Supports the finance department in its key role of financial reporting (internally and externally) on a monthly and annual basis
 - Defines the Trust's detailed working capital management approach (operating procedures)
 - Reports and monitors working capital activities on a timely and accurate basis
 - Manages the day to day working capital activities
- **Working Capital Function**
 - This is a function, carried out by a team drawn from the Finance Department. Separation of duties is maintained throughout to ensure key financial controls and oversight
 - The Finance team is responsible for:
 - Defining the Trust's detailed working capital management approach (operating procedures)
 - Day to day management of Sales and Purchase Ledger
 - Reporting working capital activities on a timely and accurate basis
 - Managing key relationships with budget holders, procurement and ULHT shared service

3. Receivables Management

3.1 Invoicing

3.1.1 New Customers

Requests for new customers should be accompanied by relevant address, telephone number, contact name and email details. Contract customers may be invited to set up a bank mandate for ease and reliability of cash collection on the 15th of the month to assist with credit control allocation. New customer accounts are created in the sales ledger using a unique identifier.

3.1.2 Raising of Invoices

Invoice request vouchers (IRVs) are available on the LCHS intranet within the finance area. See Appendix 1 for an example. Invoice requisitions should be raised promptly and once a service has been provided, or in accordance with contract terms. Supporting documentation for the invoiced amount should be provided. Invoice request vouchers are automatically rejected if a customer's details are not complete. Cost centre details must be completed in order to receive income; if these are not known advice may be sought from the appropriate Management Accountant or member of the finance team. Multiple cost centres and values may be included as necessary.

Completed Invoice Request Vouchers are emailed to the Finance Income team who will then raise the invoices onto the sales ledger, and issue them to the customer. Invoices are dated with the invoice date and include all payment details.

Requests will be actioned within five working days of receipt. Once the invoice has been raised the budget statement will be credited and the outstanding amount will be held on the debtor's control account until payment is received.

3.1.3 Contract Invoices

Invoices should be raised by the 5th working day of the period that they relate to. Where contracts have specific payment terms then these should be incorporated on to the invoice and in no circumstances should exceed the standard payment terms of LCHS which is 30 days.

3.1.4 Non-Contracted Activity (NCA) Invoices

Information with regards to NCA for the previous month is received as soon as possible and should be raised within 5 days.

3.1.5 VAT

VAT should generally not be charged on NHS invoices. All non-NHS invoices should generally include VAT at the current rate. This output VAT element is coded to a specific nominal ledger code to ensure that it is offset against the VAT recoverable amount due on purchase invoices as part of the monthly VAT return submission to HMRC. If a non-NHS customer can provide evidence that the specific item being charged should be charged at a rate of 0% VAT, then the relevant invoice should be raised with VAT charged at that rate.

3.1.6 Accrued Income

Income should not be accrued unless there is a specific reason. This should be agreed by the Finance team. All accrued income should be invoiced as soon as possible. The level of accrued income will be reviewed each month and challenged by the Financial Accountant and Operational Finance Manager as part of the regular monthly financial review.

3.1.7 Credit Notes

Where an invoice is to be cancelled, the person requesting the original invoice will complete a Credit Note request. All Credit Note Request Vouchers should be approved by the following:

Designation	Authorising Limit
Operations Finance Manager	up to £200,000
Head of Financial Accounts	up to £500,000
Director of Finance and Business Intelligence	above £500,000

The volume and value of Credit Notes requested will be monitored by the Operational Finance Manager and will be reported on as required.

These approvals are arranged by the Income Team and requests will be actioned within five working days of receipt. Once the credit note has been raised the budget statement will be debited and the balance's outstanding amount will be matched to the original invoice relating to this credit note. Occasionally where no outstanding debtor invoices exist, a refund may be necessary and this will be arranged by the Finance team.

3.2 Credit Control

Standard payment terms are 30 days.

Invoices are expected to be paid within 30 days of invoice date.

Statements of NHS outstanding invoices are automatically generated from the Sales Ledger and emailed to customers on a monthly basis.

If invoices are not paid within 30 days, the Finance Team will contact the customer and log the reasons for non-payment and continue to contact the customer on a regular basis until the debt is cleared. Reminder letters are issued to all non-nhs customers once invoices have past their due date; with two letters being issued at fortnightly intervals. The usual credit control processes will commence after this period.

If at any stage the customer disputes the invoice or raises queries, the Finance Team will pass the dispute across to the person who requisitioned the invoice. Queries should be resolved and cleared at the earliest opportunity so that Finance Team can pursue the debt collection; in cases where this time is exceeded, the Finance Team will continue to chase both parties to resolve all outstanding issues. Monthly receivables ageing reports and KPIs will be reviewed by the Operational Finance Manager and reported to the FPIC Committee to ensure that the Committee is fully sighted and aware of any risks associated.

The core steps are illustrated in the relevant appendices as follows:

- Post 30day process - please see Appendix 2
- Disputed invoices – please see Appendix 3
- Aged receivables monitoring – please see Appendix 4

3.2.1 Credit Control Reporting

As part of monthly reporting, the Financial Accountant will provide an update on the age of debt amongst other key issues relating to cash. This information will be used to inform the FPIC committee through the Finance performance paper and to agree action points.

A monthly working capital report will be prepared by the Financial Accountant showing the level of aged receivables and payables. The report will be prepared after Sales and Purchase Ledgers are closed. Monthly KPI reporting of aged debt and profiling will be provided to the Finance, Performance and Investment Committee.

3.2.2 Bad Debt Management

Bad Debts will only be written off where the Credit Control process has run its course and in the opinion of the Head of Financial Accounts, in conjunction with the Financial Accountant, the debt is unlikely to be paid.

A summary of the proposed debts to be written off will be prepared setting out all credit control processes carried out, correspondence with the customers, reasons for non-payment and steps taken to resolve the issues. This will be presented to the Director of Finance & Business Intelligence for approval.

All proposed write offs will require authorisation in line with the current standing financial instructions.

See Appendix 5 for a summary of the bad debt management process.

3.2.3 Bad Debt Provision

The bad debt provision is reviewed monthly based on the receivables ageing profile, and the relevant charge/release will be included as part of the monthly financial reporting using the adopted criteria for receivables past their due date. A non-specific provision for bad debts is made on a monthly basis. Specific provisions are made when it is estimated that the general provision is insufficient to reflect the potential risk.

3.2.4 Payment by Instalments

It is at the Trust's discretion to agree any repayment terms with the customers where outstanding balance could not be recovered in fully by due date. The Financial Accountant will undertake an assessment of the issues presented and set up repayment terms once agreed with the Operational Finance Manager where outstanding balance are in excess of £2500.00.

See Appendix 6

4. Payables Management

4.1 Purchase Ledger Management

4.1.1 Payment Terms

The Trust recognises the important role it plays within the local economy and is committed to paying its suppliers on time. To this end the Trust will aim to pay suppliers within 30 days of invoice date in line with the Prompt Payment Code.

4.1.2 Expenditure Accruals

Where an invoice has not been received for expenditure that relates to that period, the Financial Management team will create an expenditure accrual. Expenditure accruals will be monitored at a divisional level on a monthly basis and discussed with senior finance colleagues as part of the regular financial review process (at least monthly).

4.1.3 Invoices

All expenditure is to be supported and approved by raising a purchase order, where expenditure has been committed without a purchase order and an invoice received, it will be the responsibility of the manager to raise a retrospective order to facilitate a payment as appropriate.

All invoices and requests for payment should be sent directly to the Trust's Accounts Payable Team. This will allow the department to monitor the level of all expenditure invoices and help to ensure prompt payment. On receipt of an invoice the Accounts Payable team will register the invoice within two working days. Once an invoice has been registered it will fall under one of two categories: Invoices with a Purchase Order or Invoices without a Purchase Order. Please refer to Appendix 7 for a flowchart of the process for each.

For invoices with a purchase order the payment will be processed if all details are matched. If the invoice does not agree to the purchase order, or there is no purchase order required, the invoice will be issued to the relevant manager for authorisation. The invoice will not be paid until it is authorised. A report detailing all outstanding invoice authorisation requests is issued monthly by the Financial Accountant to the Management Accounts team to review and follow up. In the case of authorising managers having left the Trust the invoice will be re-issued to a replacement authoriser and chased within 2 days.

4.1.4 VAT

VAT may be charged on non-NHS invoices unless proof of exemption has been provided. The VAT element is coded to a specific nominal ledger code to ensure that it is fully recovered through the monthly completion of VAT returns.

4.1.5 Payment runs

Payables will be paid on a weekly basis when payment runs are processed. Payment runs are produced by the Purchase Ledger Team and then passed to the Financial Accountant to review and authorise if there are sufficient funds in the Trust's bank account to cover all payments.

4.1.6 Reporting

The level of Payables will be monitored on a monthly basis by the Head of Financial Accounts and reported on as required. Performance will be reported against prior month and against plan and commentary for any significant variances provided. Monthly reporting will incorporate Trade Payables analysis by age. KPIs including creditor days, invoices processed, invoices accrued and cash paid will also be provided.

4.1.7 Goods Received Notes (GRNs) Review

A review of current GRNs will take place at the end of the month and be conducted by the Financial Systems and Controls Accountant to ensure goods receipt notes are actioned fully on time. Following the review any GRNs for which relates to goods not received will be closed in consultation with the Head of Financial Accounts.

5. Provisions

A provision is a potential liability that the Trust considers likely to be incurred. A provision will only be included where appropriate backing information has been provided to the Finance Department. The following section gives an example of a type of provision that the Trust may wish to include and the methodology required for its inclusion.

5.1 NHS Resolution Claims Provision

A provision for an NHS Resolution (NHSR) Claims is included where a claim has been lodged with the NHSR and the Trust's Corporate Assurance manager informed. The amount of provision to be included is determined by the NHSR's estimation of the Trust's Liability and is assessed on a case by case basis, dependent on the nature of the claim.

NHSR will base the level of provision to be included on the following criteria:-

- The extent of the injury or loss.
- Experience of the Claim Handler at the NHSR when dealing with previous claims that are similar
- Any potential out of pocket expenses
- Claimant's legal costs and NHSR handling fee
- Previous Case Law
- Consideration if claimant was admitted to Hospital

6 Purchase Cards

Lincolnshire Community Health Services NHS Trust has identified that an alternative method of procurement is by use of Purchase Cards. The basic objectives of using the Purchase Card are to reduce the risk to staff by reducing the amount of cash carried at any one time and also to reduce paperwork and administration time involved in the ordering and invoice processes for low value, high volume goods and services. The Purchase Cards can be used to purchase from any "VISA" supplier, providing conditions explained in the application for a purchase card, have been met.

7 Monthly Performance Reporting

Total debt and ageing will be monitored on a monthly basis by the Head of Financial Accounts, and reported to the Director of Finance & Business Intelligence and the Board of Directors as part of the monthly finance report.

The Director of Finance will report on the debt position as part of the Finance review to the relevant Committees. The receivables ageing profile and debt profile will be reported against the prior month. Commentary will be provided to explain any significant variances. Key Performance Indicators including debtor days, invoices raised, cash collected and credit notes issued will also be provided.

Post 30 Days Invoice

Once an invoice is 30 days past its due date, a reminder letter is to be sent out to the customer, followed up with a telephone call to confirm receipt.
If the invoice exceeds £50k the customer will be telephoned regularly, until the debt is cleared



If no response is received within 14 days, a second reminder letter is to be sent out. Telephone calls to the customer will continue through this period

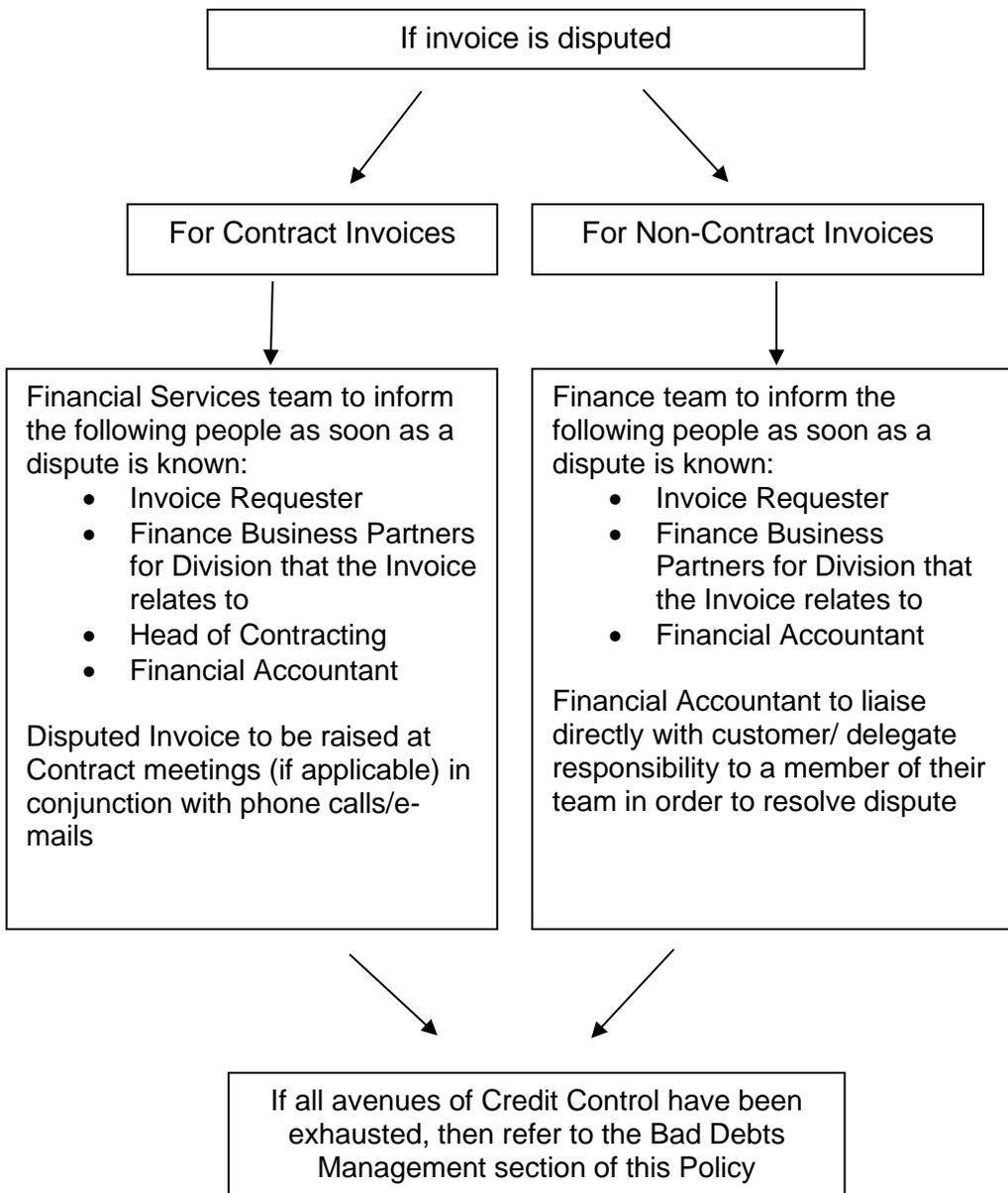


If no response is received within a further 14 calendar days, a third reminder letter is to be sent out. Telephone calls to the customer will continue through this period

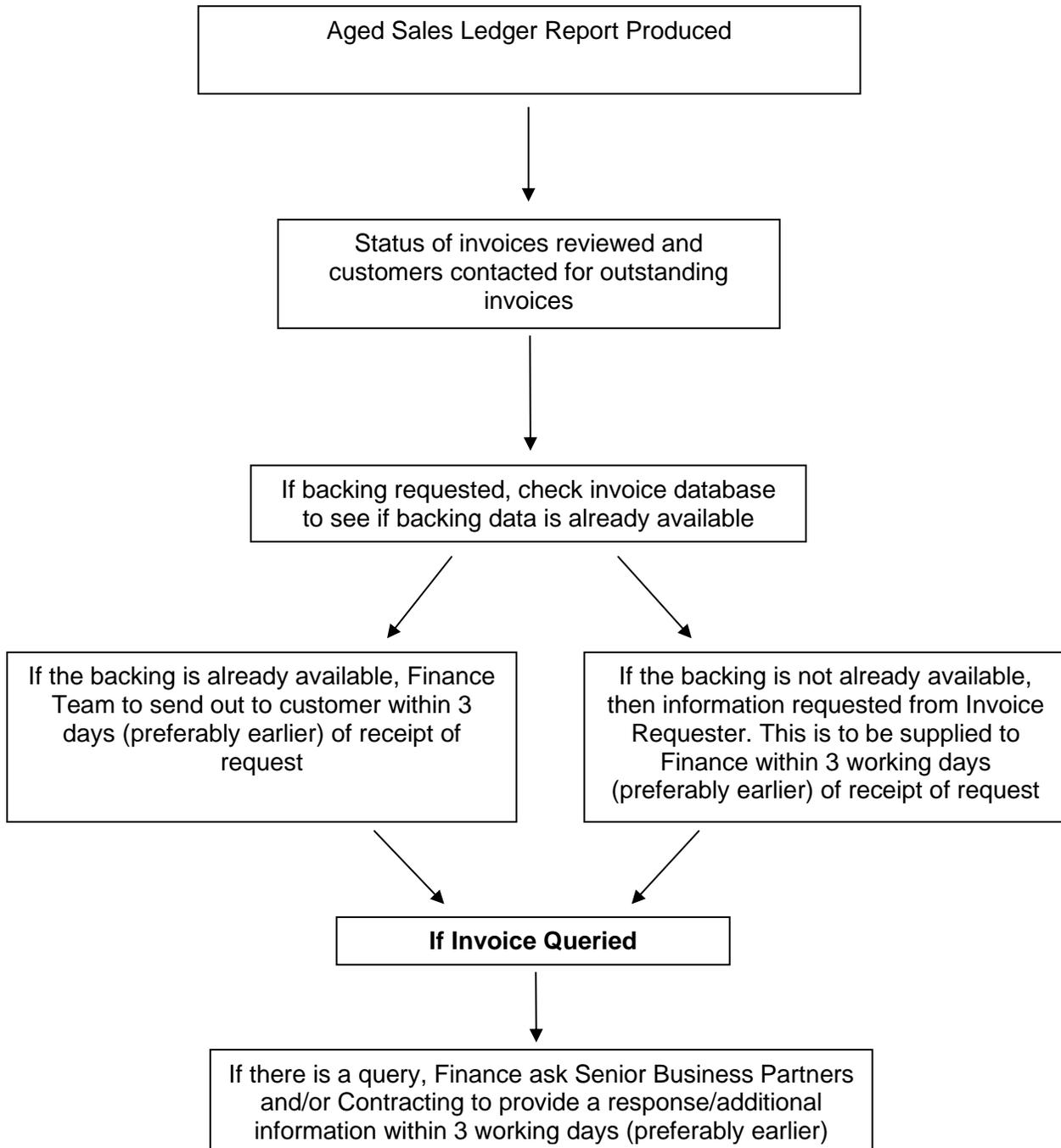


If no response is received within a further 14 calendar days, follow steps contained within the Bad Debt Management section of this Policy

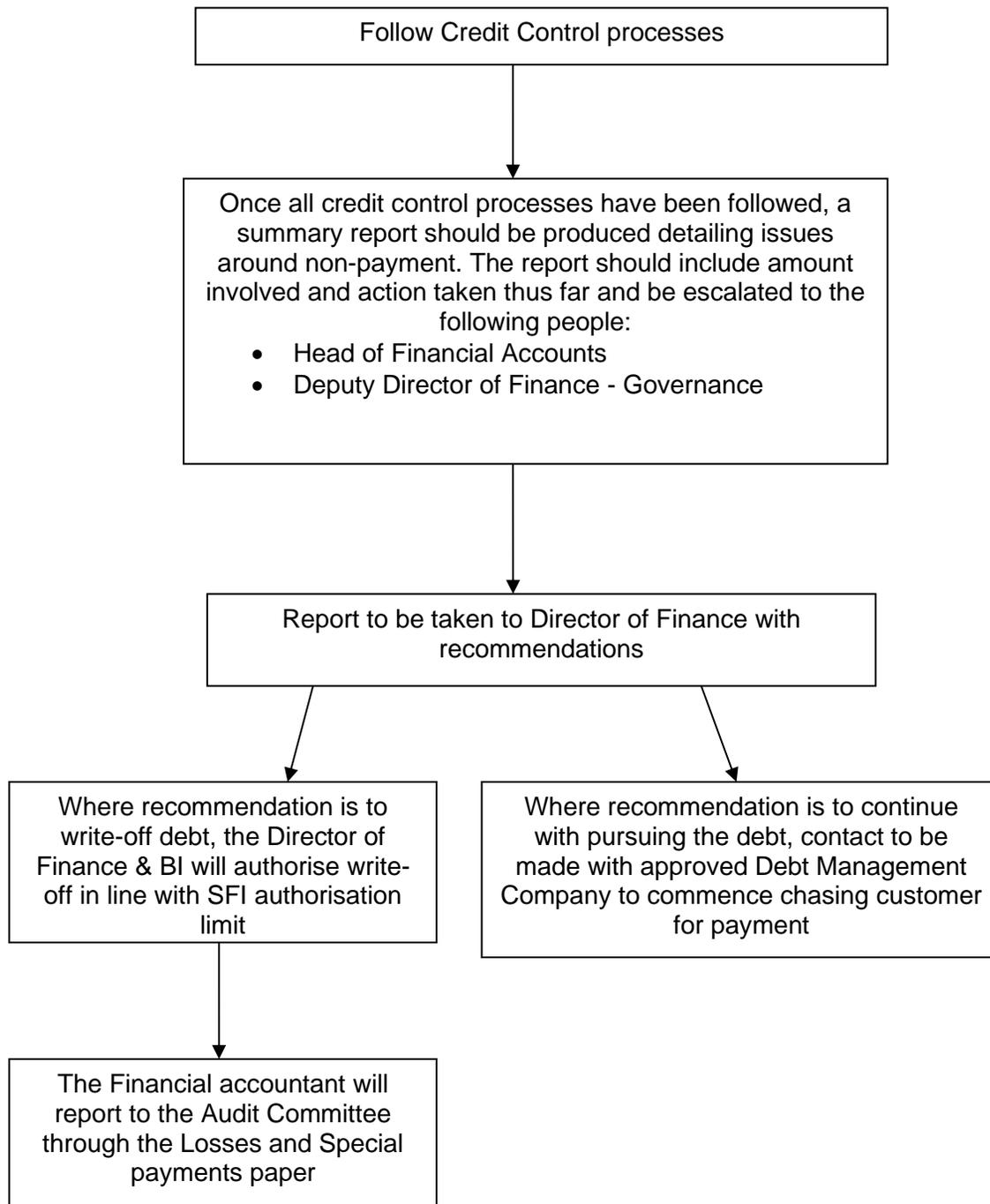
Disputed Invoices



LCHS Sales Ledger Customers



Bad Debt Management Flowchart



Lincolnshire Community Health Services – Debt Repayment Agreement

Debtor Name
Debtor Address
Debtor Invoice Numbers
Total Debt Amount

I, promise to make the following payments

(insert number of repayments) for (insert duration) which totals £(insert total value)

I understand that failure to comply with this repayment schedule will result in the full value of the debt outstanding becoming repayable immediately.

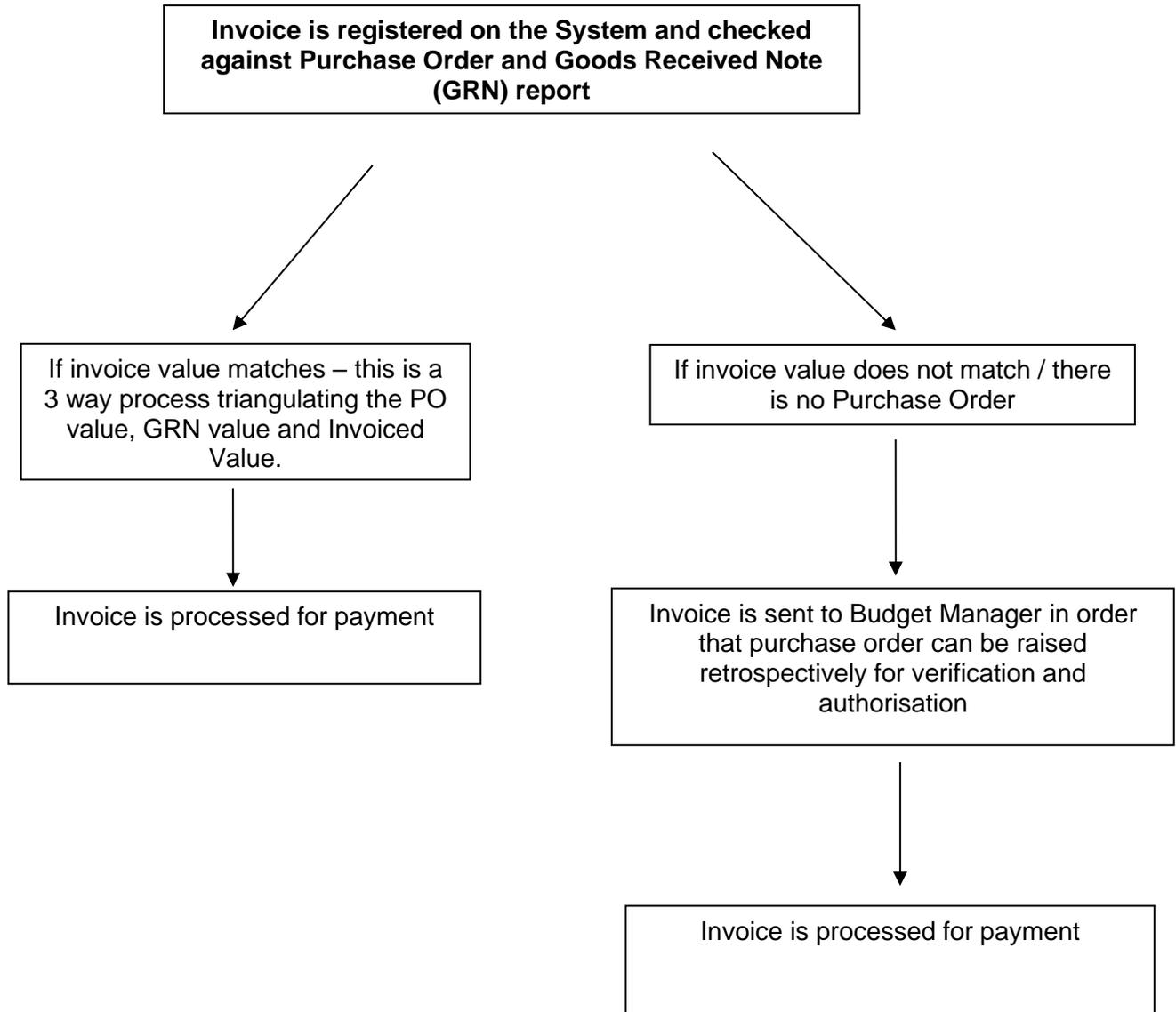
I will contact the Income Team (insert contact details) immediately my circumstances change and will agree to amend my repayment schedule accordingly.

Should my personal circumstances improve, I will increase my repayment amounts in order that the debt is paid off earlier than our initial agreement.

Signed

Dated

Invoice with or without Purchase Order Flowchart



Appendix 8 Equality Analysis

Equality Impact Analysis Screening Form

Title of activity	Working Capital Management Policy		
Date form completed	May 2021	Name of lead for this activity	Deputy Director of Finance & BI

Analysis undertaken by:			
Name(s)	Job role	Department	
Simon Burrows	Deputy Director of Finance & Business Intelligence (Projects)	Finance & Business Intelligence	

What is the aim or objective of this activity?	Trust wide policy around management working capital. The Trust needs to ensure that it has in place effective working capital management practices, embedded in order to meet its duty to safeguard and properly account for its use of public money.
Who will this activity impact on? <i>E.g. staff, patients, carers, visitors etc.</i>	Primarily staff within the Finance & Business Intelligence team operating the policy day to day

Potential impacts on different equality groups:

Equality Group	Potential for positive impact	Neutral Impact	Potential for negative impact	Please provide details of how you believe there is a potential positive, negative or neutral impact (and what evidence you have gathered)
Age	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of age
Disability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy provisions apply equally regardless of disability

Gender reassignment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of gender reassignment
Marriage & civil partnerships	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of marital status
Pregnancy & maternity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of pregnancy or maternity status
Race	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of race
Religion or belief	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of religions or beliefs
Sex	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of sex
Sexual Orientation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of sexual orientation
Additional Impacts <i>(what other groups might this activity impact on? Carers, homeless, travelling communities etc.)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Policy applies equally regardless of any other status