The NHS is required to pay all its bills on time, yet NHS performance is only good in parts. Chris Wheal investigates why trusts are struggling to hit the target and explains why foundation trust status may hold the key to improvement

PAYING UP

PERSONAL PRIDE in his job is what makes Trevor Smith, finance director at Basildon and Thurrock University Hospitals NHS Foundation Trust, pay as many of the trust's bills on time as possible. Last year he paid more than 94% of bills by number and 96% by value on time. If being a foundation trust is the equivalent of playing in the premiership, paying more than 90% of bills on time automatically qualifies Mr Smith's team for Europe.

'I have always given it a high priority. It has had priority from director level down. I have made it a priority for the finance team and pushed that message out to budget holders,' Mr Smith says. But external communication is just as vital. 'We've been increasing supplier awareness of our target to pay within 30 days and how they can help us pay them on time.

'Incomplete information on an invoice can delay payment. We issue a purchase order for everything, so getting suppliers to put the purchase order number on the invoice speeds things up. We also ask them to address invoices direct to the finance department.'

Once received, the finance department enters the invoice into the system and then sends it to the budget holder to confirm satisfactory receipt of the goods or service and to authorise payment. This is still a paper-based operation.

'There are times when it gets paper-clipped to something else, or someone is away or it gets put on an administrative stack and forgotten about,' says Mr Smith. That means finance staff have to chase up the individuals who do not respond immediately. But once confirmation is received the department earmarks payment. No matter how quickly the process is completed, the trust makes full use of the agreed credit terms, but with weekly payment runs it can catch up most delays and still pay on time.

Mr Smith's plan is to move to a fully electronic system some time in the future, to avoid bits of paper circulating the trust's budget holders. But he says he won't rush into anything that might make the situation worse. 'The first thing is to make sure it has no negative impact,' Mr Smith says.

That is a worthy lesson. When Bradford Teaching Hospitals NHS Trust switched from managing bill payment itself to the West Yorkshire Shared Services centre in October 2003, its performance plummeted from 99.63% by number to 72.2% and from 98.57% by volume to 78.81%.

THE BETTER PAYMENT PRACTICE CODE

- Agree payment terms at the outset of a deal and stick to them
- Explain your payment procedures to suppliers
- Pay bills in accordance with any contract agreed with the supplier or as required by law
- Tell suppliers without delay when an invoice is contested, and settle disputes quickly.

Shared services centres

David Thorpe, managing director of NHS Shared Financial Services, admits to hiccups across the board in the early days of the centres although payment performance has consistently improved since then for the centres' customers. Initially they didn't, for example, have any way of separating out disputed invoices from their statistics, so that made the figures artificially worse. But although that problem has been fixed, he says other problems exist.

The 'cheque's in the post' excuse was supposed to have been consigned to the dustbin of history when the new Labour government introduced the first Late Payment of Commercial Debts (Interest) Act in 1998

'The biggest problem is non-purchase order invoices,' he says. With a purchase order, the coding and budget allocation is all done before the goods are even delivered. Some trusts then have electronic receipting so that when goods arrive, the quantity and quality is checked and the accounts team gets an electronic message confirming everything is OK, enabling them to process payment at once. 'If a purchase order has been set up and the goods have been receipted then as long as the number of goods matches the purchase order the trust need never see the invoice,' says Mr Thorpe.

If only trusts used purchase orders like Basildon. 'For some acutes, 70% of invoices are non-purchase order-based,' says Mr Thorpe. That means the invoice is scanned in and emailed to the budget holder, who not only has to confirm receipt and that the price on the invoice was the price agreed but also to approve payment and code it to the relevant budget.

There is even some mild resentment from some budget holders for whom coding is a new task. They used to just sign an invoice and forward it to accounts. They either don't want to do the coding or find excuses for delaying. 'It is inherent bad practice and all shared services has done is highlight it,' says Mr Thorpe.

But one distinct advantage of the shared services set-up is that the system enables the centres to pinpoint where the bottlenecks are. Exception reports are produced for every invoice that fails the target, helping the centres and their customers address problems and contribute to the steady improvement.

Number of suppliers

A specific public sector issue is the number of suppliers that trusts use. Efforts to support local economies mean that instead of one major supplier each trust may have their own local firm or even several local firms. 'We have 20,000 suppliers on our books for 40 trusts,' says Mr Thorpe. On the other hand, if a trust has all telephone costs on one bill, approval may have to be sought from several cost centres for their share of the bill. Getting all those simultaneously can be a headache.

And then there's cashflow. One NHS insider admitted that if a trust has £1.5m of bills to pay but only £1m spare cash in the bank it may look through the invoices and decide which bills not to pay immediately. The 'cheque's in the post' excuse was meant to have been consigned to the dustbin of history when the new Labour government introduced the first Late Payment of Commercial Debts (Interest) Act in 1998.

The phased legislation first allowed small firms and then all firms to claim interest at eight percentage points above base rate on any debt paid after the agreed contractual terms, or 30 days where no other terms had

NHS PERFORMANCE AGAINST THE BETTER PAYMENT PRACTICE CODE IN 2002/03

SHAs

Compliance level	Number of SHAs By number	By value
95%-100%	3	9
85%-94.9%	5	7
75%-84.9%	8	5
65%-74.9%	8	5
55%-64.9%	2	0
50%-54.9%	0	0
Less than 50%	2	2
Total	28	28

SHAs paid 80% of their bills (87% when measured by value) within 30 days/contracted terms. Total number of invoices: 165,000

PCTs

Compliance level	Number of PCTs By number	By value
95%-100%	49	91
85%-94.9%	98	103
75%-84.9%	78	65
65%-74.9%	46	30
55%-64.9%	24	8
50%-54.9%	6	6
Less than 50%	2	0
Total	303	303

Note: There were 304 PCTs.The table reports on 303. Auditors would not allow one PCT to include figures in its annual accounts as they were not considered sufficiently robust

PCTs paid 83% of their bills (91% when measured by value) within 30 days/contracted terms. Total number of invoices: 3.3 million, up from the 900,000 paid in 2001/02

NHS TRUSTS

Compliance level	Number of trusts By number	By value
95%-100%	48	60
85%-94.9%	113	116
75%-84.9%	65	55
65%-74.9%	28	23
55%-64.9%	9	9
50%-54.9%	2	2
Less than 50%	10	10
Total	275	275

NHS trusts paid 82% of their bills by number (83% when measured by value) within 30 days/contracted terms. Total number of invoices: 12.9 million

Source: NHS (England) Summarised Accounts 2002/03

LATE PAYMENT LEGISLATION

The Late Payment of Commercial Debts (Interest) Act 1998 as amended and supplemented by the Late Payment of Commercial Debts Regulations 2002 (valid since 7 August 2002) stipulates:

- All businesses, irrespective of size and public sector bodies are entitled to claim statutory interest and debt recovery compensation for the late payment of commercial debts.
- The late payment interest rate that applies in the UK is the reference rate plus eight percentage points. The Bank of England base rate on 31 December will be the reference rate for 1 January to 30 June. The Bank of England base rate on 30 June will be the reference rate for 1 July to 31 December. The current rate (including the extra eight percentage points) is 12.75%
- Creditors are entitled to a fee depending on the size of the debt:

Size of the unpaid debt	Amount to be paid to creditor
Up to £999.99	£40
£1,000 – £9.999.99	£70
£10,000 and above	£100

Source: Better Payment Practice Group, www.payontime.co.uk or tel: 0870 1502500

been agreed. But the aim was prompt payment, not a compensation culture, and to set a good example the government made clear that all public sector bodies, no matter how small, had to pay all their bills on time from day one or pay compensation. From 2002, European legislation added the extra incentive of fixed fees as well as the interest that creditors could charge on late-paid bills.

Patchy NHS record

Despite all the pressure, the performance of the NHS is only good in parts. While some trusts and other NHS bodies pay nearly all their bills on time, in 2002/03 several were paying fewer than half. And some of the bills paid late are paid after a period of more than three months.

It is not even completely clear what NHS bodies should be aiming to achieve. Technically, the NHS has to comply with the Better Payments Practice Code, which insists that all – 100% – of non-contested invoices be paid on time. And the current *NHS Finance Manual* makes clear in note 7.1: ‘Target: pay all non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed.’

The Audit Commission also takes the 100% line. But the Department of Health says the Public Sector Payment Policy (PSPP) target is for NHS bodies to pay 95% of bills on time. And the National Audit Office, which compiles the NHS summary accounts, confirms that an NHS body is deemed to have achieved the target if it has paid 95% of bills on time.

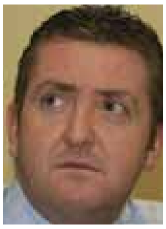
Even if the whole of the NHS achieved the 95% target on the more than 16 million invoices it pays a year, that would still mean nearly 820,000 invoices paid late every year.

But few in the NHS do meet the target. In its latest report covering 2002/03, the NAO reveals that 75% of SHAs, 69% of PCTs and 58% of trusts failed to hit the target. However, it told *Healthcare Finance* that this was mistakenly based on 90% compliance. Failure figures were actually 89%, 84% and 83% (see box, page 21).

The lack of priority is confirmed by all the major watchdogs. The Audit Commission says it would mention poor PSPP performance if it was issuing a public interest report – it did about North Bristol, for example – but those are rare. ‘There are no direct sanctions an auditor can take, and there are more important things we look at,’ the Commission says. The NAO says it is up to strategic health authorities to chivvy up poor performing trusts and the Department is meant to chase up health authorities.

Alan Wittrick, director of finance at South Yorkshire Strategic Health Authority, says it does not appear to be a ‘prime issue’ for the Department. Foundation trust regulator Monitor says the PSPP is ‘not explicit in terms of a foundation trust’s licence’.

There is a view that the threat of businesses paid late claiming their interest and charges is enough incentive (*see box above*). But of 50 or so annual reports



For some acutes, 70% of invoices are non-purchase order-based

David Thorpe

studied for this article, none reported any claims. ‘Some companies may be concerned that if they start pursuing claims, it may affect their future business,’ admits Mr Wittrick. One danger for the NHS is that all businesses can now claim charges and interest going back six years. A £10,000 bill today paid 30 days late would attract a charge of more than £200 and the company could present a bill for that, plus each and every late payment charge since, in six years’ time. Even if the 95% target was hit, that could mean the NHS facing a potential bill somewhere between £200m and £1bn for the 820,000 late paid invoices a year.

Trusts should not be complacent for another reason. A major area where prompt payment is an issue is in the initial application stage for foundation trust status. The preliminary stage involves convincing the department that a trust is fit to make an application to Monitor. One criterion is to ‘have a satisfactory public sector payment policy record’.

Foundation implications

The Department says: ‘The NHS foundation trust preliminary application is a starting point. It identifies issues that need to be resolved prior to applicants submitting a preparatory application and gaining support from the secretary of state to submit an application to Monitor.

‘Those trusts whose PSPP performance is unsatisfactory will be asked to provide plans on how they are going to improve the performance to 95% or better, and the performance against the plans will be monitored during the preparatory application phase to see if they achieve it. The PSPP performance is also an indicator of potential cash flow problems and cash flow performance is a key assessment criteria for the department and Monitor. In fact, if the applicant’s cash flow is not acceptable it is likely they would not receive authorisation from Monitor.’

The message is if you want foundation status and you want to avoid potential huge compensation claims in future, start paying your bills on time now.

Chris Wheal is a freelance writer