HFMA Policy Statement on NHS reorganisation

Maintaining financial control during period of structural change

Meticulous planning will be needed during the current reorganisation of the NHS to minimise the potential for a loss of financial control.

The NHS in England is currently facing the biggest change agenda in its history. The HFMA fully supports policies that have introduced payment by results, patient choice and foundation trusts. It recognises that these policies create the right conditions and incentives to drive efficiency, improve financial management and develop quality services that meet the needs of patients. However they also represent a huge implementation challenge for the NHS, with finance managers having a major role in turning the theory into working practice. The challenge this year is even greater as the NHS is striving to return to net financial balance in 2006/07 with any overspending organisations also achieving monthly balance of income and expenditure by the end of the financial year.

On top of these financial and policy challenges, the NHS is going through major structural reform on the back of the *Commissioning a patient-led NHS* proposals. Twenty-eight strategic health authorities have already been merged into 10 new authorities, which began operating in July. And in October the number of PCTs will be reduced from 303 to 152, with most of the new PCTs commissioning services on behalf of much bigger populations than currently.

In their joint report *Financial Management in the* NHS in June 2006, the Audit Commission and the National Audit Office pointed out that a key message from previous mergers is that the operational performance of most organisations suffers both during the merger process and immediately afterwards. They called on strategic health authorities (SHAs) and primary care trusts (PCTs) to ensure that 'financial control and accountability does not suffer during this period of change'.

The HFMA agrees with the audit bodies, with the potential loss of financial control being the single biggest risk of the reorganisation process. And it recognises that reorganisation could distract health economies from the challenge of eliminating deficits and restoring financial balance across England.

At its Policy Forum, held in July, the HFMA and representatives from around the NHS identified a number of steps for PCTs, SHAs and the Department of Health that would help to minimise any potential loss of financial control. This is not just a challenge for the English service. Northern Ireland is also facing a major period of structural reform, with 19 trusts being merged into just five new organisations

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and four health boards being replaced with a single strategic board. The following messages, although written from the perspective of the English NHS, are applicable across the UK.

The current reorganisation has the potential to distract NHS organisations and staff from the challenge of restoring and maintaining financial balance. To minimise the potential for a loss of financial control, the NHS needs to…

1. **…ensure new appointments are made quickly.** All staff in organisations affected by the *Commissioning a patient-led NHS* changes are facing major job uncertainty. Many staff have faced this uncertainty for a year already and this will inevitably continue until the new organisations are set up and appointments are made. Senior staff in new PCTs need to be appointed as quickly as possible and there needs to be clarity about their financial governance responsibilities. Within finance departments, the lack of certainty over future roles could result in organisations taking their eye off the ball in terms of finance. Once chairmen and chief executives have been appointed to the new PCTs, they need to move swiftly to appoint finance directors, who can then establish their finance department structures and make appointments. Getting finance departments up and running as quickly as possible will minimise any potential loss of focus on achieving financial targets.

   Finance directors will have a key role in new commissioning bodies. To ensure these roles attract and retain the right calibre of manager, they need to be given the same status as senior roles in the acute sector. Comparable salaries would be an important first step. This would ensure that in future there is movement between the provider and commissioning sectors, improving understanding of the challenges facing colleagues in different parts of the service (see appendix on finance staff development). Improving remuneration levels in the primary care sector would also make these roles more attractive to accountants currently working in the commercial sector. The recently published new pay framework for very senior managers in health authorities, PCTs and ambulance trusts does provide some scope for increased remuneration for finance directors in the biggest PCTs. However the HFMA believes it does not do enough to raise the status of commissioning bodies in general or to recognise the crucial role of the finance director within these new bodies.

2. **…plan for merger and beyond.** Detailed planning will be needed to ensure mergers proceed as smoothly as possible. New guidance on mergers from the HFMA *Hitting the fast lane: Driving long term integration*

3. *in NHS mergers* provides a useful checklist for finance directors and their teams to help ensure that sound systems of financial management and control are maintained before, during and after merger. Formal project management processes should be put in place and carefully followed, with risks clearly identified in a risk register. Business continuity plans should be drawn up and a clear direction of travel and strategy will be vital for new organisations. The plans of merging bodies should be reviewed and an interim consolidated plan produced to ensure that all staff are pulling in the same direction and aiming to achieve the same goals. Consideration should also be given to creating a financial governance supervisory board during transition. This could be a role for PCTs' audit committees.

4. **…focus on human resource issues.** The reorganisation will have a major impact on staff and concerns over where they will be working or whether they will even have a job in the future structure will be an understandable distraction for staff in the coming months. Human resources (HR) departments need to be fully focused on the reorganisation process. Staff need to understand the appointment process and kept informed. Communications need to be unified across merging organisations to ensure common messages are delivered and all staff are kept informed and feel involved.

   Training and development should also remain a high priority during the months leading up to merger, as staff may need to add to their skill base in preparation for new roles. This is true for all staff but given the current agenda in finance, it will be particularly vital to manage the HR and training issues within finance departments.

   There is a real danger that the current uncertainty over future roles is driving finance staff to consider roles in other parts of the NHS or outside the health sector. With the reduction in PCT numbers, many current PCT finance directors will be unable to secure board level roles in the new PCTs. Many will look to take deputy roles in what will be far bigger commissioning bodies and this will have repercussions for the career progression of current deputies. The NHS could well lose a number of experienced finance staff and there is a real risk of losing corporate memory.

   Strategic health authority finance directors will also have a major role in finance staff development and career management of finance managers in their health economy. They should have a greater role in identifying skill or experience gaps in both finance directors and other senior managers, perhaps facilitating secondments or placements where appropriate and ensuring there is access to mentors or coaches. This will be of major

benefit to the NHS in securing a constant flow of future finance leaders with the right skills and experience (see appendix on finance staff development). It should also help to reassure finance managers over their long term future within NHS finance.

5. **…maintain professional discipline.** During the transition process it will be vital for finance managers to maintain the highest professional standards. In particular reported figures must have integrity. Financial projections, for instance on cost improvement programmes, must not be overly optimistic. Realism in projections, with risks of achievement rigorously assessed, will be key to ensuring new organisations are taking decisions based on robust information.

Appendix: Finance staff development

New PCTs are intended to become strong commissioning organisations, able to negotiate on equal terms with a range of providers including established big acute hospitals. If this is to become a reality, they will need to attract and then retain high calibre finance directors and finance teams. There are already many high quality finance managers and finance directors in existing PCTs. However in terms of career development, finance positions in primary care organisations have sometimes been viewed as carrying a lower status than roles in the acute sector. And salary levels for PCT finance directors and their senior finance managers, have been set at lower levels than in the acute sector. This needs to change and the forthcoming PCT reorganisations provide an opportunity to put PCTs on an equal footing with provider organisations. The proposed new pay framework for very senior managers provides some scope for increased rewards for finance directors in the largest PCT areas. However in general it fails to correct the imbalance between the rewards on offer to finance directors in acute and commissioning bodies. In many cases recruitment and retention premiums may be needed to attract or retain the right candidates.

Some existing PCTs have also had insufficient numbers of qualified finance managers, forcing finance directors to take hands-on roles in operational matters. Often these are duties that should be delegated to deputies leaving the finance director with more time to spend advising the board and on other strategic issues.

In recent years there has been limited movement of finance staff between NHS trusts and primary care trusts. This means that finance managers often do not have a detailed grasp of the key issues on the other side of the commissioner-provider divide. Greater parity in remuneration would encourage greater

movement between different parts of the service to the overall benefit of the NHS. However the HFMA also believes that the NHS should play a bigger role in succession planning and career management of its qualified finance staff. As well as fostering home grown talent, the NHS should also embrace the opportunity to widen its skill base by appointing finance managers where appropriate with backgrounds outside the NHS, either moving from other parts of the public services or the commercial sector.

The Association believes this should start at the trainee accountant level. At present trainees on the national Financial Management Training Scheme are given an excellent grounding in all aspects of NHS finance through a series of placements in different NHS organisations. These opportunities should be extended to all trainees not just those on the national scheme so that all finance trainees follow a planned programme of gaining broad experience of the whole service. This should involve acute trusts/foundation trusts, primary care trusts, health authorities, mental health trusts and audit bodies.

However support and development needs to continue after finance managers have gained their accountancy qualifications. In particular the HFMA believes that all qualified finance managers should have access to a mentor at key points in their careers. The Association has been running a mentoring scheme in conjunction with strategic health authorities. This has provided formal training for NHS finance managers to operate as mentors and these managers have gone on to mentor finance colleagues from around their health economies. This scheme should be expanded so that demand for mentors can be met. This commitment to mentoring needs to extend to organisations, which need to ensure that mentors and mentees are given the protected time to get the most out of their relationships.

There is also a major role for finance directors in the new strategic health authorities. These finance directors will play a key role in finance staff development and should monitor the career progression of finance staff within their patch, potentially facilitating secondments or placements to enable finance staff to gain wider experience of NHS finance. To understand the development needs of the wider finance function, SHA finance directors will need to establish mechanisms for monitoring career progression and for getting to know managers below the level of finance director.