



CFO Healthcare  
Survey 2022

Challenges facing healthcare leaders



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# Executive summary

## Introduction

Welcome to the Deloitte CFO Healthcare Survey report for Australia. This report details survey insights conducted on a cross-section of financial leaders from private and public healthcare providers across Australia on topics comprising: financial sustainability, talent, capital strategy, health equity and environmental, social, and governance (ESG). The COVID-19 global pandemic triggered one of the most significant global disruptions in recent history with the health system at the forefront of this disruption.

The disruption and legacy impacts of the health system’s responses to COVID-19 remain despite the Australian sector already transitioning towards a post-COVID situation. Many healthcare finance leaders are assessing the impact from the removal of COVID-19 funding and strategies required to maintain operational performance and financial sustainability in a post-COVID environment. This combined with key macro environment factors such as rising inflation, supply chain disruptions, workforce shortages and burnout are creating significant challenges in Australia’s health system.

## Survey methodology

Deloitte surveyed financial leaders (Chief Financial Officers and Finance Managers) from 44 healthcare organisations across private and public health providers. The respondents included:

- 58% of organisations with revenue more than \$1 billion
- 75% from public health and 25% from private health
- National coverage with five states represented

The results of the survey reflect the combined responses of public and private healthcare financial leaders with the exception of the financial sustainability section. Data in this section has been disaggregated to highlight differences in survey responses.

Through surveying healthcare leaders across financial sustainability, talent, capital strategy, health equity and environmental, social, and governance (ESG), three themes emerged:

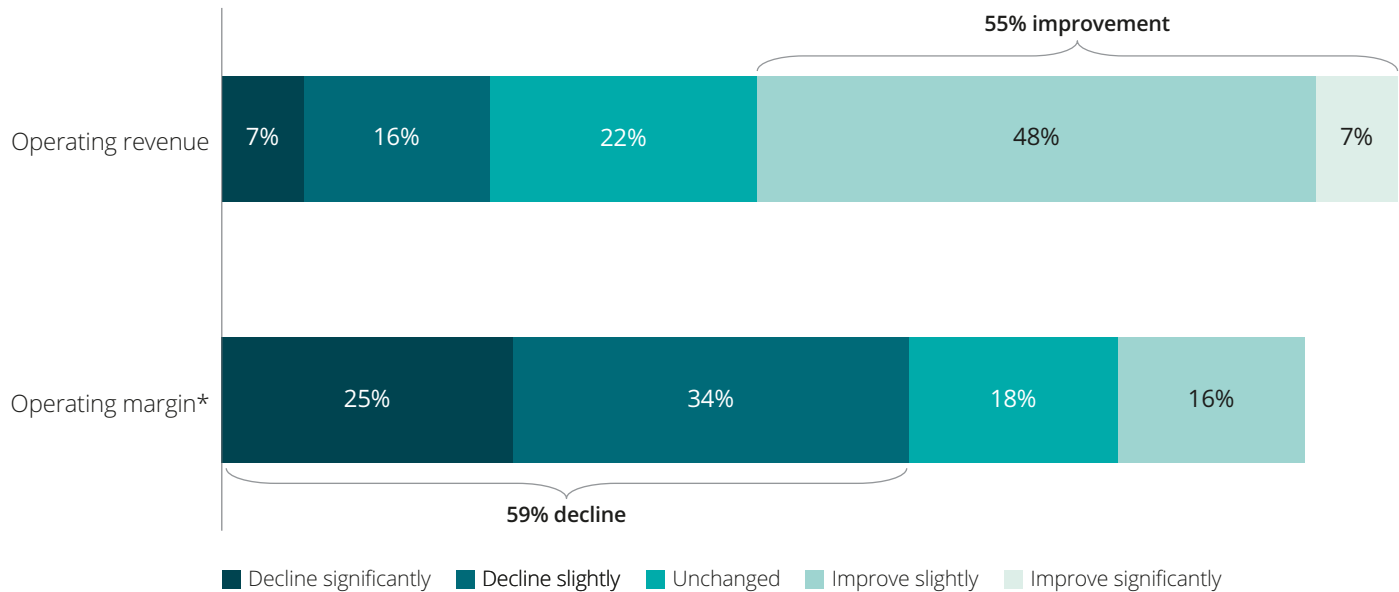
Rising costs and margin erosion	Desire to invest	Health equity and ESG are on the agenda
		
<p>69% of health service providers are seeing higher than historical remuneration increases for health staff. This is one of the drivers behind 58% of CFOs expecting that operating margins in FY23 and beyond will decrease or deteriorate further.</p> <p>Embedded consumable, system and process costs arising from healthcare responses to COVID-19 are applying additional pressure to their ability to maintain sustainable financial results.</p> <p>In response, CFOs are envisaging some cost offsets in additional operating revenue forecasts— with 55% of CFOs anticipating revenue growth over the short to medium term. Despite this expectation, there are challenges to addressing the removal of some short-term government remediation funding and equally, challenges from privately insured and CMBS income streams.</p> <p>As a result of these factors, 65% of CFOs identified cost containment as their number one priority, and was seen by 51% of respondents as being key to achieving financial sustainability.</p>	<p>With 85% of CFOs planning to include capital deployment in digital technologies (virtual health, AI, analytics, automation, etc.) and 71% in core business technologies there is a clear agenda among CFOs for digital transformation.</p> <p>Other areas where capital deployment has been prioritised are in hospital and health service infrastructure (54%) and alternate care sites (46%). However, with 93% of CFOs witnessing increased clinician shortages in medical, nursing, and allied health professions, a challenge exists to resource new facilities.</p>	<p>Health equity and ESG are firmly on the agenda across healthcare, with 88% of CFOs anticipating a growing focus on increasing the provision of health equity across the system.</p> <p>With an increasing number of health organisations planning and piloting health equity initiatives, the role of the CFO will be critical in the process of elevating and measuring their success.</p> <p>A similar theme was found with consideration for implementing ESG strategies. 46% of CFOs stated they expect their organisation to define an ESG strategy in the next 12 to 24 months. This is in addition to 24% of CFOs who responded that they have already defined their strategy.</p> <p>Although this is on the agenda, only 10% of CFOs responded that their organisation is measuring the impact of their ESG strategy.</p> <p>This demonstrates there is an opportunity for CFOs to drive the maturity of strategies and initiatives across health equity and ESG.</p>
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Part 1 - Financial sustainability



Financial sustainability

Q. What is the projected outlook for operating margin and operating revenue for your organisation?



“Short-term funding arrangements are unwinding, while many cost impacts are embedded and ongoing.”

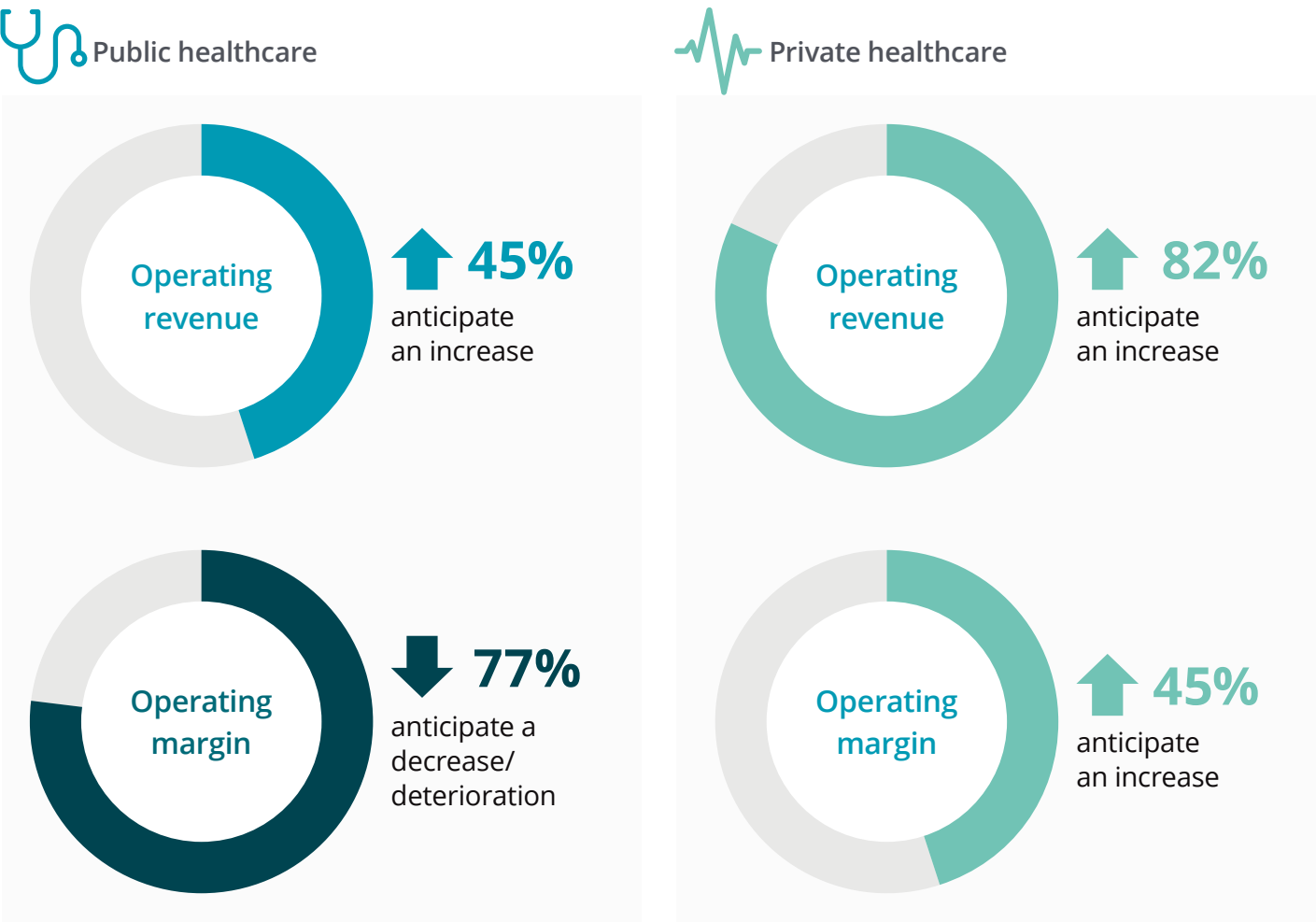
Queensland healthcare finance leader

- Overview**
- While forecast revenue growth exists across organisations, CFOs are grappling with declining margins due to a number of factors including permanent increases of operating costs from COVID-19 and strong inflationary cost increases.
- Financial performance**
- 69% of health service providers are seeing higher than historical remuneration increases to health staff. This is one of the drivers behind 59% of CFOs expecting that operating margins in FY23 and beyond will decrease or deteriorate further.
  - Embedded consumable, system and process costs arising from healthcare responses to COVID-19 are applying additional pressure to an organisation’s ability to maintain sustainable financial results.
- In response, CFOs are envisaging some cost offsets in additional operating **revenue forecasts— with 55% of CFOs anticipating revenue growth over the short to medium term.**
  - 51% of CFOs identified cost containment as the most important item to achieve financial sustainability.

\* 7% of CFOs declined to respond to the operating margin survey question.

# Financial sustainability

## Public and private projected financial outlook



### Public vs private financial performance outlook public sector

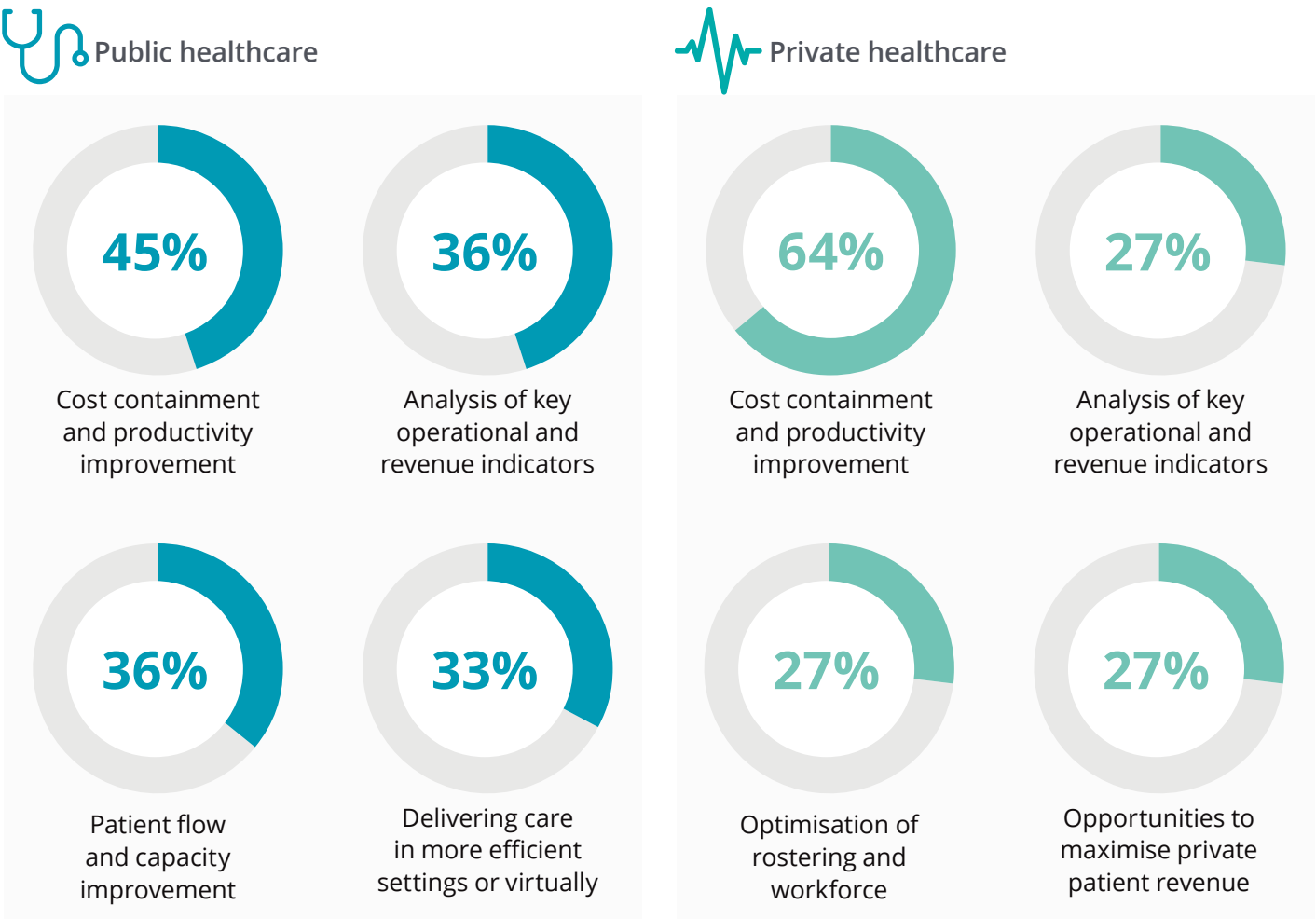
- 77% of CFOs projected that there will be a deterioration in margins.
- This supports the macro economic environment pressures and inflation weighing heavily on profitability.
- There was a mixed response with revenue projections, with 45% of CFOs projecting a revenue uplift, while 30% noted that revenue will deteriorate.

### Private sector

- CFOs overwhelmingly stated that operating revenue will improve.
- While 45% anticipate an increase in operating margin, there is a shared sentiment with public healthcare leaders that operating margins will not increase.

Q. Which of the following are the most important in achieving financial sustainability in your organisation?

## Top four CFO focus areas to achieve financial sustainability



### Key driver analysis for financial sustainability

- Cost containment is front of mind with CFOs across public and private healthcare.
- CFOs also consider analysis of key operational and revenue indicators, as well as optimisation of rostering and workforce as major factors to address financial sustainability requirements.

### Public vs private sustainability focus

- Both public and private healthcare providers have a deep focus on cost containment, analysis of key operational and revenue indicators, and optimisation of rostering and workforce to achieve financial sustainability.
- 27% of private healthcare CFOs stated opportunities to maximise patient revenue is also an important factor to achieve financial sustainability.

### Outlook

- High inflation will have a significant impact on efforts to contain costs along with the ability to address productivity impediments resulting from pandemic responses.

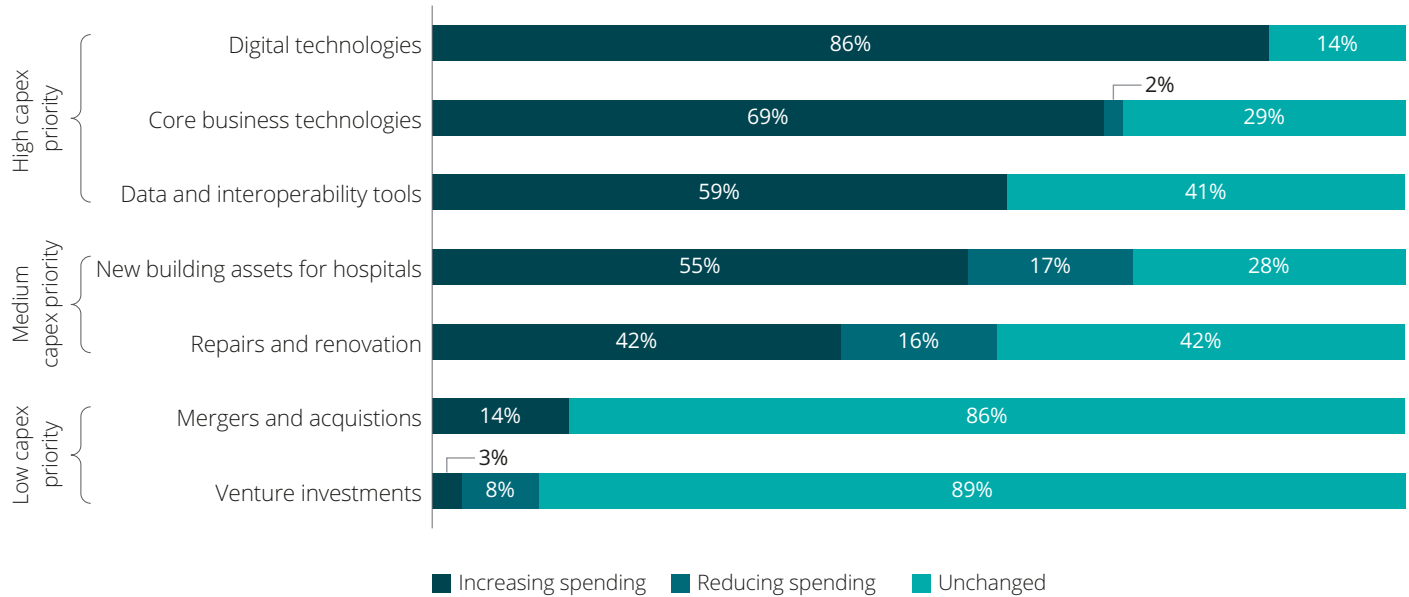
Part 2 - Capital strategy



Capital strategy

Q. How do you plan to prioritise your organisation's capital expenditures over the next three years compared to last year?

Top six CFO capital expenditure priorities over the next three years:



“Digitisation of healthcare is critical to achieving our goals as an organisation.”

Western Australian healthcare leader

Overview

- The outlook for capital spending is often considered a benchmark of change in an organisation's business model. Healthcare finance leaders expressed their desire to increase capital expenditure to align with priorities to facilitate growth and managing recurrent costs.

Investment in digital technology

- Capital investment is a focal point, with 86% of CFOs projecting an increase in capital spend on digital technologies (virtual health, AI, analytics, automation), and 69% investing in core business technologies (RCM, EMR, ERP) over the next three years.

Investment in hospitals/care sites

- Physical asset spend was mixed across the board. 55% of CFOs stated a planned increase in capital spend on new building healthcare assets.
- 29% of CFOs plan to keep spending consistent over the next three years, while 17% will cut down capital deployment.

M&A activities

- Overall, 14% of CFOs responded that there would be an increase in M&A spending and the responses were driven by the private sector.

Outlook

- Consideration must be given to the cost and sources of funding for the planned capital outlays. Given the recent trend in RBA interest hikes and with inflation still a force to be reckoned with, due caution should be exercised when CFOs attempt to strike the balance between fixed asset uplift and conservative and effective working capital management.
- CFOs who continue to invest in digital technologies will ultimately reap the benefits of analytics capabilities to dissect the key drivers that impact operating margins as well as the overall wellbeing of the workforce. Sound cost mitigation strategies will need to be included in the short-term and long-term business strategy.

Part 3 - Talent



Talent

Q. How much do you agree with the following – As a finance leader, I have a growing stake in solving talent challenges of my organisation.



.....

“Employee wellbeing has always been a focus of our business, but we’re much more verbal, proactive and vocal about that now.”

NSW healthcare finance leader

Overview

- Healthcare has seen an increase in talent challenges and finance leaders overwhelmingly agreed they have a growing stake in solving talent challenges for their organisation.
- The “Great Resignation” trend has impacted healthcare providers in Australia, with half of CFOs stating that their organisations have been impacted by the trend.
- Difficulties in securing and retaining key talent was cited by 47% of CFOs as one of the top risks on their minds. The increase in employee remuneration also contributes to the margin erosion that was evident during the survey.

Employee wellbeing as a top priority

- Clinician burnout is a major concern for 90% of CFOs. This ties back to the responses received around the impact of resignations and staff shortages. There has been a major shift globally to emphasise mental health and wellbeing of employees. Most CFOs feel that they have a growing stake in solving these key talent shortages of their organisations.
- CFOs are starting to implement a significant increase in flexibility for their employees (option to choose virtual or hybrid model) to attract and retain talent within their organisations. Higher than historical pay increases are being offered across many organisations to attract and retain talent. 86% of CFOs are increasing their emphasis on the wellbeing of clinical and non-clinical staff.

In-house and local talent focus

- CFOs are increasing the use of automation and digital technologies (AI, analytics, automation) and offering increased pay to address talent challenges.
- 79% of CFOs are not focused on outsourcing or hiring offshore talent for the finance departments.

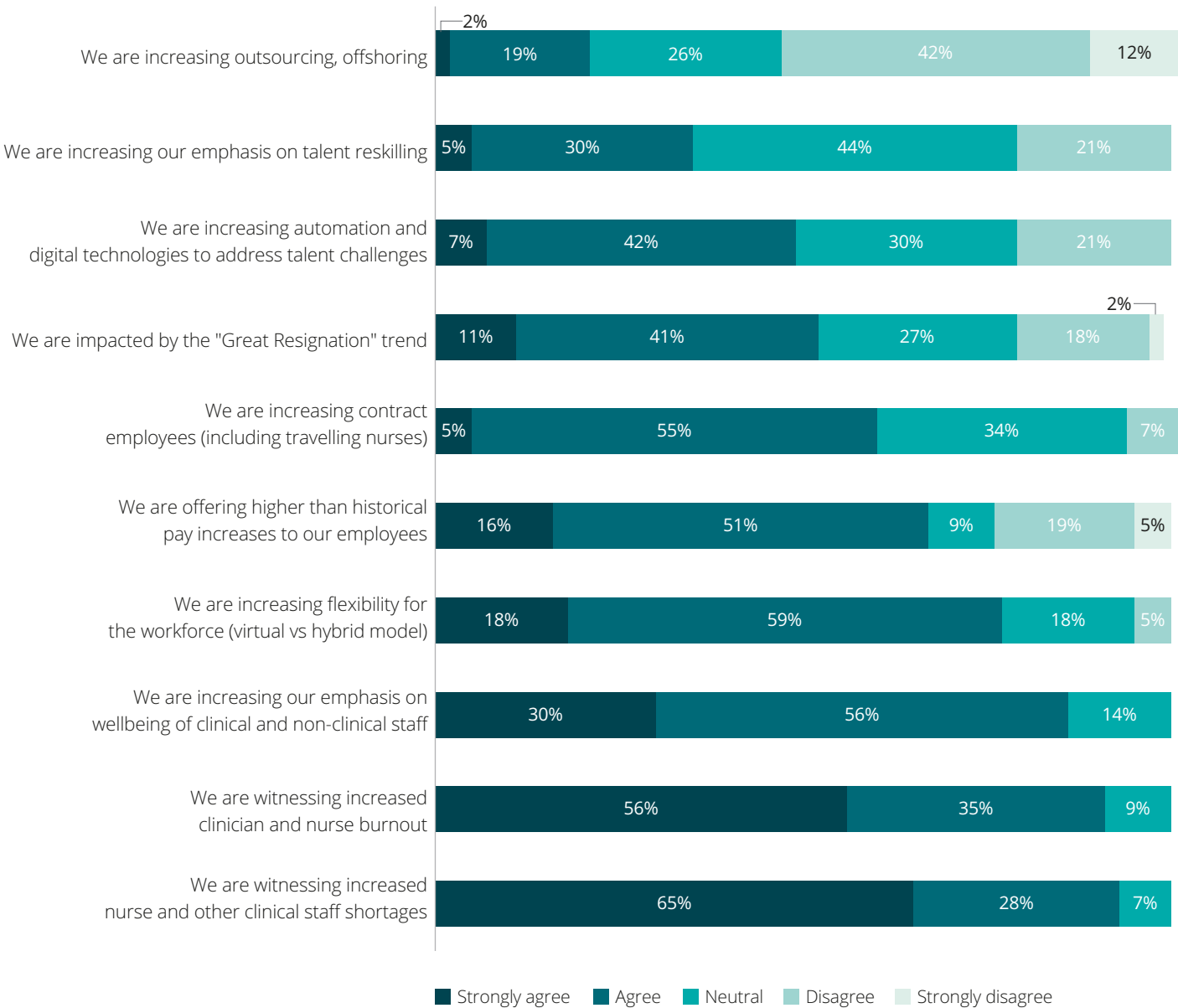
Outlook

- The talent agenda plays an important role in the healthcare sector. CFOs have a growing stake in helping their organisation deal with challenges that are not just limited to remuneration. Other areas include investment decisions around physical/visual environments and collaboration/productivity tools that are critical to addressing talent challenges.



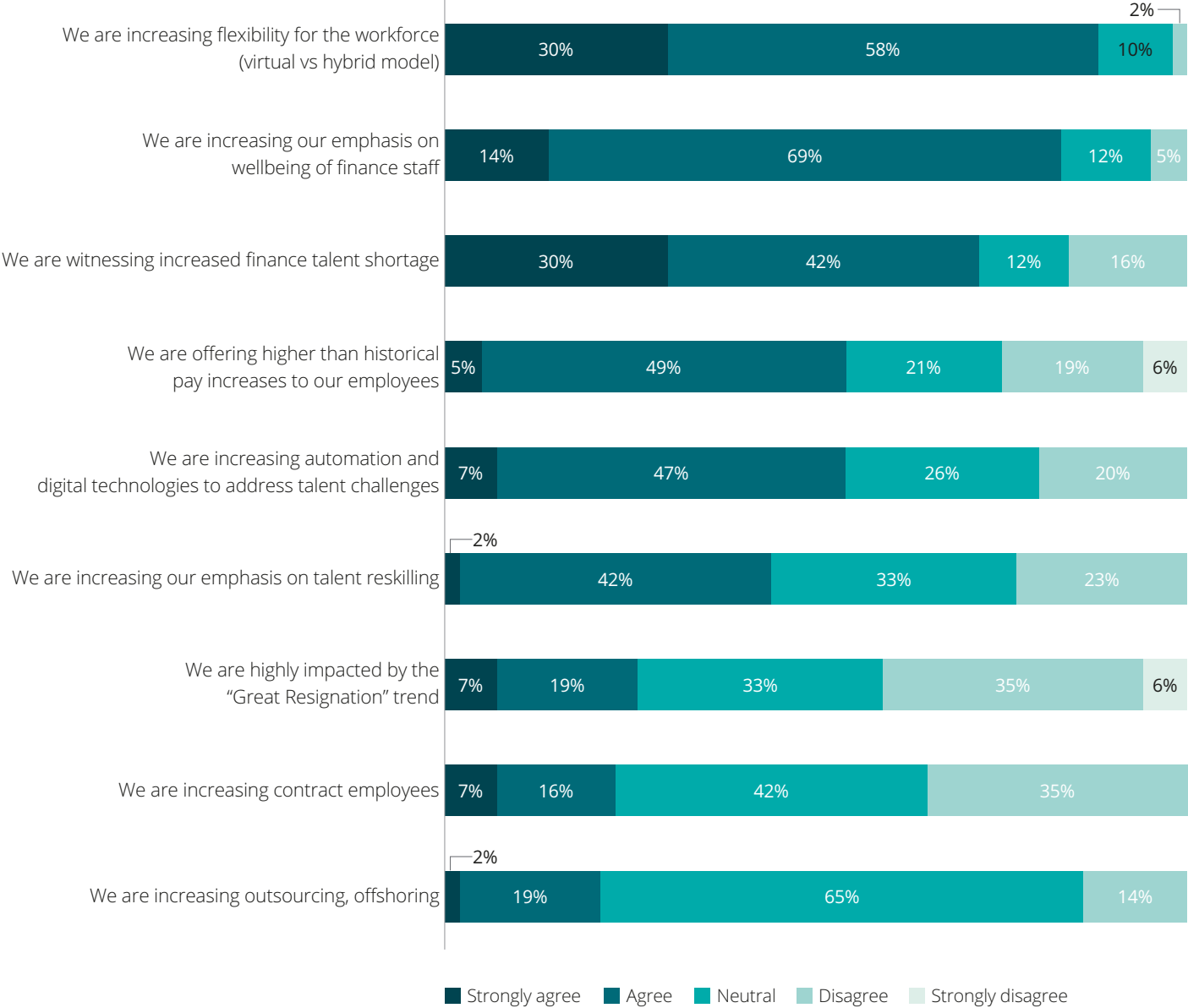
# Talent – Organisational challenges

Q. Level of agreement on organisational talent related situations



# Talent - Finance

Q. Level of agreement to finance talent related situations



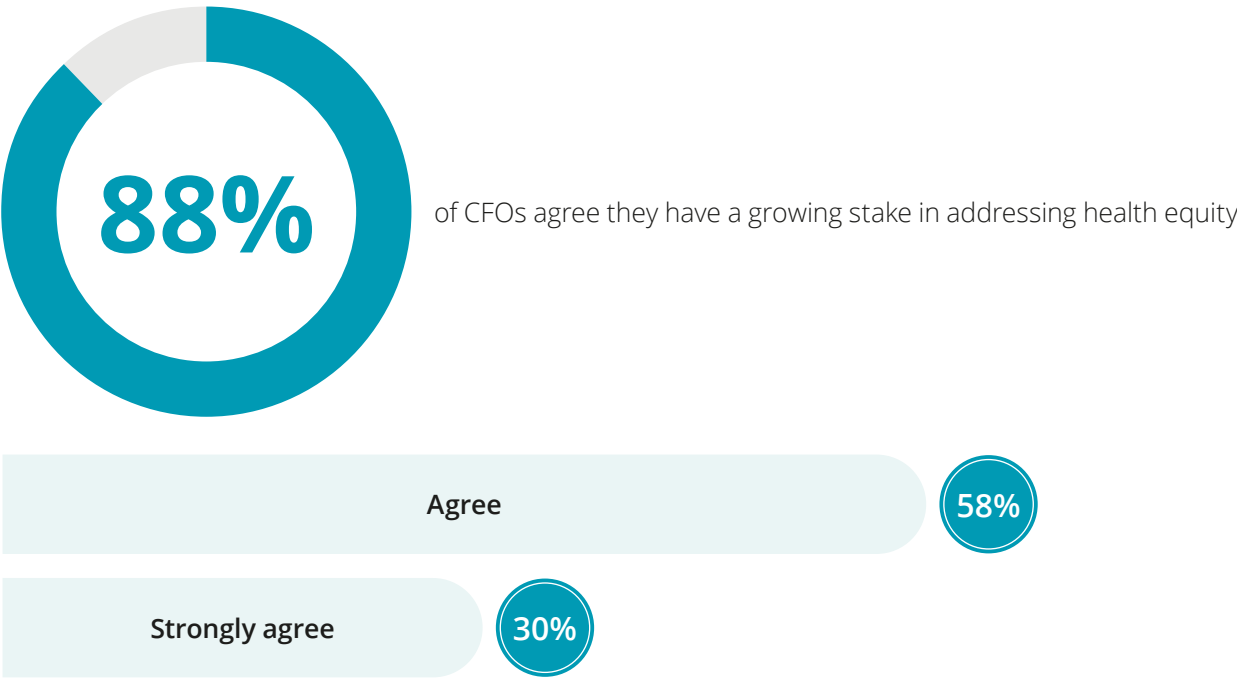


# Part 4 - Health equity



## Health equity

Q. How much do you agree with the following – As a finance leader, I have a growing stake in addressing health equity?



**Health equity remains an emerging area**

- There is a mixed response from finance leaders on the progress of health equity initiatives, with a distribution across the planning, piloting, and implementation stages.
- Optimisation of health equity initiatives received the fewest responses from CFOs, indicating that there is an opportunity for CFOs to develop and implement strategies to measure the impact and report on health equity performance.

**Outlook**

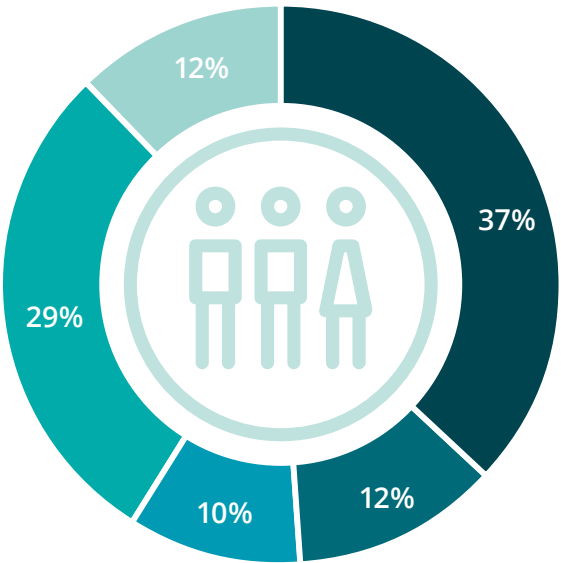
- Finance leaders are cognisant of their responsibility to address health equity, however there is a lack of maturity in the development and execution of the health equity strategies.
- CFOs should prioritise health equity as a key agenda item to execute and report on.

# Current state - Health equity maturity assessment

## Health equity strategy

Q. As a finance leader, which of the following health equity efforts have you overseen and implemented at your organisation?

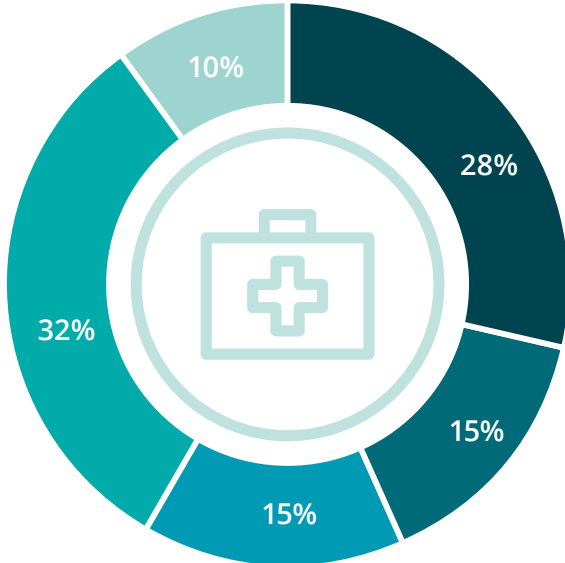
1 Improving the diversity, equity, and inclusion of the finance function's workforce



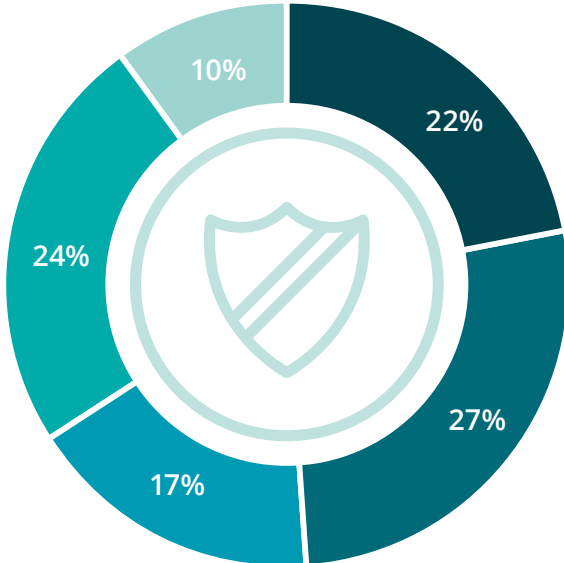
2 Creating measures and dashboards on health equity performance



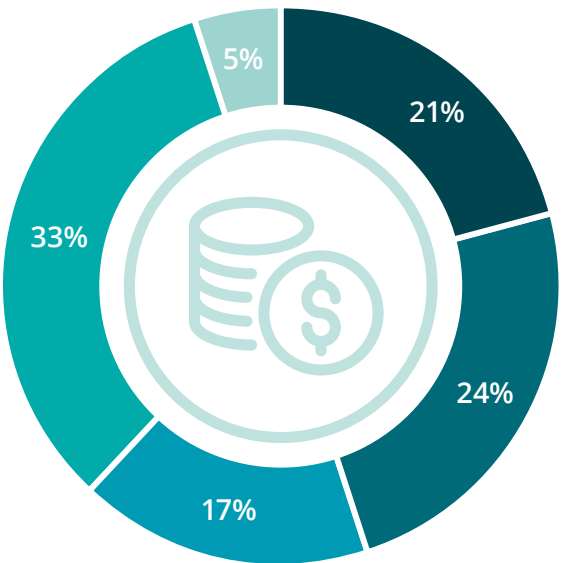
5 Ensuring oversight of health equity initiatives through regular board reporting



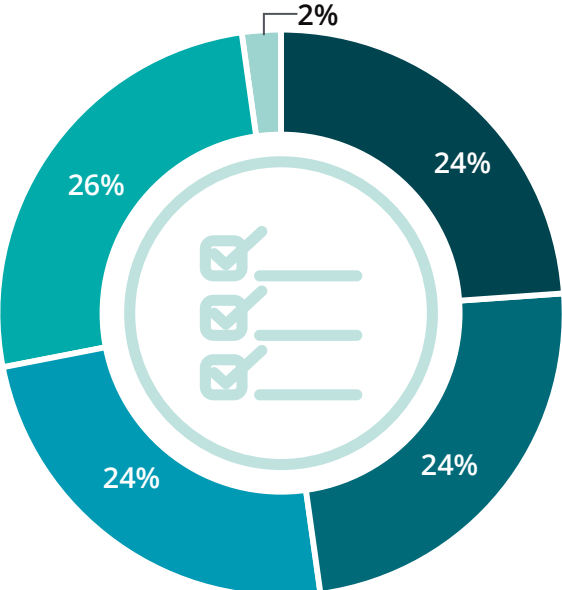
6 Focusing on compliance and risk mitigation of health equity initiatives



3 Aligning investments (budget, capital, resources) with health equity goals



4 Developing rigorous audit, compliance, and management practices to ensure health equity performance, visibility, and accountability



NA/can't say Planning/defining Piloting Implementing Optimising

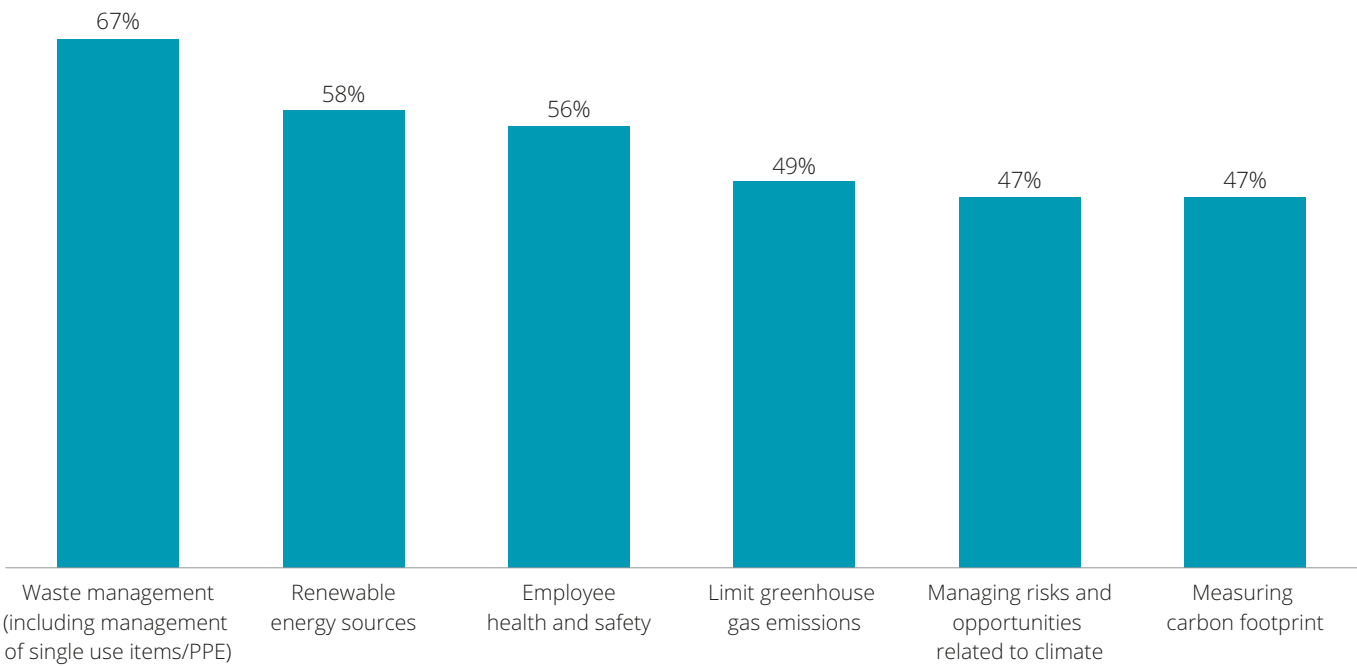
# Part 5 - Environmental, Social and Governance (ESG)



## Environmental, Social and Governance (ESG)

Q. What does ESG mean to your organisation?

Top six elements CFO's use to define ESG



Overview

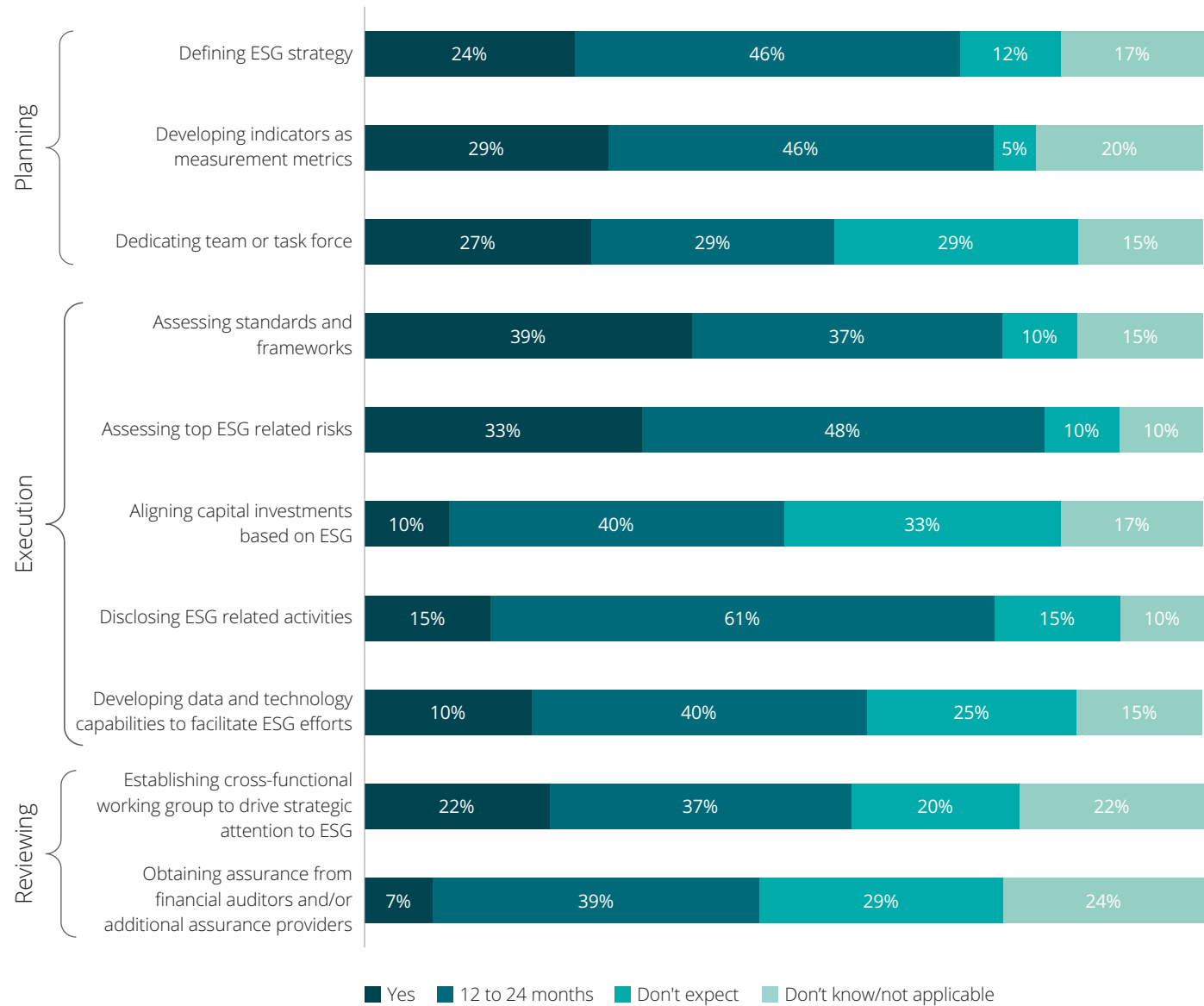
- Waste management including management of single use items/PPE was the most common item within the ESG definition for CFOs surveyed.
- Just over half of CFOs stated that renewable energy sources and employee health and safety are within their definition of ESG.
- 46% of CFOs stated they expect their organisation to define an ESG strategy in the next 12 to 24 months. This is in addition to 24% of CFOs who responded that they have already defined their strategy.
- Although ESG is on the agenda, only 10% of CFOs responded that their organisation is measuring the impact of their ESG strategy.

Outlook

- CFOs need to take on board their responsibility as strategic advisors. The role of finance in the implementation and execution of their organisation's ESG strategy is critical. This can be done by integrating the objectives into existing planning and reporting processes, by provisioning data and by breaking down overall strategy into relevant KPIs or metrics.

# Environmental, Social and Governance (ESG)

Q. My organisation has done the following as a part of our ESG efforts:



# Options for action

The CFO Healthcare Survey identified the top three CFO priorities are:

- 1 Cost containment/reduction/cash management
- 2 Recruiting and retaining talent
- 3 Revenue optimisation/maximisation

The inclusion of recruiting and retaining talent as a priority highlights the CFO role is no longer just about revenue, costs, and budgets. There is a strong emphasis on managing risk, driving performance, and ensuring the wellbeing of the organisation and its people.

To deliver on these priorities and respond to changes caused by disruption to healthcare CFOs should consider the following opportunities:

- Assess the long-term talent requirements to inform investment decisions around physical/visual environments and collaboration/productivity tools that are critical to addressing talent challenges.
- CFOs should deepen their understanding of digital technology and its applications for the finance function.
- Take a close look at process improvement and ways to unwind operational inefficiencies. Consider process automation as a way to serve the business more efficiently.
- Review how the finance team can assist with the implementation and execution of their organisation's ESG strategy and health equity initiatives including the development of relevant KPIs or metrics to report on their success.
- Review the reporting, processes and accountability structure for the delivery of capital projects. Consider how reporting can be tailored to improve the transition of major capital projects to operation.
- Walk the walk. CFOs should show the rest of the organisation they're doing their part to reduce costs while freeing up time for more valuable work.

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