

Deloitte.



Healthcare CFO Survey 2023

Challenges facing healthcare finance leaders







Contents

Executive summary	04
Financial sustainability	08
Capital strategy	14
Talent	16
Health equity	20
Environmental, Social and Governance (ESG)	23
Options for action	27
Contact us	29

Executive summary



Introduction

The Deloitte Healthcare CFO Survey gathers intelligence and insights from a diverse group of financial executives within both private and public healthcare entities across Australia. These leaders have been surveyed on five key areas of focus, including financial sustainability, capital strategy, talent management, health equity, and Environmental, Social and Governance (ESG) considerations.

Australia's healthcare system continues to be disrupted by significant challenges, including increasing inflation, supply chain difficulties, and workforce burnout

and shortages. The challenges have become even more pronounced against the backdrop of a global landscape reshaped by the COVID-19 pandemic. This new healthcare environment has acted as a catalyst for change, compelling Chief Financial Officers (CFOs) to re-evaluate their priorities and work methods, rethink workplace culture, and embrace new technologies to navigate the evolving landscape. As the focus continues to sharpen on delivering 'outcomes' rather than 'activity' – and funding models evolve accordingly – the speed of transformation is bound to intensify.

However, numerous healthcare organisations find themselves critically behind and in 'technology debt', resulting from inadequate investment of resources in updating and modernising technology infrastructure. This leads to outdated systems, data security vulnerabilities and inefficient workflows, ultimately compromising patient care and hindering the adoption of innovative healthcare solutions. It's imperative for the industry to address the technology debt and keep pace with the evolving demands of modern healthcare, so that patients can receive and professionals can deliver the best possible health outcomes.

Survey methodology

Deloitte surveyed financial leaders (Chief Financial Officers and Finance Managers) from 50 healthcare providers, including:



of organisations with **more than \$1 billion** in revenue



from public health



from private health

The results reflected in the 2023 Healthcare CFO Survey report combine the responses of public and private healthcare financial leaders, apart from the section focused on financial sustainability, in which the data has been disaggregated to highlight the difference between the two sectors.



National coverage with
6 states
represented



* Three key themes have emerged from surveying healthcare financial leaders in relation to five organisational priority areas, including financial sustainability, capital strategy, talent, health equity, and Environmental, Social and Governance (ESG).

* Key themes



Cost pressures

CFOs are anticipating revenue growth, but this may not be enough to counterbalance rising costs, with 62% of CFOs expecting further erosion of operating margins. Labour costs were identified as a key driver behind increased costs, with 48% of healthcare service providers experiencing higher-than-historical compensation increases for their healthcare staff.

These increased labour costs, in conjunction with the impact of inflation on consumables, systems and operational costs, are contributing to the erosion of profit margins throughout the healthcare industry, necessitating a more vigilant approach to cash management.

In response to this issue, 64% of CFOs are diligently focusing on monthly cash flow management, with a strong emphasis on ensuring financial sustainability. The two most common actions undertaken by CFOs to enhance their cash positions are improving cash collection from own source revenue and streamlining funding arrangements.



Talent shortages

The shortage of nurses and clinical staff continues to have a significant impact on the healthcare sector, with 76% of CFOs witnessing the shortage. More substantially, 84% acknowledge a shortage of finance talent.

Based on CFO interview responses, it's evident that staff shortages are most noticeable in regional areas and for in-demand specialists. Various reasons have been cited for this issue, including challenges with visa approvals, as well as the unavailability of affordable accommodation due to the rapid escalation of property prices.

Addressing talent shortages will be essential for healthcare organisations, enabling them to meet community expectations for service quality and to undertake the investments required for a digitally empowered healthcare system.



Digitally empowered healthcare

Clinical, financial and technological challenges persistently impact the healthcare system, exacerbated further by the COVID-19 pandemic. These various ongoing pressures on healthcare delivery are a driving force for digital transformation of the industry. This is evident in the survey results, with an anticipated increase in investments by healthcare organisations in digital technologies, core business technologies, and data and interoperability tools.

Similarly, the adoption of healthcare cloud solutions continues to rise, as organisations turn to cloud technologies, including Platform as a Service (PaaS) and Software as a Service (SaaS), to enhance their operations and manage capital expenditures more efficiently.

CFOs are also observing increased expenditure on hospital and health service infrastructure (54%) and alternate care sites (44%). These developments will drive the need for further investment in technology to expand capacity and elevate capability across services and sites.

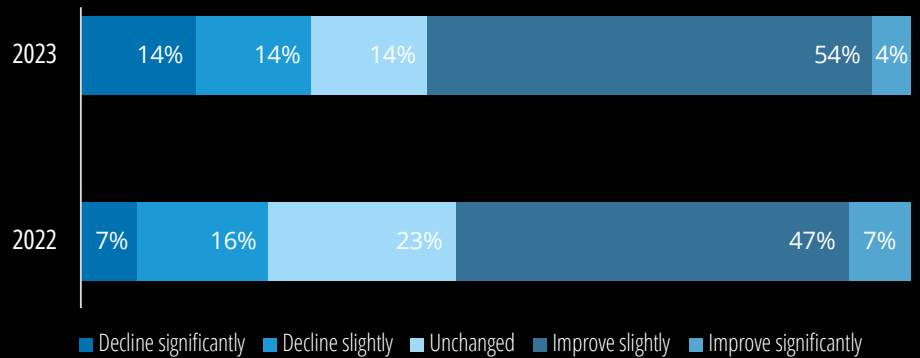
4 Financial sustainability



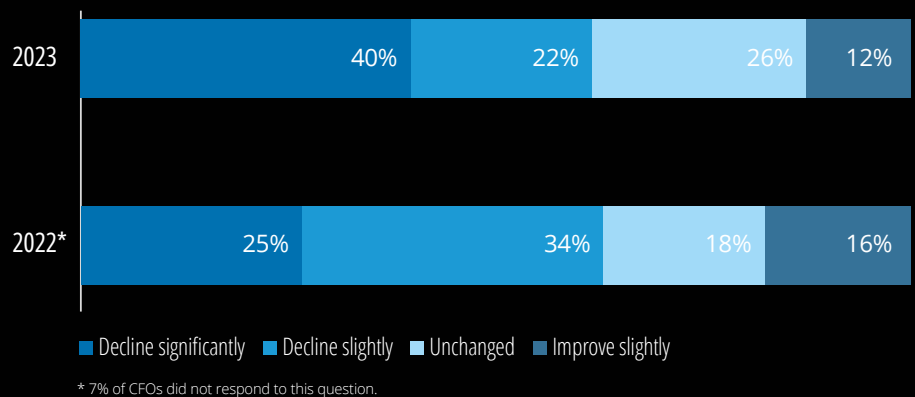
4 Financial sustainability

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

Operating revenue



Operating margin



Overview

Current funding models and inflationary pressures continue to have a negative financial impact on operating revenue and operating margin. This is highlighted by 40% of CFOs expecting a significant decline in their operating margin compared with 25% in the prior year.

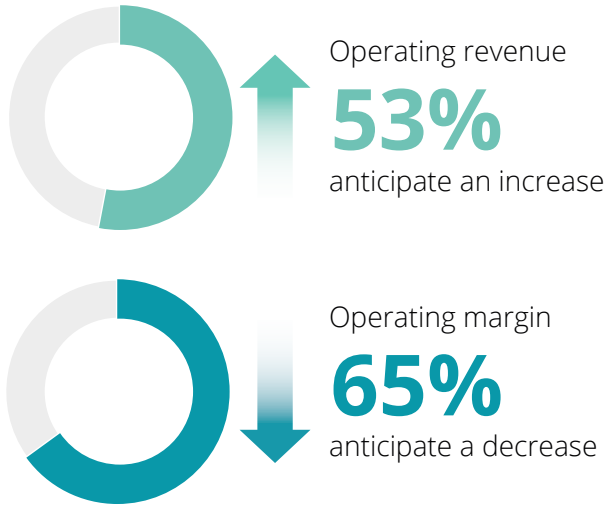
Financial performance

- 44 out of 50 CFOs stated that maintaining financial sustainability is a critical factor for actions and decisions.
- While the majority expect their operating revenue will improve, only 6% of CFOs have high confidence that their organisation is currently optimising revenue available under existing funding models.
- 62% of the surveyed finance leaders foresee their organisations' operating margin declining in 2023. Of those forecasting margin deterioration, 40% expect a 'significant' decline, in contrast to only 25% in 2022.
- Inflationary pressures are a contributor to the deterioration of operating margins, with 5.1% inflation in FY23 for the healthcare industry.
- As organisations strive to retain and actively involve both clinical and non-clinical staff, CFOs have cited a loss in productivity as a COVID-19 legacy. With impacts on the operating margin, the rise in expenses is notably attributed to talent challenges.

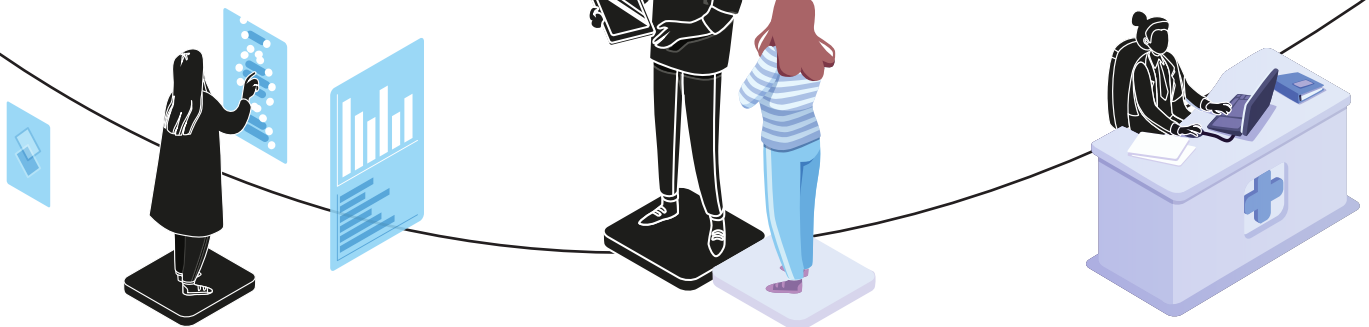
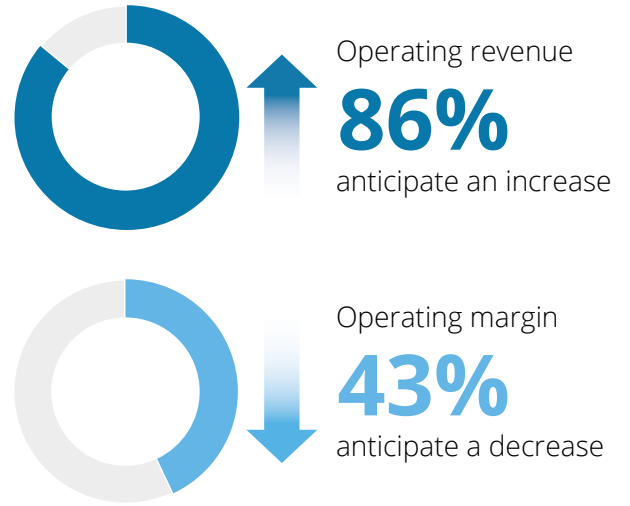
Financial sustainability



Public healthcare



Private healthcare



Public vs private financial performance outlook

Public sector

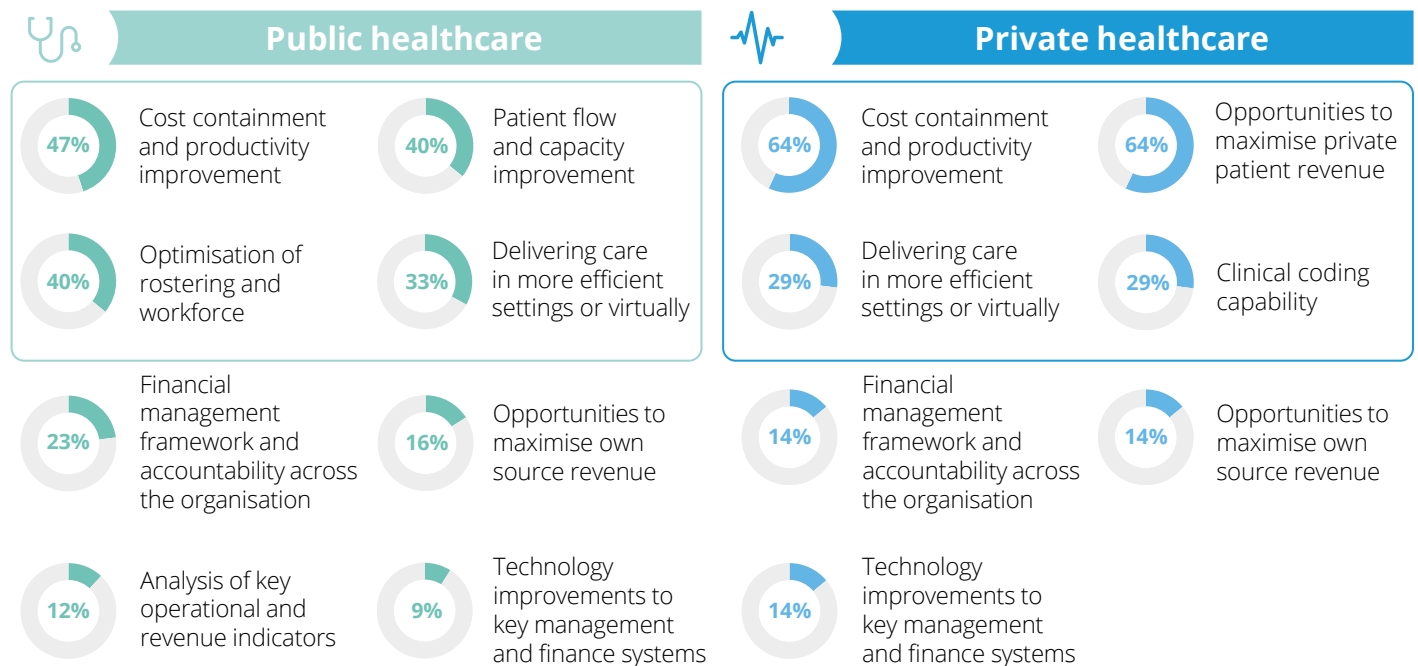
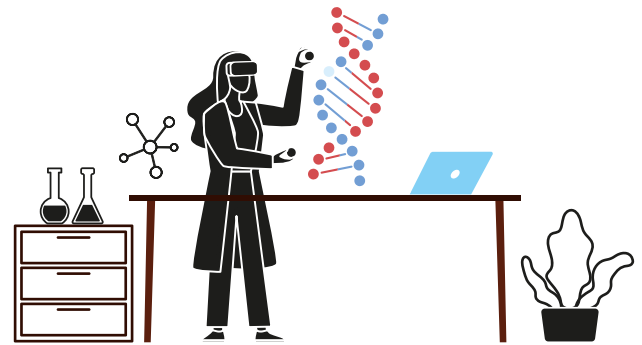
- 65% of CFOs anticipate a deterioration in margins, with macro-economic pressures, including inflation, weighing heavily on profitability.
- Revenue expectations are mixed with 53% of CFOs projecting an uplift, while 30% forecast declining revenues.
- About a quarter of CFOs expect operating margins to remain flat, and 16% anticipate an unchanged operating revenue trend.

Private sector

- CFOs expressed a strong consensus that operating revenue will improve, but only 29% anticipate this will translate into an operating margin increase.
- More public healthcare CFOs expect operating margins to decrease than those in the private sector. However, more comparably across the two sectors, 29% in private healthcare expect margins to be unchanged, indicating the persistence of cost pressures.

Financial sustainability

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



Common priorities for public and private healthcare

- 'Cost containment and productivity improvement' remains front of mind for CFOs across the sectors given the expected deterioration in operating margins.
- 'Delivering care in more efficient settings or virtually' is also noted as critical across both domains.

Different priorities for public and private healthcare

- 40% of public healthcare CFOs consider 'patient flow and capacity improvement', as well as 'optimisation of rostering and workforce', as major factors

to address financial sustainability requirements.

- Whereas 64% of private healthcare CFOs see 'opportunities to maximise private patient revenue' as one of the key drivers for financial sustainability within their organisation.
- In addition, 29% of private healthcare respondents stated that 'clinical coding capability' is an important component to achieve financial sustainability.
- 23% of public healthcare CFOs noted that 'financial management framework and accountability across the organisation' is important to achieve financial sustainability,

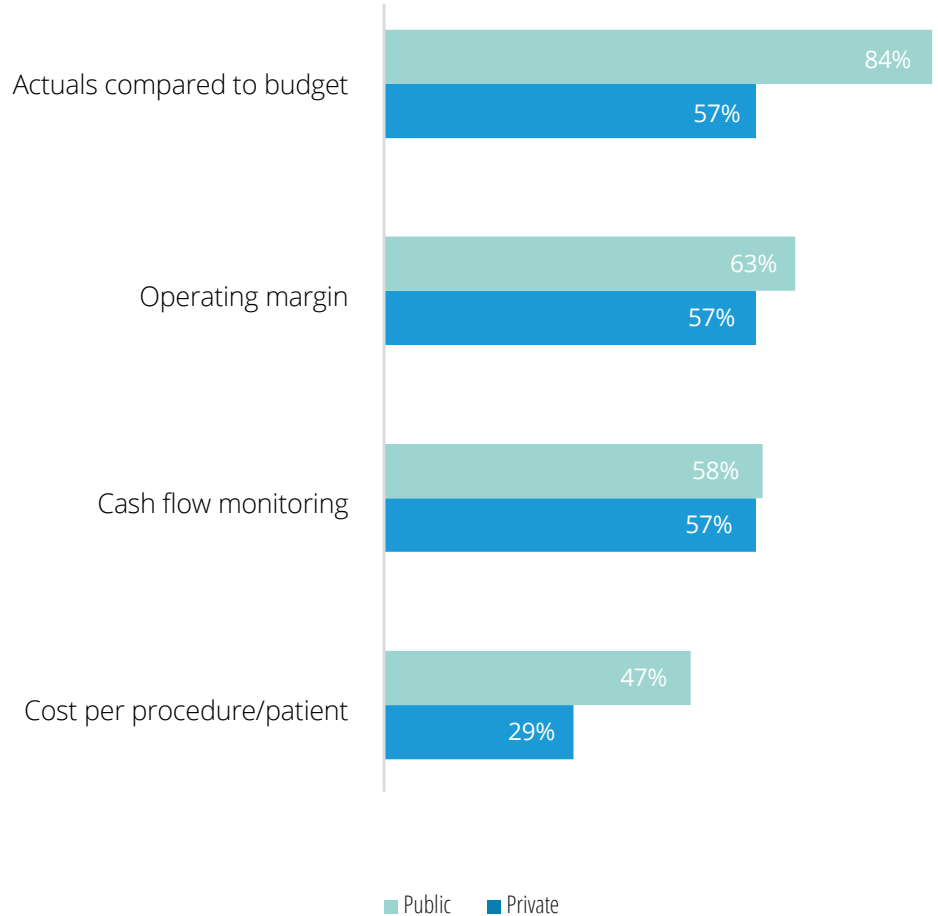
compared to 14% of private healthcare CFOs.

Changes from FY22 survey results

- 'Analysis of key operational and revenue indicators' was replaced by 'patient flow and capacity improvement' as a major driver of financial sustainability for the public healthcare sector.
- 'Optimisation of rostering and workforce' and 'analysis of key operational and revenue indicators' have been replaced by both 'delivering care in more efficient settings or virtually' and 'clinical coding capability' as important factors for private healthcare in achieving financial sustainability.

Financial sustainability

Q. What metrics do you use to monitor financial sustainability?



Overview

Emphasising the growing significance of financial sustainability in healthcare, 88% of CFOs regard this as a critical factor for actions and decisions.

Public vs private healthcare sustainability focus

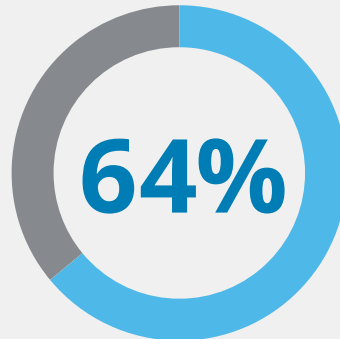
- Survey responses from participants in both public and private healthcare demonstrate a reasonable consensus on the top metrics for monitoring financial sustainability. These include the comparative analysis of actual versus budgeted figures, assessment of operating margins, and rigorous tracking of cash flow.

Revenue optimisation and cash flow management

- The predominant method used for managing cash flow is effective cash collection, with 32% of CFOs indicating they are actively engaged in cash collection management.
- Streamlining funding application processes is another tool used by CFOs for managing financial sustainability within their organisations.

Financial sustainability

Q.
Are you currently engaged in focused cash flow management on a monthly basis?



64% of CFOs agree they are currently engaged in focused cash flow management on a monthly basis



88%

88% of CFOs agree that maintaining financial sustainability is a critical factor for actions and decisions

2

Main activities have been mostly utilised to optimise healthcare organisations' cash flow:



30%

30% of CFOs responded to streamlining funding application processes



32%

32% of CFOs responded to driving cash collection from own source revenue



Capital strategy

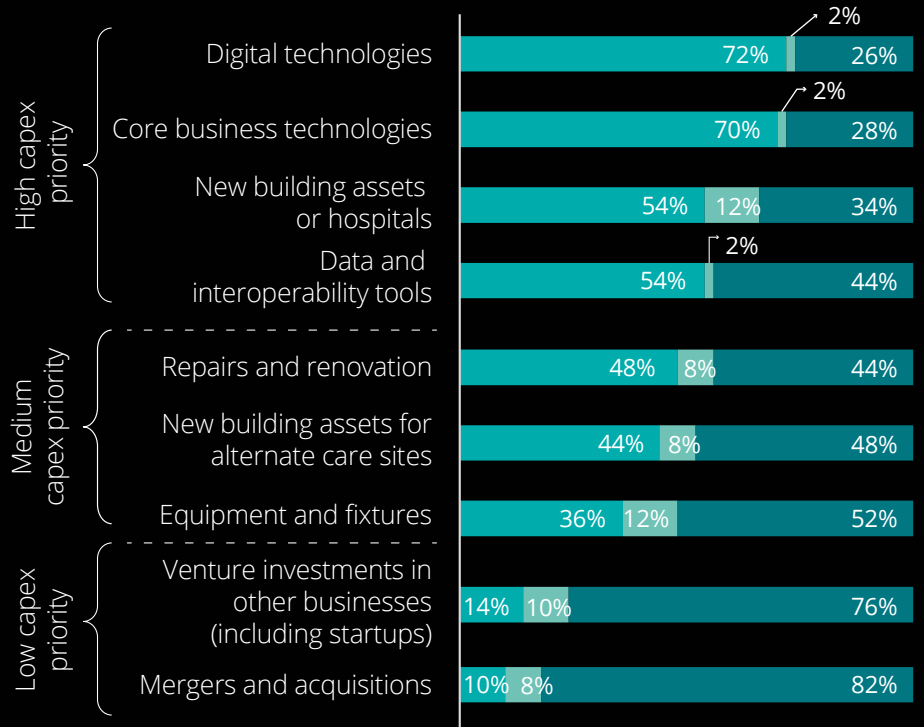




Q. How do you plan to prioritise your organisation’s capital expenditures in the next three years compared to 2022?

“Digital solutions can improve the link between acute and community settings to help patients receive care in their home.”

- Chief Financial Officer, large integrated health system



■ Increase spending ■ Reduce spending ■ Unchanged

Overview

The outlook for capital spending is often considered a benchmark of change in an organisation’s business model. This year, healthcare finance leaders have signalled an intent to increase capital expenditure to align with the dual priorities of facilitating growth and managing recurrent costs.

High-priority items

- The increase in forecasted spending on digital technologies over the next three years is aligned to the transformation activities required by healthcare organisations to manage financial sustainability.

- 54% of CFOs have forecast an increase in spending on new building assets for hospitals. Typically, the commissioning of new facilities can introduce significant profitability challenges. This can influence CFO perceptions that the delivery of care in more efficient settings or virtually is a key factor in managing financial sustainability.

Private healthcare

- 14% of CFOs anticipate a rise in expenditure for venture investments, while 10% anticipate an increase in spending for mergers and acquisitions (M&A). For private healthcare specifically, CFOs are showing a heightened interest in transaction activities, with 43% of CFOs increasing allocated capital spend on M&A and 29% on venture investments.

Outlook

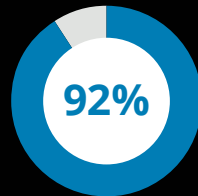
- The imperative digital transformation of the industry underscores the importance of digital capabilities to enable the required change. Embracing digital will not only improve operational efficiency and financial sustainability, but also patient care and health outcomes.
- Organisations that prioritise data-driven decision making and invest in the development of a skilled workforce will be better placed to navigate the complexities of the modern healthcare landscape.

3 Talent

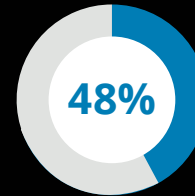


3 Talent

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



of CFOs unanimously agree that they have a growing stake in solving talent challenges of their organisation



of CFOs state that higher-than-historical pay increases are being offered to their employees

"Talent scarcity in our regional healthcare system is not just a hurdle; it's a barrier to progress. As a CFO, I'm deeply concerned about the impact this has on our ability to provide healthcare services at the requisite level and our financial sustainability."

- Chief Financial Officer, regional healthcare facility

.....

Overview

Difficulties in attracting and retaining key talent was cited by 76% of CFOs as one of the top risks on their minds. The increase in employee remuneration also contributes to the anticipated margin decreases for healthcare organisations.

Employee wellbeing and flexible working a top priority

- Clinical burnout is a major concern for 76% of CFOs, with the issue being responded to by an increased emphasis on wellbeing of clinical and non-clinical staff, as seen by 86% of CFOs.

- 68% of CFOs are continuing to see their organisation provide flexibility to employees, with the option to choose a virtual or hybrid model of work. Since the COVID-19 pandemic, hybrid work environments have become a lasting expectation for employees.

Overreliance on locum staff

- Finance leaders confirmed in interviews that excessive dependence on locum staff within organisations is a prevalent issue. This overreliance contributes significantly to increased cost pressures.

Inefficient staff rostering

- During CFO interviews, concerns were raised about the inefficiency in staff rostering, with some perceiving the issue as a behavioural shift induced by the impact of the COVID-19 pandemic.

Skill level deficiency

- Concerned by inadequate skill levels within their finance functions, CFOs emphasise the necessity for upskilling finance staff to enhance their capabilities in performing critical tasks, such as board reporting and BI tools.

Higher-than-historical increase in staff pay

- The current growth rate for labour costs is unprecedented, with a correlation to CFO perceptions on skill level deficiencies. Due to these talent challenges, organisations are absorbing significant salary and wage increases to retain talent.

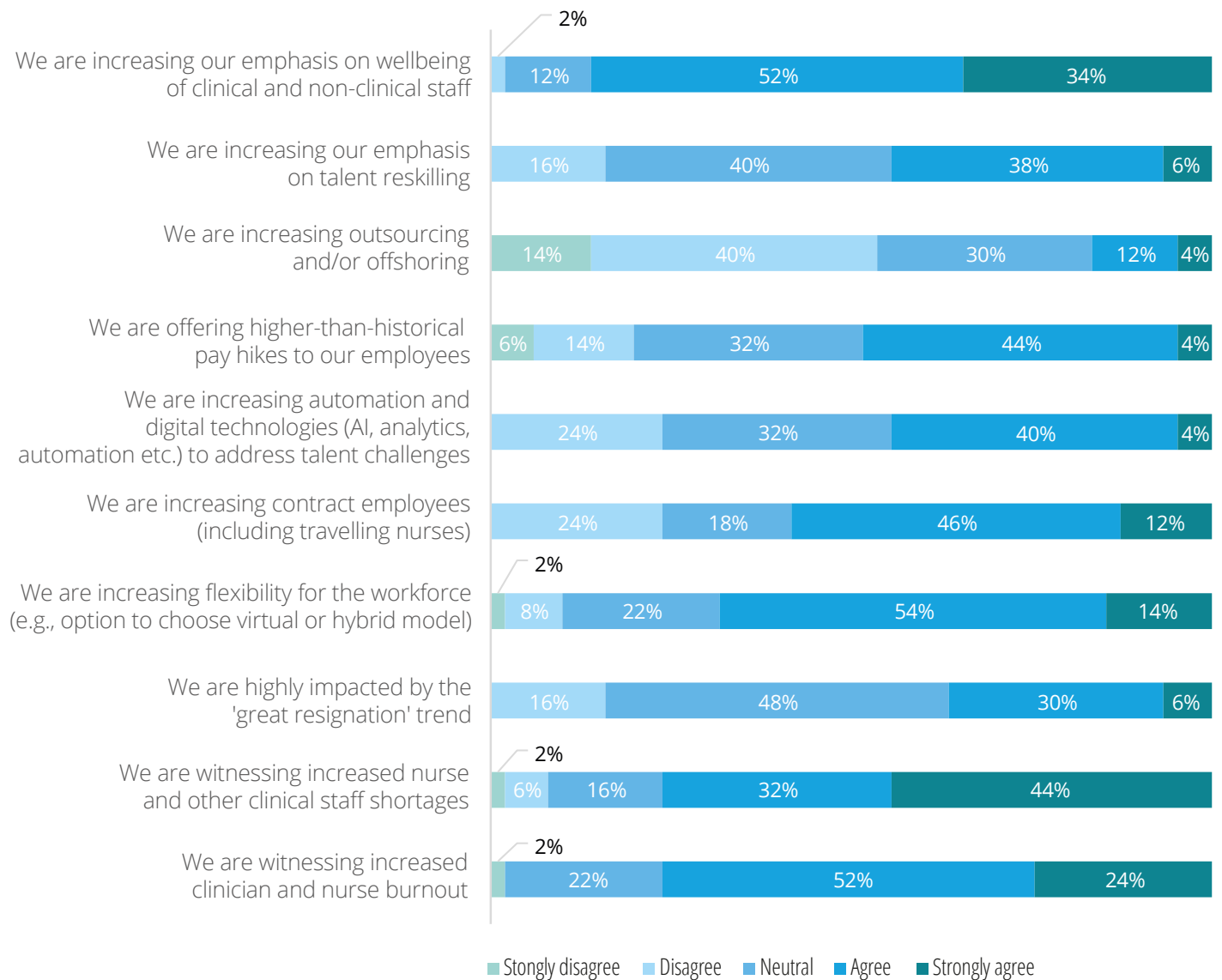
Outlook

- CFOs are looking to reduce the reliance on locum staff, but whilst the critical staff shortages continue to plague the industry, the use of locum staff will need to be offset through cost containment in other operational expenses.

3 Talent

Organisational talent challenges

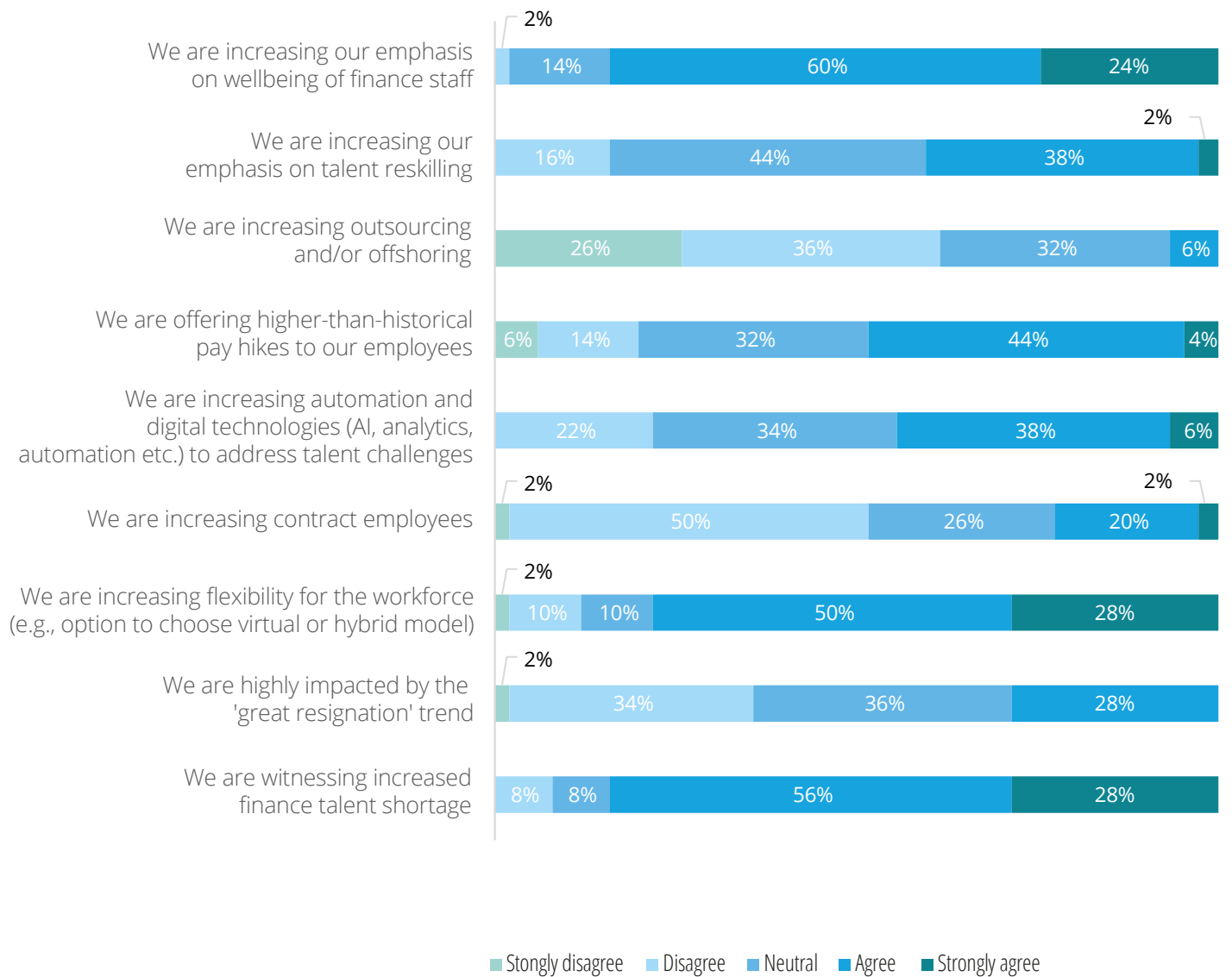
Q. Level of agreement on organisational talent- related situations



3 Talent

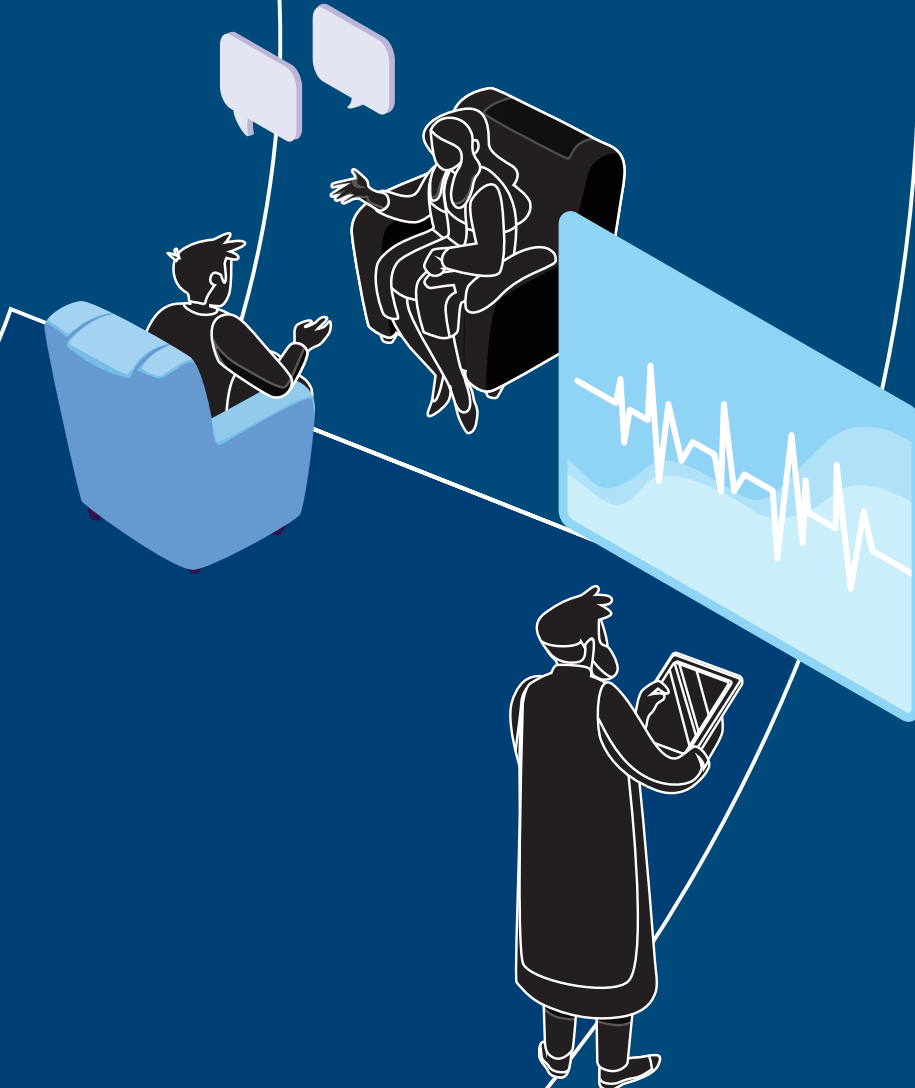
Finance talent challenges

Q. Level of agreement to finance talent-related situations



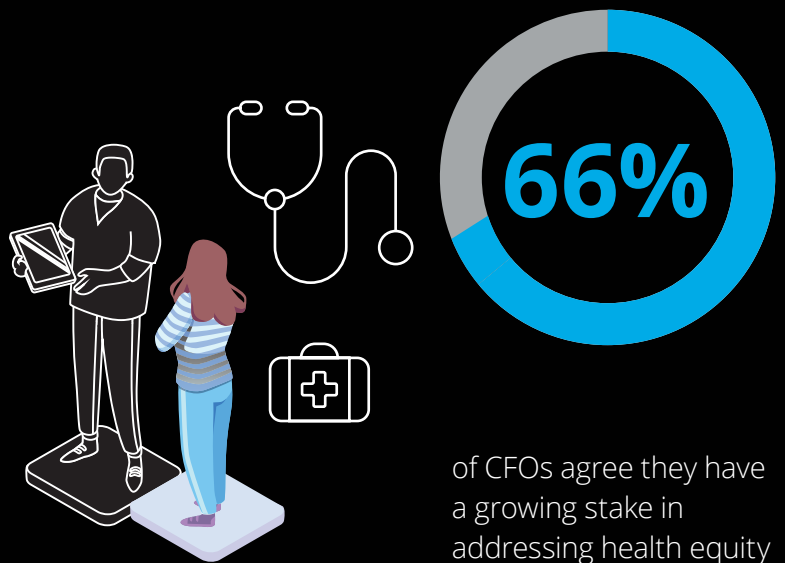


4 Health equity



4 Health equity

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



Mixed progress on health equity

- Achieving health equity is a crucial goal to ensure that every individual, regardless of their background or circumstances, has the opportunity to attain the highest level of health possible. However, the reports of progress are mixed for healthcare organisations across Australia. One third of the surveyed CFOs do not have health equity on agenda. On the other hand, over one third of organisations are implementing and optimising health equity initiatives.

Changes from FY22 survey results

- 88% of CFOs expressed a rising inclination to tackle health equity concerns, marking a notable shift from the 66% reported in 2022.
- Since 2022, advancement has been made in the development of metrics and dashboards for monitoring health equity performance, transitioning from 7% to 20%.

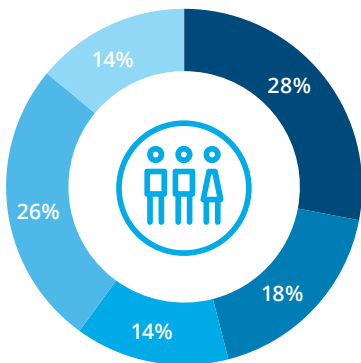
Outlook

- Addressing the lack of health equity initiatives requires a multifaceted, collaborative approach involving policymakers, healthcare providers and communities. CFOs also play a key role, particularly in the assessment of investment decisions and setting metrics for reporting to the board. The increasing focus on health equity by CFOs is a promising sign.

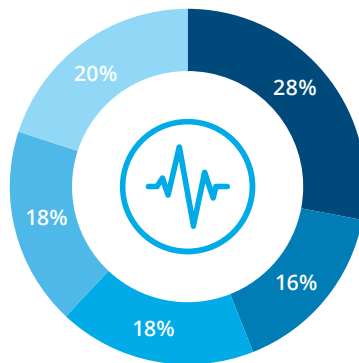
Health equity

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

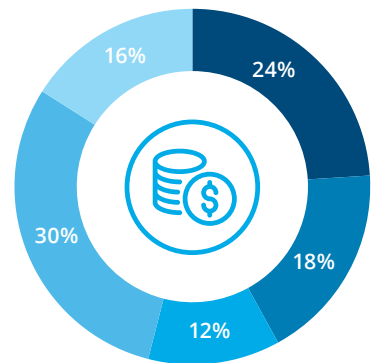
1. Improving the diversity, equity, and inclusion of the finance function's workforce



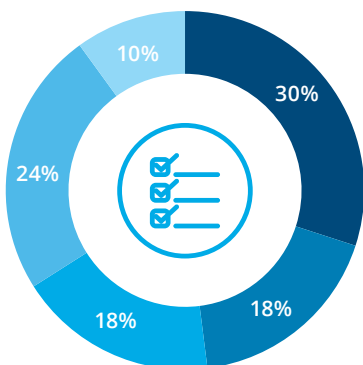
2. Creating measures and dashboards on health equity performance



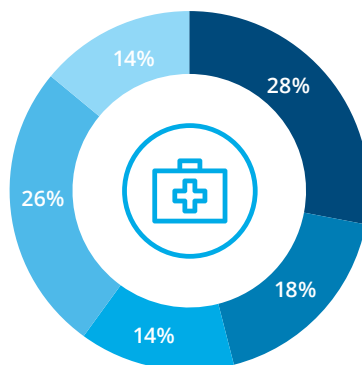
3. Aligning investments (budget, capital, resources) with health equity goals



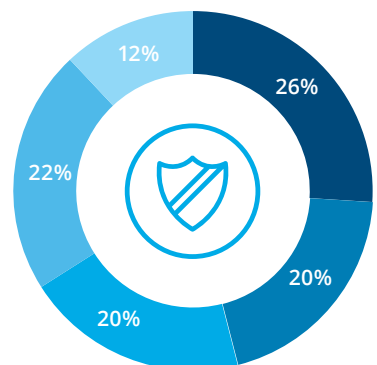
4. Developing rigorous audit, compliance, and management practices to ensure health equity performance, visibility, and accountability



5. Ensuring oversight of health equity initiatives through regular board reporting



6. Focusing on compliance and risk mitigation of health equity initiatives



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



5 Environmental, Social and Governance (ESG)



5 Environmental, Social and Governance (ESG)

Q. How much do you agree with the following statement: "As a finance leader, I have a growing stake in addressing ESG issues for my organisation" ?



Overview

- ESG is front of mind for CFOs, with the majority agreeing they have a growing stake in addressing related issues for their organisation.
- Like the FY22 survey, waste management, including management of single-use items/PPE, is the most common element CFOs use to define ESG. Meanwhile, 'transparency in executive compensation' has taken on greater importance in defining ESG, moving from 16th place to 2nd place this year.
- Overall, ESG efforts have progressed across the planning, execution and reviewing cycles. For

example, 46% of CFOs responded that they have now defined their ESG strategy, in contrast to only 24% in FY22. In addition, 46% of CFOs are disclosing ESG-related activities – a significant increase from only 15% last year.

Outlook

- CFOs will continue to play a crucial role in planning, executing and reviewing their organisation's ESG strategy.
- Looking ahead, 52% of CFOs aim to develop data and technology capabilities to facilitate ESG efforts in the next 12-24 months. Through this work, CFOs can

provide valuable assistance to ESG reporting and related initiatives through the evaluation of data technology capabilities. Given the growing complexity of data inputs, effective data management will be pivotal for organisations to obtain assurance for their ESG disclosures.

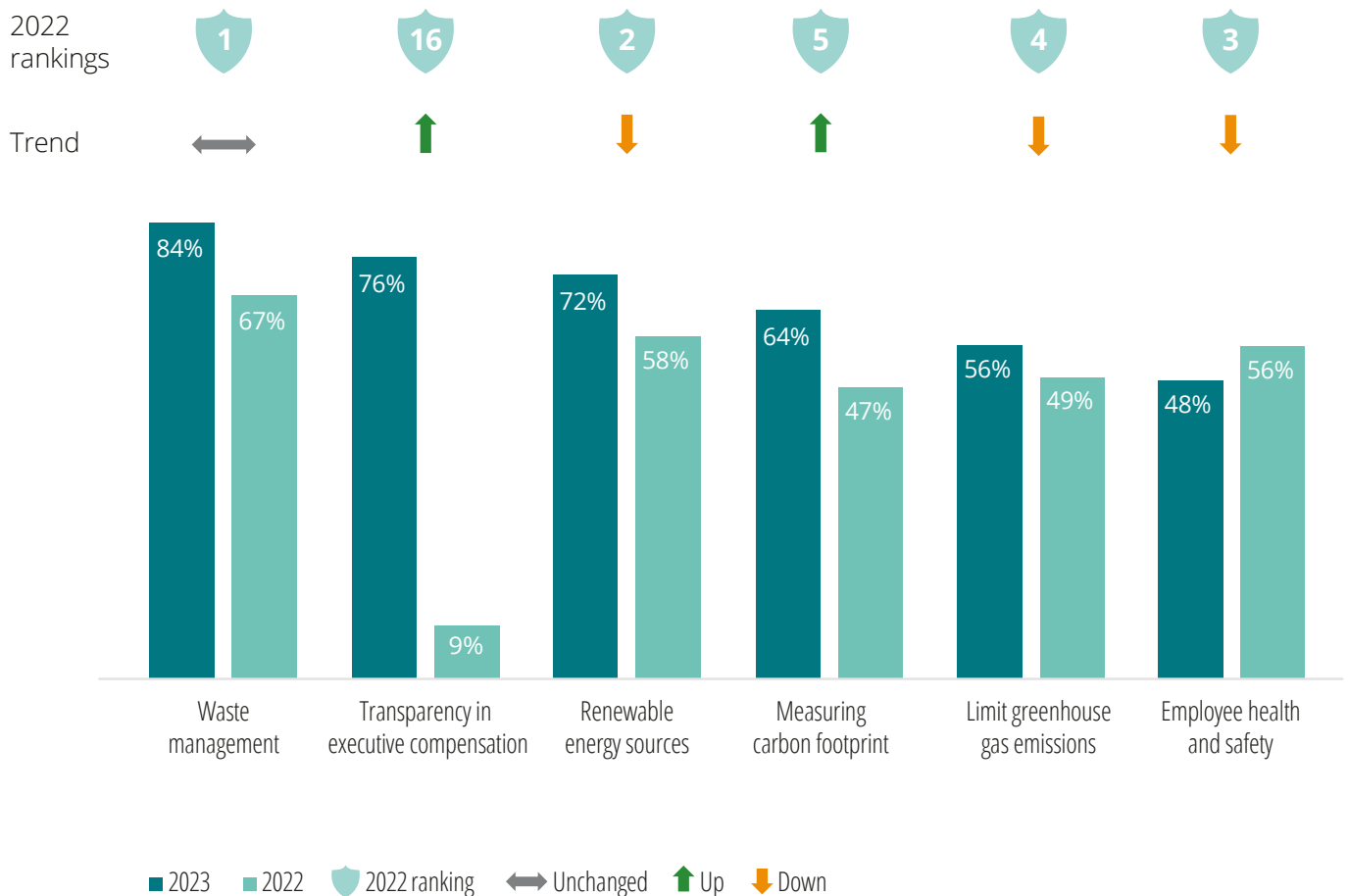
E

Environmental, Social and Governance (ESG)

Q.
What does ESG mean to your organisation?

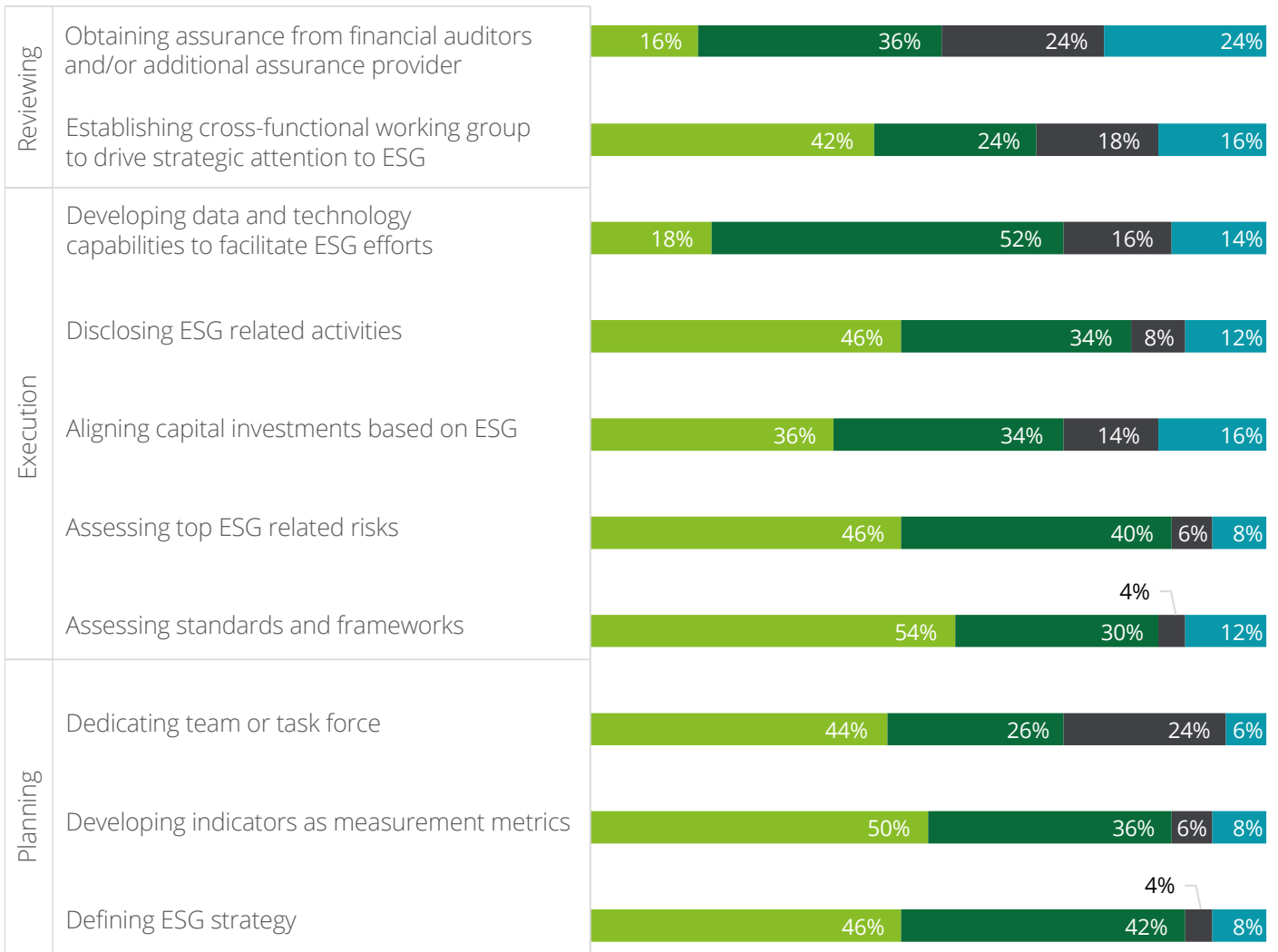
Top 6

elements CFOs use to define ESG



Environmental, Social and Governance (ESG)

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



■ Yes
 ■ Expect to in next 12-24 months
 ■ Do not expect
 ■ Don't know/ not applicable

Options for action





Options for action

As evidenced throughout the 2023 Healthcare CFO Survey, cost pressures within the healthcare system are placing an overwhelming burden on its workforce. However, the pressure is also serving as a catalyst for reimagining the future of healthcare.

At the heart of this future, digital technologies are poised to facilitate the creation of a 'hospital without walls', seamlessly integrating in-patient care with alternative models, including community and home-based care. Embracing digital transformation is a top priority for healthcare organisations and it's an essential step in preparing for a patient-centred future of healthcare,

where patients can receive the best possible care and health outcomes in their location of choice.

Nevertheless, questions and challenges persist on a range of topics that need to be addressed to enable this future, including the requisite digital capabilities for rethinking care delivery; how to implement change across organisations and incentivise the workforce to embrace digital solutions; and around funding and business models. For the latter in particular, fragmented and intricate funding arrangements make it increasingly arduous to finance digital investments.

"Digital transformation is key for our organisation. We are analysing data to better understand healthcare needs and we are investing in digital service delivery models to provide greater access to care."

- Chief Financial Officer, primary healthcare organisation

The following five actions can be taken by healthcare CFOs to respond to the disruption and create sustainable positive change:

- 01. Strengthen your foundations:** improvements to process, data literacy and data management can help facilitate transformation efforts.
- 02. Reporting:** conduct a review of processes, and accountability structures for the execution of capital projects.
- 03. Gain a comprehensive understanding of long-term talent and skill requirements:** this view should allow for appropriate budget allocation to recruit new skills and provide necessary training, ensuring organisational capability is built for digital transformation.
- 04. Use your savings wisely:** assess how increased revenue or cost savings can be earmarked and allocated toward transformation initiatives.
- 05. Enable true partnerships through investment:** focus budget and investment decisions on enabling partnerships that can be leveraged to create new delivery mechanisms and deliver digital transformation.



Contact US





Contact us



Luke Baxby

AU National Healthcare
Leader
Brisbane
lbaxby@deloitte.com.au
Mobile: +61 450 921 748



Shaun Drummond

Partner, Finance Advisory
Sydney
sdrummond@deloitte.com.au
Mobile: +61 457 456 926



Julia Hodgkinson

Partner, Finance Advisory
Brisbane
jhodgkinson@deloitte.com.au
Mobile: +61 439 450 485



Julian Maiolo

Partner, Consulting
Melbourne
jmaiolo@deloitte.com.au
Mobile: +61 438 836 347



Peter Reynolds

Partner, CFO Advisory
Perth
pmreynolds@deloitte.com.au
Mobile: +61 431 382 997



Indrani Pal

Partner, CFO Advisory
Melbourne
ipal@deloitte.com.au
Mobile: +61 432 013 107





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organisation”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organisation” serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte Australia

The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

©2023 Deloitte Touche Tohmatsu

Designed by CoRe Creative Services. RITM1562594