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Attendees

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CFO, Aria Care

Adam Carter
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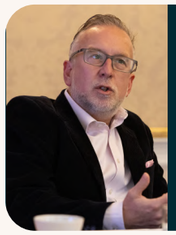
CFO, Create Fertility



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CFO, Nuffield Health

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Introduction

With one of the broadest remits on the Board, what trends and challenges are today's healthcare CFOs, finding? There is no doubt that the economic backdrop has been unfavourable for a number of years now, but in one of the more supposedly resilient sectors, leadership teams have had to become more creative in reaching their goals.

This discussion will explore technological innovations, the impact of increasingly strained budgets for local authority, NHS and consumers, and the outlook for the sector as a whole after a year of political change.

Key areas of discussion

- What significant changes have you seen, if any, to the role of the CFO in a healthcare company? Has increased regulation added further complexity?
- Where can AI enhance the efficiency of a finance function? What steps have you taken to introduce technology into your businesses and what was the outcome? Any plans to focus on this in the immediate future?
- With vast quantities of data at our fingertips, how are you managing this information to ensure maximum security? How can you use this data for greater commercial benefit?
- How have you managed labour challenges across your workforce, specifically when considering quality and the overhead of agency spend? Has wage pressure played a significant part in your organisation? Are there any early thoughts and plans in place in reaction to the government's new employment rights bill?
- With inflationary pressures seemingly easing and the BofE base rate set for further reductions, where does M&A feature in your strategic plan? To what extent has the past year impacted budgets and proposed growth targets?

The role of Chief Financial Officer (CFO) is critical in any healthcare business.

With one of the broadest remits on the Board, the CFO faces a number of challenges from strained budgets, managing a large workforce, integrating new technologies and businesses into the company and, most recently, a new Labour government and the anticipated changes that will herald.

Leading CFOs in health and social care joined other sector stakeholders to explore these challenges, discuss what trends they are observing, and what lies ahead in this climate of political change.

Trends in healthcare and the impact on the bottom-line

The round table heard that healthcare businesses are caring for people with higher levels of acuity and co-morbidities, which needs to be reflected in the facilities providers offer, particularly in social care.

Here around 40% of care homes are in converted properties which are not always suitable for this level of care.

As one participant said:

> *"A lot of our of sales have been moving those older homes on because COVID accelerated the need for having day space or communal areas, and wider corridors, and ensuites are becoming an expectation."*

The round table heard that now some regulators in Wales expect any new care home that opens in the nation to have en-suite bathroom facilities.

This is a particular challenge for healthcare providers with a large, varied portfolio of homes, ranging from purpose-built facilities to old, listed conversions.

One participant said:

> *"There's almost a permanent requirement for maintenance capex. And there's an expectation from shareholders and others that this will tail off over time. But the reality is, given the nature of the building, the nature of the sector and the requirements of the regulators, that is a huge challenge to manage."*

There was also concern about what impact the anticipated changes to the operations of the Care Quality Commission will entail, following two highly critical reviews of the regulator.

In addition, another healthcare regulator, the Human Fertilisation & Embryology Authority (HEFA), is taking a tougher line, using a traffic light system to highlight those treatments with limited evidence. The Competition and Markets Authority has also highlighted that IVF companies must be more transparent on pricing, making it clearer up front what the cost of treatment is likely to be.

AI, data management and utilisation for better outcomes

Another challenge facing CFOs is digitising their businesses systems. One participant whose organisation is currently going through a digital transformation said the key reason for this process was making life easier for everyone involved. The provider has done this by centralising all the systems and overlaying them with data that is meaningful to workers on the frontline. It did this by asking what are the outcome measures that clinicians need to know? How can systems capture that information and produce meaningful data in a way that is really easy to understand?

There is a danger, however, that the operations teams might get bogged down in data. Using a dashboard that shows only the information that clinicians need, with the option to drill further down, if necessary, could be one solution.

Some healthcare providers are looking at putting in systems to automate all their processes across finance, HR and any other back-office functions.

They then hope to build systems to capture the data that would demonstrate to patients, their families and commissioners what improvements have been made.

One panel member whose organisation already uses robotic process automation (RPA) said it took away the more monotonous tasks from workers. In addition to back-office processes, there were also some “very healthcare specific” tasks that were capable of being automated, he said.

The panel member added:

> *“I think one of the responsibilities, certainly, I feel as a CFO is to raise the overall level of data literacy across the organisation.*

I think still it's very patchy, and there are some very interesting, funky use cases around digital twins and synthetic.

“We've got a couple of different programmes, one an apprenticeship programme, and we've got some others learning now, trying to find different cohorts of people in the organisation and getting them to be more comfortable using data, and also interpreting data, because I still think that the base use of this is poor, in many instances.

> *“I feel as much responsible and energised about that as I do some of the high-end interesting examples even within finance.”*

Collecting data from service users can be used to improve the quality of care provided. One participant said his company was using that data alongside AI to predict how people would need those interventions, and even to prevent people getting ill in the first place. He said: “We think using that data, we can create insights to help people stay well for longer and to use exercise to avoid having to have surgical interventions. Then, if they do need surgery, we can give the best possible outcomes and support afterwards.”

This data can also be used to demonstrate that an organisation is driving excellent outcomes when negotiating fees with commissioners, another participant pointed out. It can also be used to show owners of healthcare groups that financial performance is where they expect it to be, the panel heard. However, it was stressed that any data gathered needed to be accurate and coming in from all parts of the business to paint a truly representative picture.

Gathering data at scale can also offer healthcare providers a competitive advantage, particularly for the larger healthcare groups. This data can be harvested to make decisions when looking for new builds or acquisitions, one participant explained.

He said: “We've started to really harvest the data to look at what are the things that lead to success. When we're looking at either acquisitions or new builds, if we think we can't get labour, we walk away from it. It's a red line for us. Even if it's in the richest area, we'll just walk away from it.”

AI can also be used by CFOs to produce the documentation a company needs to operate. One panellist revealed how his business produced a group finance manual using ChatGPT to write a baseline draft, which the company could then add to, saving both time and money.

The round table heard that while some healthcare areas may be behind the

curve when it comes to digitalisation, this could also provide an opportunity as they could take onboard the learnings from other sectors and the products would be more likely to be cheaper once these operators came to adopt them.

It was also felt that there is an opportunity to use data to predict required staffing levels to make an organisation more efficient.

However, data leaks remain a problem, the round table heard. To combat this, following an attack, one healthcare provider conducted a review of every single access point, installing authentication software across every system. Despite this, the biggest problem remains phishing attacks, largely due to workers not being IT savvy enough to think before clicking on scam emails. Furthermore, the panel heard that minor data breaches were becoming more of a problem.

Keeping data secure is even more of a challenge with a distributed workforce operating in different countries, particularly if those working within digital networks are not employed directly. As one participant remarked: “This is the human factor around phishing, because we have the same systems. With a distributed workforce, how do you regulate people who you don't employ? When we've got lots of them, that's the biggest challenge we've got.”

Training staff to detect and avert falling for phishing scams and other types of cyber attacks was one solution that was proposed at the round table. One panellist explained that his company has implemented compulsory training for every new person joining the organisation and once a year for all staff members. He said:

> *“There's so many people clicking on stuff. We've even got some senior, senior members of the team, actually a main board member, clicking on one of them. So training is absolutely critical.”*

Workforce management and the rising cost of labour

Finding enough labour to meet the still strong demand for healthcare services remains a problem. The UK government's new Employment Rights Bill is expected to increase labour costs, the panel heard. One measure in the Bill is the move to end "exploitative" zero hours contracts. Instead, there will be a new obligation for employers to offer guaranteed hours to certain workers who are on this type of contract or have a low number of hours guaranteed in their contracts. The panellists did not think this would affect their operations. As one said: "We treat them as employees, pretty much. They get holidays in most cases, so they're not working for some of the warehouse businesses and others where I think that they're suffering from a lack of rights. I haven't seen anything in that there's going to be too much."

These costs, which make up the lion's share of healthcare provider's outgoings, can be exacerbated by using agency workers and not having the optimum labour structure in each of their facilities. As one participant remarked: "There are investors who understand the market, and they take lots of reference points. We call it labour optimisation. So, it's not all about agency, but it's how you optimise that labour structure within each home? Because there is a place for some agency usage in certain moments in certain geographies." Concerns were expressed that changes to the minimum workforce salaries, for example the £15 per hour for social care employees proposed by the TUC, is implemented without public funding.

Recruiting and retaining enough workers remains a problem, the panel heard, so making companies an attractive place for people to come and build their career was critical. One panellist remarked that his organisation now focuses on recruiting people who can cope with the demands of the job and introduced a protracted training and induction process which reduced the number of people leaving within the first 90 days. He also said that looking at the pay banding of staff and offering different rates in London and Scotland to the rest of the country, had led to agency costs being at an all-time low.

Outside of social care there is an issue recruiting enough clinicians, particularly following Brexit. To remain competitive, some providers are working with overseas universities to bring in graduates, as well as having longer term training programmes, to fill their vacancies.

One panellist said:

> *"One of the issues with that is convincing the board that you're going to have extra headcount for a period of time, limiting the breadth of the services they can provide until the training is complete.*

"We were bringing in a number of doctors from India. We had a program with the university out there, and first of all it's very costly to bring them in and secondly train them, and then you've got to make them stay as well."

There are also problems with the regulations that some dental bodies put in place for overseas examinations slowing down the recruitment process, the round table heard.

As many of the graduates coming into certain areas of healthcare are female, the demand for flexible working is growing.

In addition, many consultants, who have been previously concerned with maximising their earnings when choosing where to work are now looking for more of a lifestyle choice, the round table heard. They are also taking their annual holidays now too, which is putting pressure on capacity in acute care.

Another panellist argued that having the right learning environment and career progression was central to retaining staff in his business. He said: “We have a lot of soft aspects of the HR programme, including benefits for staff which are a cost to the business overall, but which build the culture of the organisation.”

“I look at the numbers and our agency use is probably as low as I want it to be from the point of view of the percentage, because, you know, there is a role for us of having agency as that last flexible bit of resource.”

Having a largely private client base was also seen by some of the panellists as an advantage to creating an attractive business for people to work in. As one panellist said:

> *“We've got no shortage of doctors who want to come and work for us, but I think that is a reflection, unfortunately, of the state of the NHS, that it's better to carry out the trade in the private hospital world at the moment”*

The advantage of operating in a private practice would include having the latest equipment and good nursing staff. One panellist said that this would lead to having a better chance of attracting “good quality patients” which would make clinicians stay.

The round table heard that many healthcare providers are revising their business models to rely more on private paying clients. For example, during COVID, a lot of clinicians started doing private rather than NHS work and realised they can offer better care to their patients by doing so. Furthermore, investors are now far more interested in backing this type of business rather than those reliant on NHS contracts, according to some of the panellists.

Growth planning and the challenge of post-acquisition integration

Investment to grow healthcare businesses can present another challenge for CFOs – integrating a new company within their existing organisation. This starts before the acquisition is completed, explained one CFO with recent experience of being involved in this process, by making sure the purchased healthcare facilities are good quality and fit your business model. For example, this healthcare provider would look at smaller businesses that other operators would find too expensive to integrate with their central costs. These could be merged with one of its existing facilities close by, he explained.

The participant added:

> *“We've learned over the years, and we tried a few times, we're actually not very good at taking an underperforming company and transforming it. We're much better at taking a decent practice and growing it.”*

Not being able to turnaround the acquired business is “likely to knock your existing business sideways”, another participant said. To combat this, the care provider used its data to ensure the acquired homes were in the “right places”. Once a business has been acquired, one of the biggest challenges facing CFOs is integrating the technology that both organisations use. Often neither system is big enough to cover the new, combined business, so new technology that will work across the entire organisation has to be brought in, something that owners and investors need to sign off on. However, the quality of data previously gathered by the organisations being merged and the need to cleanse it so it could be used by the new, larger company was felt to be the biggest challenge on the technology side.

Another factor is people leaving the new business. One panellist said:

> *“Culturally it is really more challenging than you might think, bringing together two businesses which looked and felt very, very similar from the outside.”*

“Once you get them inside, there are differences; so that's been the one of the most difficult aspects, the cultural integration.”

“We really focus on the difference between the culture in the two organisations”,

another CFO said. This is due to the large turnover of managers that his business experienced during a recent acquisition, which was far greater than it expected.

“In hindsight, that would have been an area we would have focused on sooner”, the participant said.

Having the support of the owners is essential for a CFO to be able to integrate the acquired business. Often this process takes up a large part of the executive committee’s time and it is useful to have a deadline for this process to be completed so that the organisation can move on and grow.

One CFO whose company is currently going through this process, said lessons had been learned that will be applied when the provider makes its next acquisition. He said:

> *“We will look at resourcing and the team that is needed to integrate anything in the future rather than expecting it can be done alongside business as usual.”*

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