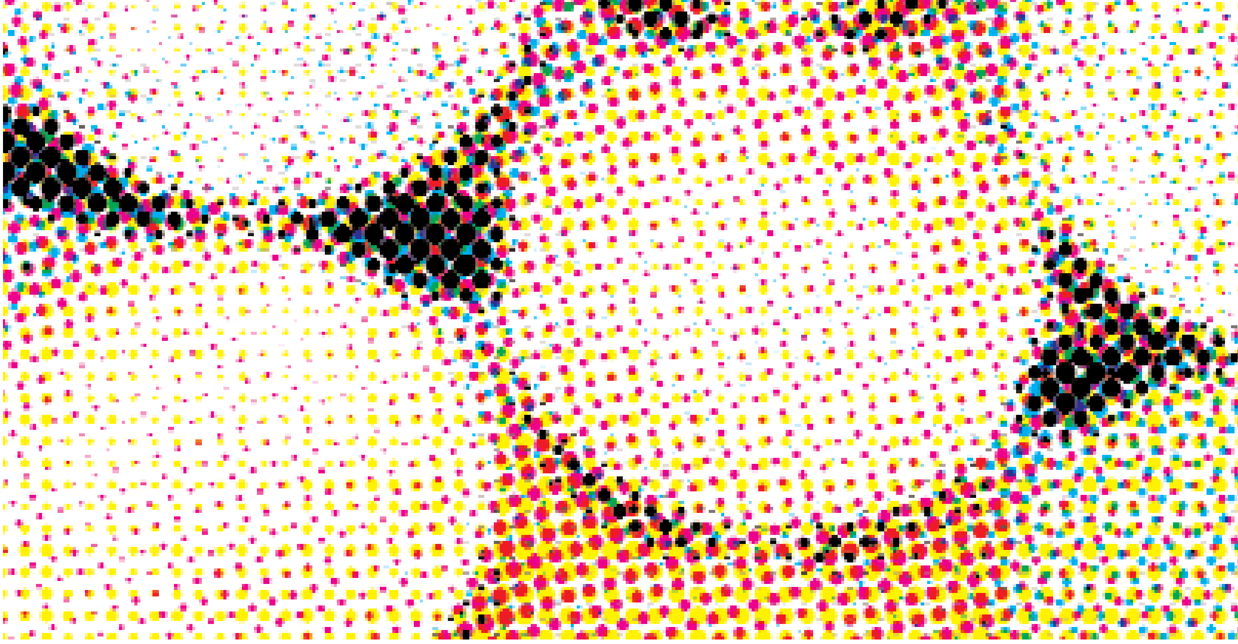
HFMA Finance Director Survey 2007



Directors forecast bright outlook for NHS finances

FINANCE DIRECTORS APPEAR in bullish mood about the short- and medium-term prospects for NHS finances, despite big challenges in meeting the efficiency targets built in to the comprehensive spending review (CSR) settlement.

In the HFMA's annual survey of NHS finance directors across the UK, more than 87% reported that their organisations broke even or made a surplus in 2006/07 (71% had made a surplus). And three-quarters of the 130 finance directors who responded said they expected to make a surplus this financial year, with a further 20% believing they would break even. Only 5% expected to have a deficit in 2007/08. In England, media reports of the six-month figures for the NHS are projecting a surplus of £1.8bn by year-end. This was reflected in the survey, with 88% expecting a surplus in 2007/08, 8% predicting a break-even position and 4% a deficit.

However, finance directors identified a number of risks that could prevent their organisations achieving a surplus or breaking even this year. The greatest risk was the cost of meeting service targets, followed by slippage in cost improvement programmes and unforeseen factors arising during the year.

The rising cost of continuing care was a key risk factor for many commissioners in the survey. This was felt particularly keenly in Wales. Many local health board finance directors were worried about the impact the Grogan ruling (a High Court ruling that the NHS should pay the full cost of a nursing home placement if the patient's primary need is for healthcare) would have on their financial position.

In England, many PCTs predicted new continuing care guidelines would adversely affect their finances – by up to several million in some cases. Other PCTs were worried about rises in prescribing costs, while acute trusts worried about whether they would be able to recover the cost of all activity.

Continued overleaf

2007 survey highlights

- 92% of English finance directors expect the NHS to be in balance or in surplus in three years' time, despite the lower growth settlement in the comprehensive spending review *Above and p2*
- 98% of finance directors believe standards of financial management need to improve beyond improvements achieved in recent years *p2*
- Four out of five English finance directors believe the ALE system drives improvements in financial management and financial performance *p3*
- Recruitment of finance staff is harder under Agenda for Change, according to half of UK finance directors *p4*
- Our survey reports a boost in finance staff morale *p4*
- Welsh and Scottish finance directors believe tariffs should be used as benchmarks to improve efficiency *p5*
- 73% of PCT finance directors want practices to assume more financial risk as part of practice-based commissioning *p5*
- With just 30% of trusts and foundation trusts anticipating more income under HRG4, two-thirds of finance directors want the new tariff currency to be phased in over two or more years *p6*
- Three-quarters of mental health trust finance directors expect the pressures facing their services to increase if a payment by results system is not introduced *p6*
- Mr and Ms Average? With ages spanning 36 to 63 and salaries up to £140,000, how do you match up with the finance director profile? *p7*

Continued from front cover

The slowdown in spending increases between 2008 and 2011, which were outlined in the CSR, does not seem to have affected finance directors' confidence about the future. While 42% believed the overall financial position in their nation would be balanced in three years' time, 38% predicted an aggregate surplus. However, one in five believed the lower growth settlement in the CSR would lead to an overall deficit by 2010/11. In England only 8% believed there would be a deficit in three years' time.

However, finance directors did acknowledge that challenging times lay ahead. Almost 70% said demanding levels of productivity improvement would be needed in order to meet the current targets within the available growth. And more than 12% said that the targets could not be met within the available funding.

Calkin: radical approaches

Reflecting the conclusions of a recent HFMA Policy Forum, held to discuss the CSR and capital financing, HFMA chairman-elect Chris Calkin said that radical new approaches would be needed to deliver the required efficiencies. 'Media reports of the half-year figures put the service on course for a £1.8bn surplus, which could create the impression that the service's financial challenges are behind it.

'However, the reality is that we are facing huge efficiency challenges that will not be found by making marginal savings in the traditional areas such as back office costs and overheads. To meet the 18-week target and other demanding services targets, we need to look at making efficiencies from the health service's core business. We need to improve care pathways and find more appropriate and efficient ways of working.'

Although most do not believe current measures of NHS productivity adequately capture improvement in efficiency (see box), finance directors believe the NHS can continue to make efficiency savings. Four in 10 said the service could achieve annual cash-releasing efficiency savings of more than 1% but less than 2% over the next three years, while 35% thought the scope for savings was more than 2% but less than 3%. Only 8% said that savings of more than 3% could be made, while 16% felt there was scope for up to 1%.

Productive debate

More than eight in 10 finance directors said current productivity measures do not adequately reflect improvements in NHS efficiency.

Many reasons were identified. Some said the current measures were 'too high level' and did not focus sufficiently on the shop floor of healthcare delivery. Some of the shortcomings have been well rehearsed – several directors complained measures were focused too heavily on the acute sector and had failed to keep up with service developments, including transfer of delivery into the community and new technologies such as e-triage.

Difficulty in measuring the impact of prevention was also mentioned. 'Many of the investments we are making in primary care are in preventative areas such as lifestyle management. While some of these have a pay back period of about two years, for example smoking cessation, others have a longer period before efficiency can be measured,' said one PCT finance director.

One PCT director questioned the Treasury's role. 'The Treasury has too simplistic a view and doesn't appear to appreciate that various areas of the NHS cannot increase productivity without reductions in service – for example, much community nursing (in rural areas at least) and the technology-intensive end of acute and specialised services.'

One foundation trust finance director said: 'We should be measuring improvements in patient care, not how many procedures have been completed irrelevant of their success. We need to measure more of the softer qualitative areas of patient satisfaction.'

Another pointed out that even economists were unable to agree on what productivity means.

Standards continue to improve

THE NHS CONTINUES to raise the bar in standards of financial management, according to finance directors, though they acknowledged further improvements were needed as the service enters a period of slower growth.

More than eight in 10 finance directors (85%) said the standards of financial management had improved in recent years. In last year's survey 71% said standards had increased.

In this year's survey, 12% thought standards had stayed the same and 3% said they had dropped, compared with 25% and 4% respectively last year.

However, there was almost unanimous agreement that financial management had to improve further to meet the challenges that lay ahead – 98% of respondents believed this was the case, a similar figure to last year's survey underlining the need for continual improvement in financial management.

Non-executive directors' (NEDs) understanding of financial matters was rated as 'good' by 25% of finance directors, though 66% said their understanding was only 'okay'. However, almost 80% said NEDs' knowledge of NHS finances had improved over the last three years – the same percentage said non-executives were now providing more challenge on financial matters than three years ago.

2007 survey in brief

- While just over half of NHS finance directors act as a **mentor** or coach to others, less than one in four receive this form of support themselves.
- 57% of directors think more time should be spent on finance staff **development**.
- Just under a quarter of finance directors say they are already using **lean thinking** in their organisations, while a further 19% plan to introduce the technique in the short term.
- Four out of five finance directors would like to see greater **flexibility on capital** to revenue transfers or changes around capital expenditure definitions as a means of easing the funding of backlog maintenance.
- Nearly three-quarters of finance directors say **financial management** is no longer seen as exclusively the responsibility of the finance department, but two-thirds still think finance staff tend to get the blame when there are financial problems.
- A total of 85% of finance directors surveyed believe that improving **financial literacy** among the wider workforce is either vital or important to achieving financial and service targets.
- One in five acute and mental health NHS trusts believe that simply maintaining current performance will be enough to gain **foundation status**, while 29% said they will need to improve their financial position and 26% believe governance is the issue.

Directors back ALE but urge refinement

FINANCE DIRECTORS HAVE backed the auditors' local evaluation (ALE) though some have misgivings about the levels of bureaucracy and the resources needed to complete the process.

The survey found that 77% of finance directors in England believed ALE provided a useful assessment of financial performance and financial management. And 79% said it led to improvements in both these areas.

However, this thumbs up was tempered by criticism of the ALE process. While they found the assessment useful, many said it was overly bureaucratic, while others worried it had 'lost its way' and had 'become nothing more than a tick box exercise'.

One PCT finance director commented: 'It is a very bureaucratic process – there's a big cost in just gathering evidence. I'm worried that continual raising of the bar will require significant back office management cost investment to keep our organisation's scores from declining.'

Some expressed concerns about the potential for demotivating staff, the lack of consideration of the materiality of certain key lines of enquiry (KLOEs) to some organisations and the relevance of some of the value for money criteria.

However, there was backing for the recent announcement that in future organisations won't automatically be penalised under financial standing for having a historic deficit, as long as they deliver in-year balance. And there was some recognition of the useful source of comparative data. One PCT finance director said: 'While the ALE assessment has some weaknesses, generally the ability to benchmark performance is useful.'

There was some confusion over the implications of the introduction of comprehensive area assessments. Seven in 10 finance directors said they did not understand how this would affect the use of resources assessment.

Finance directors in Scotland, Wales and Northern Ireland were keen to have an ALE-style system introduced in their local health systems. Almost two-thirds of respondents across the three devolved health systems backed the introduction of an ALE-type initiative (up from 50% last year), which would assess financial performance across financial reporting, financial management, financial standing, internal control and value for money.

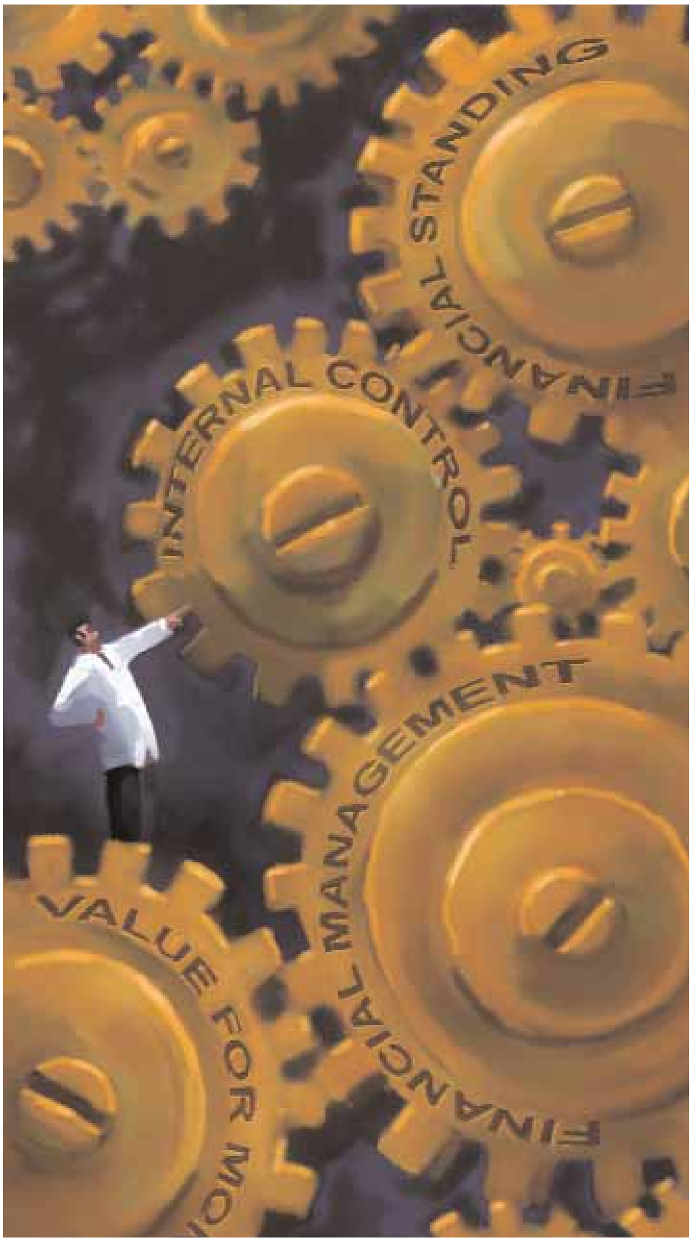


ILLUSTRATION: JAMEL AKIB

Concerns over inconsistency in AfC finance evaluation

FINANCE DIRECTORS HAVE raised concerns that inconsistent implementation of the Agenda for Change pay system within finance departments across the NHS is causing recruitment and retention difficulties.

In the HFMA's finance director survey, 57% of respondents said the pay arrangements had led to less equitable finance staff remuneration across different NHS organisations. The overall objective of the pay system was to deliver more equitable arrangements across different disciplines and across different employers. But just one in six believed it had achieved this across different organisations' finance departments.

Opinion was divided on whether the pay deal had improved equity within individual finance departments. Nearly half of respondents said there had been no change, the other half equally split between those thinking equity had improved and those believing it had worsened.

Although there have been claims that Agenda for Change has led to higher pay for NHS staff in general, most finance directors said this wasn't the case in their departments. Nearly six out of 10 directors said there had been no general improvement in pay for their staff.

There were also concerns about the impact on recruitment and retention. More than one in three directors said Agenda for Change had made it harder to retain staff, while just one in 20 thought it had become easier. Even more directors – 50% – said finance staff recruitment was harder under Agenda for Change.

A number of directors identified a lack of consistency across organisations, which in some cases had led to 'petty poaching' and 'grade creep'. Some blamed the Agenda for Change system's evaluation teams and an inconsistently applied evaluation process. One director commented that the gradings are totally arbitrary with different panels giving different bands for the same role.

The implementation of Agenda for Change in Wales has produced particular problems with HFMA finance job profiles not used in local health boards. One Welsh director described the application of the pay system as a 'total shambles for local health board staff', with qualified accountants banded below non-qualifieds in local trusts. Another highlighted inconsistencies within Wales and between Wales and England – 'identical job descriptions being evaluated at different bands'.

A number of directors made the point that Agenda for Change was aimed at clinical staff and simply did not deal adequately with finance or office based staff. However, some directors suggested that the problem was that some organisations were not playing by the rules with trusts 'banding up' on similar jobs to attract staff.

One of the most frequently cited issues was a lack of flexibility, particularly around starting salaries to attract the right calibre staff and being able to adequately reward high performers within a team.

HFMA chief executive Mark Knight said that the application of Agenda for Change within finance departments remained a key issue for finance managers.

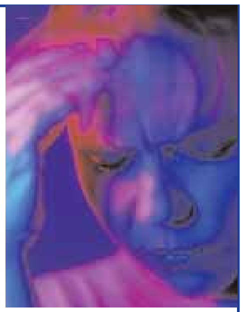
'The HFMA worked closely with the Department of Health to develop a range of competency-based job profiles,' he said. 'When these were finalised in 2004, they were widely seen as a major step up from the earlier profiles, which had clearly under-valued the skills within the finance function and could have led to widespread recruitment and retention difficulties.

'However, what we are seeing now is differences in the way these profiles have been applied and in the evaluations undertaken in different organisations. This is producing inconsistencies in bandings and remuneration within local health economies and across the UK.'

The problems have had a significant impact on some organisations, with staff often seeking higher rewards in other local organisations. One commissioning finance director complained: 'Staff are leaving to go to easier, higher graded jobs in local trusts'.

Indeed, Agenda for Change evaluation was highlighted as a key cause of poor morale, despite morale generally being higher than in previous years (see box).

MORALE BOOST



Morale in the finance function is improving, according to finance directors responding to the HFMA annual survey. Nearly 70% believed morale was satisfactory, with nearly 10% rating morale as high and just 21% reporting low morale.

The figures mark a big improvement on previous years. In December 2005, some 55% of directors said that morale was low and last year the figure was 42%.

Where there are problems, general pressures of work and Agenda for Change were highlighted as the main causes. But the improved financial position in the NHS has helped improve the mood in finance departments, with half as many finance directors this year, compared with a year ago, suggesting difficult finances were causing morale problems. A more settled NHS after last year's reorganisation is also likely to have helped.

Celtic directors prefer tariff as benchmark

FLAGS: FOTOLIA

FINANCE DIRECTORS IN Scotland and Wales have rejected an English payment by results-style tariff system. But the HFMA survey reveals they believe tariffs could be used as a tool to drive up efficiency or alongside other funding mechanisms.

In Scotland, almost 55% said tariffs should be used as a benchmark to improve efficiency, while 18% said they could be used to set differential efficiency targets for different providers. Only 9% said it should be used as a real tariff for all activity.

More than 70% of finance directors in Wales backed the introduction of some form of activity-based funding for healthcare but they rejected a payment by results-style tariff. A third said HRG-based activity tariffs should be used to set prices for hospital activity in conjunction with other mechanisms such as funding for years of care for long-term conditions. But only 7% said that tariffs alone should be used to set prices for activity undertaken by trusts; 53% said HRG-based tariffs should act as benchmarks to improve efficiency.

Welsh directors were also asked how healthcare costing could be improved. Greater auditing of costing in trusts was the favoured option of most respondents, although they also supported greater central prescription and investment in IT. The introduction of a tariff based on national average costs, as a means of driving up the importance of accurate costing, was the least favoured option.

Scottish directors showed overwhelming support for the proposed changes to the Arbuthnott resource allocation formula, backed by 82% of respondents. Almost three-quarters of finance directors said a timetable should be set for moving boards to their share of resources under the proposed new formula.

PCTs weigh up practice-based commissioning risks

FOUR IN 10 PCT finance directors believe practice-based commissioning (PBC) will increase the risk of overspending in the short term but most believe it will reduce this risk in the long term.

Almost all (96%) reported that 90% or more of their practices were signed up to PBC. But there were differences in the proportion of PCT budgets delegated to practice-based commissioners. While around 8% had delegated less than 30%, by far the largest group (46%) had allocated between 70% and 79% of their budgets.

Almost three-quarters of PCT respondents thought practices should assume more financial risk as part of PBC.

There was confusion about PCTs' future role. While 15% said they would continue as community services providers, a further 37% thought this would only be with significantly cut services. But 48% thought PCTs would lose their role as a provider of services long term.

Almost three-quarters of PCTs said their main contract for the current financial year was based on the new model contract and the majority had inserted local clauses around quality and risk.

Half the respondents believed the new contract cut risk for their PCT, 42% thought it would have no impact, while 80% of NHS trusts and foundation trusts said the contract added risk to the provider.

Opinions on the value of the contract were mixed. Some PCT directors felt it focused on quality, others thought it time-consuming to operate. NHS trust and foundation trust finance directors' opinions also varied. One felt it 'clarified the boundaries' but others insisted it tipped the balance of power too far in PCTs' favour.

Almost two-thirds of finance directors in NHS trusts and foundations expected disputes over activity and payments to increase. Nearly 60% said they had been involved in such disputes over the last 18 months. PCT finance directors were more positive. While a similar number had been involved in a dispute, almost two-thirds predicted disputes would not increase.

In Wales, finance directors supported the development of regional commissioners, although only 30% thought it would lead to more cost-effective commissioning. There was also support for local health boards with 80% believing they had a role to play alongside the regional commissioners.

2007 survey in brief

- More than 90% of NHS trusts believe **foundation trust status** will give them more flexibility to manage their financial pressures and service demands, with 65% looking forward to a regime they believe reduces regulation and central scrutiny.

- 85% of trusts and foundation trusts say they know which **service lines** make them a profit/loss, with 20% fewer also understanding profitability at HRG level.

- Individual **surplus targets** should not be set by the regulator for foundation trusts to reflect their different circumstances and different need to refresh assets, according to more than 70% of foundation trust directors.

- In Wales, 87% of finance directors are convinced that greater **auditing of costing** offers the best route to improving healthcare costing.

- Also in Wales, 64% of finance directors believe that current proposed trust **mergers** will lead to management savings, while 60% believe the new incentives and sanctions framework will encourage the achievement of targets.

- More than two-thirds of mental health finance directors say **payment by results** should be launched in stages, starting with one area, such as psychological therapies.

Trusts call for transition to HRG4-based tariff

A MAJORITY OF NHS trust and foundation trust finance directors have called for a transition period of at least two years when new healthcare resource groups are introduced to set tariff rates.

HRG4 will be used as the new tariff currency from 2009/10. With the number of HRGs more than doubling to 1400, the new groupings should mean tariff rates are more accurately matched to the costs of delivering services, in particular recognising the higher costs associated with more complex activity.

Nearly half English trust and foundation trust finance directors were forecasting reduced income as a result of HRG4 with 30% looking forward to an income boost. With many organisations anticipating significant changes to the financial position as a result of the move to the new currency, two-thirds of finance directors backed a transition of two years or more, with one in five calling for at least a three year move and one in 10 believing the transition should be even longer.

A third of provider finance directors wanted to see a big bang approach, with the full impact of the change being felt in 2009/10.

Looking at more short-term issues, finance directors in trusts (80%) and PCTs (100%) supported the Department of Health's approach of minimising tariff changes in 2008/09. There was also support for a national approach on unbundling, which was backed by 93% of PCTs and 78% of trusts.

However, despite the theoretical backing, progress is slow. Fewer than one in five finance directors could point to agreements to unbundled services in 2007/08. Stroke, fractured neck of femur, diagnostics, rehabilitation and cardiology were among the few services that had been unbundled.

There has been increasing concern among finance directors about the accuracy of the market forces factor used to compensate providers for unavoidable costs relating to providers' location. In particular this has focused on use of private sector pay costs as a proxy for NHS workforce costs. However 60% of trust and foundation trust finance directors backed the approach, with just 40% registering opposition.

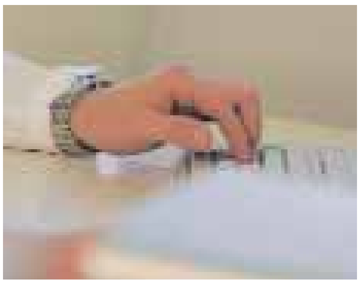
With technical guidance for next year not issued at the time of the survey, PCT directors were split over setting the threshold for emergency activity, above which only 50% of tariff is paid. Just over half (56%) would prefer the use of 2007/08 projections, with just under half (44%) benefiting more from the use of 2006/07 actuals.

Mental health FDs back pathways for PbR

MENTAL HEALTH TRUST finance directors believe payment by results needs to be introduced urgently for mental health services and have backed the use of care pathways as their preferred currency.

Virtually all of the mental health trust finance directors in the survey believed mental health services were facing additional pressure as a direct result of the lack of a tariff-type system for their activities, with nearly four out of 10 suggesting these pressures were significant. And three-quarters predicted these pressures would get worse if payment by results was not introduced during the next two to three years.

However, mental health services' PCT commissioners took a different view. Nearly 90% of PCT finance directors refuted suggestions that having payment by results for acute services but not mental health was diverting resources away from mental health. And just 15% thought that pressures facing mental health would increase unless a system was introduced quickly.



IT improvements seen as top priority

The survey confirmed that the vast majority of contracts for mental health services remain on a block basis, although there is some use of occupied bed days, caseload numbers and occupancy levels as contract currencies.

There was broad agreement across PCTs and trusts that these currencies were unsatisfactory.

There was also a consensus on the preferred basis for mental health payment by results, with 56% of PCT and 75% of mental health finance directors backing the use of care pathways/cluster groupings – similar to a model being developed in Yorkshire and the north-east. However, 19% of PCT finance directors admitted they didn't know which approach should be adopted.

Improved IT and central funding were identified as top priorities to help development. A number of trust finance directors commented that the Department of Health needed to drive the initiative with the same energy as it did with the acute tariff.

THE FACE OF NHS FINANCE

THE AVERAGE NHS finance director working in the UK is 46 and earns £93,000. The top finance position is three times more likely to be filled by a man than a woman and just over half of all finance directors have been in their current job for less than three years.

The HFMA survey reveals a wealth of **NHS experience** among the top ranking finance managers, with just under 50% having more than 20 years' experience in the NHS. Three per cent of the sample can boast the same length of time as finance directors. In fact four out of 10 finance directors have 10 or more years' experience at director level. The full span of ages stretches from just 36 to 63.

CIPFA remains the most common **qualification** among UK NHS finance directors with 45% of finance directors CIPFA-qualified. However, the public sector qualification has lost ground following last year's reorganisation in England with a 7% fall compared with finance directors in last year's sample. CIMA and ICAEW were both up (to 25% and 13% respectively) compared with 12 months ago.

Overall figures for **average pay** mask several variations. Average salaries for English finance directors in the sample nearly broke the £100,000 mark – at just over £99,000. The full range in England extended from £77,000 in a mental health trust up to £140,000 for a strategic health authority finance director. PCT salaries ranged from £80,000 up to £105,000, mental health trust salaries from £77,000 to £112,000, while several NHS trust and foundation trust finance directors earned salaries of more than £120,000.

The picture was different in **Scotland and Wales**. In Wales salaries ranged from £57,000 in a local health board up to £120,000 in a major trust. In Scotland the survey also included details of finance director equivalents – managers who would have been trust finance directors under the old structure but who are now deputy directors responsible for acute or primary care services under the overarching health boards. In a relatively small sample, salaries ranged from just £50,000 (for a finance director equivalent) up to £91,000 in a health board.

A majority of finance directors in Scotland (64%) felt **single system working** has had a detrimental impact on their careers, producing a flatter structure with fewer opportunities to move up.

Across the UK nearly 90% of finance directors believed they would earn more for an equivalent role in the private sector. More than half the sample said they worked between 40 and 50 **hours a week** with 45% exceeding the 50-hour mark. Some 7% reported working more than 60-hour weeks.

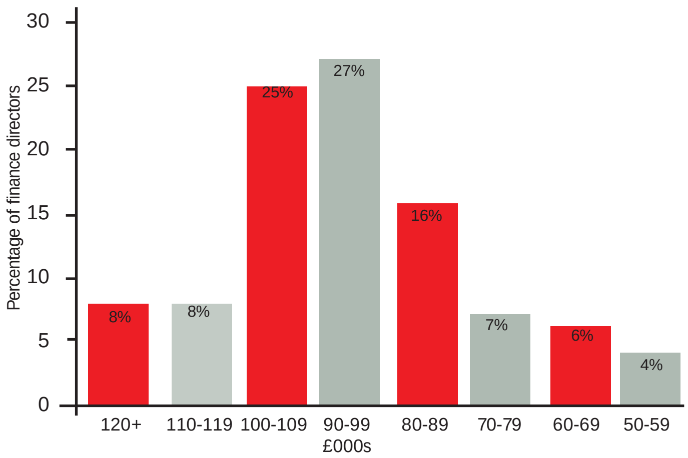
While three-quarters said the job was stressful and had become more stressful in recent years, finance directors reported high levels of **job satisfaction**. Nine out of 10 directors said they were either satisfied (63%) or very satisfied (28%) with their jobs. And 86% thought that NHS finance was a good career and would recommend it to someone starting out.

Half the sample were responsible for more than 50 staff across their wider portfolios, which included commissioning, IT, procurement and performance.

Nearly half the sample had experience in the private sector, one in four had worked elsewhere in the public sector while nearly 40% had spent their whole careers in the NHS. Four out of five were hoping to stay in the NHS for the rest of their **careers**. Some 40% of finance directors have aspirations to move to general management – as a chief executive, say. Some 70% hope to retire by the age of 60.

Finance directors' pay

Sample: 118. Figures include finance director equivalents in Scotland. Figures may not add up to 100% due to rounding.



Finance directors' age

Sample: 123