HealthcareFinance

HFMA Finance Director Survey 2006

Survey highlights

- 70% of finance directors have worked in the NHS for 15 years or more.
- Half of all finance directors earn between £80,000 and £100,000.
- All finance directors believe standards of NHS services have improved in the past decade – more than a third say significantly.
- More than 75% of English finance directors not yet customers of NHS SBS do not anticipate joining the joint venture in the next two years.
- More than 70% of NHS finance directors want to stay in finance for their whole career.
- 71% say financial management standards have improved during recent years.
- Eight out of ten finance directors believe more time/money should be devoted to finance staff development.
- Nearly 60% of English finance directors have questioned whether the ALE fairly assesses the finance function.
- Just over half of PCT finance directors believe the reorganisation of PCTs will improve their local health economy's financial position in the longer term.
- 70% of English finance directors want a pace of change policy for tariff changes in 2008/09.
- Finance directors in Scotland, Wales and Northern Ireland think tariffs should be used as a benchmark to drive efficiencies rather than to set prices.
- 90% of mental health trust finance directors think the lack of a payment by results system is increasing financial pressures in their sector.
- Three quarters of PCT finance directors say the new very senior managers' pay framework fails to put them on a par with acute colleagues.

157 finance directors took part in the survey, 130 from the English NHS. In England, this included more than 60 acute and mental health trusts, more than 40 PCTs and a quarter of all foundation trusts.

Directors insist finance standards improving

FINANCE DIRECTORS HAVE hit back at criticism of financial management standards in the NHS, although there is wide recognition that standards will need to improve to meet the challenges ahead.

The past year has been dominated by concerns over rising financial pressures in the NHS, with many organisations, particularly in England, looking to restore financial balance across their health economies.

These concerns have been fuelled by a spate of public interest reports from auditors, often resulting from organisations' inability to meet break-even duties. In England in October, 210 organisations were rated as weak on use of resources as part of the Healthcare Commission's new annual health check.

ILLUSTRATION: NICK KOBYLUCH

However, in a major new survey by the HFMA of nearly 160 finance directors, the finance function's most senior managers rejected any suggestion that standards of financial management are falling. In fact more than seven out of 10 finance directors believe standards of financial management have improved in recent years. Nearly one in four believe standards have stayed the same and just one in 25 believe that standards have fallen.

The survey – the second annual survey of NHS finance directors undertaken by the HFMA – also makes it clear that finance directors are not complacent and recognise that more needs to be done. Nearly 97% agreed that standards need to improve further, a recognition of the increasing need to maximise efficiency and deliver value for money across the whole of the UK and of the specific challenges posed by payment by results and foundation trusts in England.

Outgoing HFMA chairman Phil Taylor said the figures demonstrated the strong feeling among finance managers.

'It is too simplistic to equate the current deficits in parts of the NHS with a general reduction in standards of financial management. There are a whole host of reasons, including significant cost pressures from pay reform, requirements to improve access and a tightening of the financial regime' he said. 'Finance directors are telling us very clearly that standards are going up. They also recognise the need to continually update their skills. But we shouldn't ignore the effort and progress that has been made in enormously challenging circumstances.'

The survey also reveals the pressures facing organisations in the NHS this year. While 75% of surveyed organisations reported break-even or better for 2005/06, only 70% are confident they will achieve this in the current year. A range of pressures were identified as causing problems in 2006/07. For instance, more than one in three English finance directors said the primary care top-slice was a major risk to financial balance, and across the UK there were similar levels of concern about slippage in cost improvement programmes.

However, the most frequently mentioned

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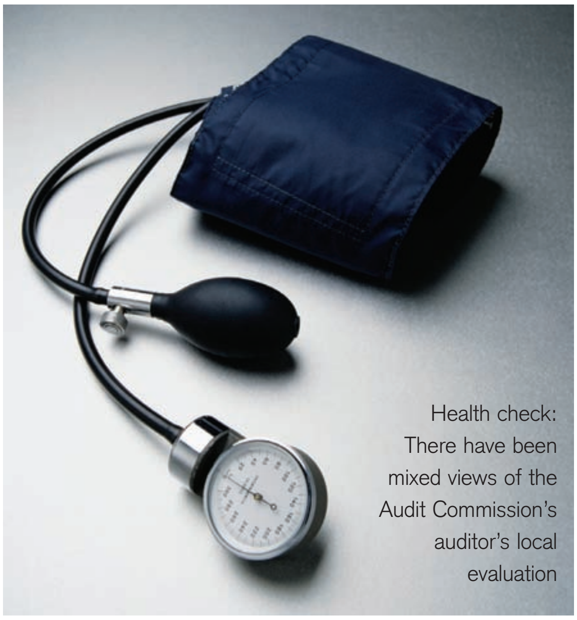
risks were unforeseen factors arising in year, cited by nearly half of all respondents. In England, respondents, both from trusts and PCTs, frequently said that volatility under payment by results was a major risk, and trusts flagged up the late notification of medical training funds' reduction as a problem.

Finance managers have also been under fire for the quality of forecasting. However, only one in five believed that improving managers forecasting skills was the main answer. Some 30% thought that earlier allocation of resources would have the biggest impact, while similar numbers thought that less pressure from the centre to report financial balance would deliver the most benefit.

Despite the external pressure to improve financial management in the NHS, finance directors said that this was not backed up with resources. Four out of five said that not enough time or money was devoted to finance staff development.

There were also mixed views in England of the Audit Commission's auditor's local evaluation (ALE), used to provide the annual health check's use of resources assessment. Nearly 60% of finance directors felt the assessment did not provide a fair evaluation of the finance function. The view was different outside England, where the ALE does not apply. Nearly 50% of respondents from the Celtic nations would like to see the assessment introduced in their nation, compared with just 14% who felt it was definitely not appropriate.



Health check: There have been mixed views of the Audit Commission's auditor's local evaluation

Directors' verdict on pay reform

EIGHT OUT OF 10 finance directors believe that NHS pay reforms have yet to deliver improvements for patients.

Finance directors' conclusion is revealed in the HFMA's survey of nearly 160 finance directors across the four UK health economies. Asked if the three main planks of pay reform – Agenda for Change, the consultant contract and the new GP contract – had delivered improvements for patients, 83% said no. And only 5% believed the new pay deals had already delivered improvements in productivity.

Some finance directors did identify improvements starting to emerge from individual components of pay modernisation, and there was recognition that some staff groups had needed to catch up in terms of pay. But there was a general feeling that the negotiation and implementation of the deals had been flawed.

One finance director summed up the feelings of many. 'We have essentially paid more for the same and will now find it extremely difficult to lever changes in practice,' he said.

Another commented: 'Most staff think that they have been rewarded for the hard work and modernisation they have delivered over the past few years and not in anticipation of significant future changes.'

A further finance director added: 'The two elements – pay modernisation and improvements – should have been more closely linked in the negotiation process.'

'It is no secret that pay reform has cost more than was anticipated,' said HFMA chief executive Mark Knight. 'What finance directors are also telling us is that the approach taken – agreeing the pay side up front and then expecting organisations to introduce new ways of working – is presenting a huge challenge to the NHS.'

Numerous finance directors pointed at the tight timescales imposed for delivery of the pay reforms as a major part of the problem.

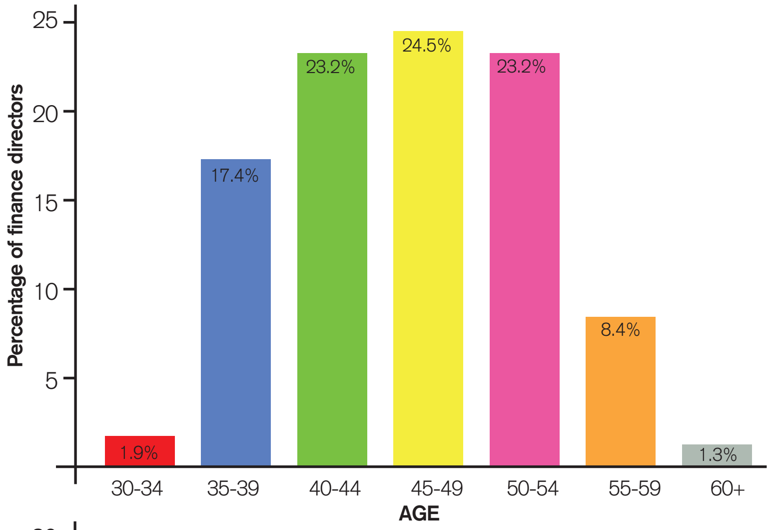
One director said: 'The timescales did not allow for the radical organisational design prior to implementing and having posts graded on job descriptions without recourse to such redesign has left us with an expensive legacy, which will need to be unpicked.'

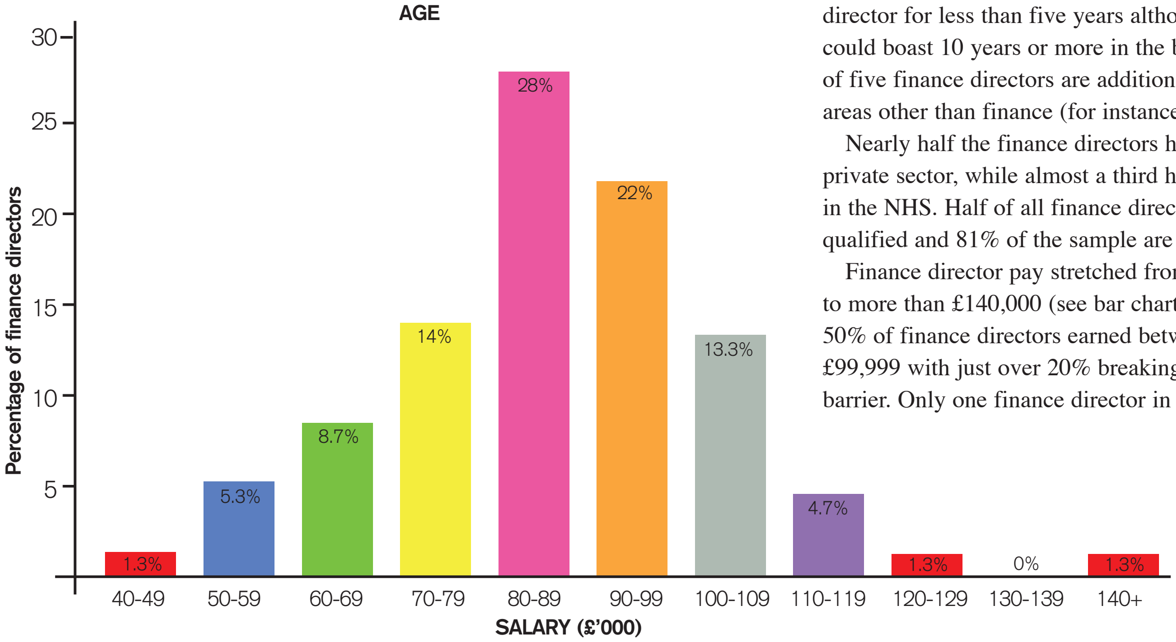
Others highlighted the contribution of the new pay deals to the current financial difficulties, with incremental drift likely to cause pressures for several years. One director added that staff cuts to fund Agenda for Change had 'significantly reduced morale'.

Some finance directors did identify benefits, including accurate job plans for consultants and having staff on 'standard modern contracts'.

There was some acceptance that the contracts could provide an opportunity for improvements in productivity in the future.

Finance directors: the vital statistics





TWO-THIRDS OF finance directors working in the NHS are aged under 50 and nearly one in five is under 40 (see bar chart left).

The picture of a relatively young finance profession emerged in the HFMA's annual survey of finance directors, which this year involved 157 finance directors. In fact, only one in 10 finance directors is over 55.

The upper ranks of the finance profession continue to be dominated by men, with just over one in five roles occupied by a woman.

More than half the sample have been in their current job for less than three years, which is an indicator of the significant structural upheaval in recent years. And less than 15% had been in their current post for more than five years. One in three respondents had been a finance director for less than five years although more than 40% could boast 10 years or more in the board room. Four out of five finance directors are additionally responsible for areas other than finance (for instance IT or performance).

Nearly half the finance directors have worked in the private sector, while almost a third have only ever worked in the NHS. Half of all finance directors are CIPFA-qualified and 81% of the sample are HFMA members.

Finance director pay stretched from less than £50,000 to more than £140,000 (see bar chart left). However, 50% of finance directors earned between £80,000 and £99,999 with just over 20% breaking the £100,000 barrier. Only one finance director in 10 receives a performance-related bonus on top of their basic salary.

With the new very senior managers' pay (VSMP) framework introducing a link between directors' basic pay uplift and the achievement of financial targets (for primary care trusts and strategic health authorities), finance directors were asked if this should be the case for all finance directors. Nearly 60% rejected this.

However, there was a more positive reaction to the general idea that all executives' pay should be linked in some way to the achievement of financial targets.

A majority of finance directors across the UK (55%) are happy that their current pay accurately reflects the responsibilities of their roles. However within PCTs the view was different. Although most of the PCT finance directors taking part were not currently within the VSMP framework, fewer than one in three believed the new framework adequately rewarded the role of PCT finance director. And nearly three quarters said the new pay arrangements failed to put them on a par with colleagues in the acute sector.

FOUNDATIONS SLOW TO TAKE UP FLEXIBILITIES

The HFMA survey has revealed only partial take-up of one of the key flexibilities available to foundation trusts.

Foundation trusts have the ability to decide locally the capital investment needed to improve services and can borrow to support this investment. But just half the foundation trusts taking part in the HFMA survey had increased capital spending since their authorisation.

The survey also confirmed that foundation trusts have been slow to take up their new borrowing freedoms. The most common funding source for increased capital spending was internally generated resources, although a handful of organisations had taken out loans with the Foundation Trust Financing Facility and a few projects continued to be funded using public dividend capital.

Eighty per cent of foundation trusts in the survey said they were on target to achieve their financial plans in 2006/07. And two-thirds said they planned to achieve a surplus this year. However, opinion was divided as to the purpose for generating surpluses. Half the sample believed the main purpose was to refresh assets, but a quarter saw them as a contingency against unforeseen cost pressures and some believed the point was to develop new services and even improve cash flow.

Shared services yet to convince bosses

FINANCE DIRECTORS IN England remain unconvinced by the financial services being offered by NHS Shared Business Services (NHS SBS), the HFMA's survey has revealed.

Just over 100 English finance directors taking part in the survey are not yet customers of the Department of Health's joint venture with outsourcing specialist Xansa. More than three quarters of these said they did not anticipate joining NHS SBS within the next two years. Among foundation trusts, this figure rose to more than 90%.

Across the UK, the survey revealed uncertainty about the value of shared services. Just 29% believed that shared services would lead to better-quality financial information and reports, 35% believing quality would actually reduce. While 40% believed shared services would reduce the costs of financial services, 27% said costs would in fact increase. And 44% believed shared services would have a negative impact on financial control.

The survey showed finance directors in England take a dimmer view of shared services than colleagues across the wider UK. For instance while 38% of English directors believed shared services led to reduced quality of reports, this figure fell to 21% in the other UK nations. And 68% of non-English finance directors believed shared services would lower costs compared to just 36% in England.

In Scotland, 75% of finance directors taking part in the survey backed the mandatory approach being taken north of the border. Northern Irish finance directors also backed plans to introduce shared services across their health and social services sector.

FDs happy in jobs despite stress

FINANCE DIRECTORS REPORT good levels of job satisfaction in the face of rising stress levels, the HFMA survey has revealed.

Some 64% said they were satisfied with their jobs, a further 18% claiming to be very satisfied. However, 85% said they found the job stressful and similar numbers said the job had become more stressful in recent years.

Despite this, most (70%) want to see out their careers in the NHS, and about the same number hope to stay in finance rather than move into general management. Three quarters hope to have retired before they reach 60.

Finance directors continue to see the attractions of working in NHS finance, four out of five asserting they would recommend it to someone starting out on their career. However, there is also recognition that recent and ongoing restructuring could have a detrimental impact on the careers of those already in the service.

In Scotland, three quarters of finance directors in the sample claim that single-system working has improved healthcare and efficiency north of the border. However, half the respondents accept that it has reduced their own career prospects and 75% believe it has had a negative impact for the prospects of finance staff in general.

In Northern Ireland, finance directors all agreed that the finance function would reduce as a result of the Review of Public Administration reforms, which will cut 18 trusts to just five and the create a single health and social services authority. Most finance directors expected financial control to be reduced as a result of finance staff cuts and all said morale among finance staff was low.

The picture was not so stark for the UK as a whole, where only two out of five thought low morale was rife while more than half of finance directors assessed finance staff morale as 'okay'. Finance directors cited 'general pressures of work' as the main problem, with agenda for change evaluations, reorganisation, the difficult financial position and shared services all adding to concerns.

There were encouraging signs that finance staff are well regarded outside their departments. Nearly 60% of directors believed clinical staff valued the finance function enough, with this rising above 70% for other non-finance staff. There are still concerns about central opinion, only 28% thinking their government's health department placed enough value on the function.

Protection needed for mental health funds

MENTAL HEALTH TRUSTS have called for an interim funding solution until payment by results can be extended to their sector. Nearly 90% of mental health trusts taking part in the survey said that the lack of a payment by results system for mental health was putting additional financial pressures on them. There have been suggestions that mental health funding is being squeezed so PCTs can fund rising activity in the acute sector, where the tariff is already in place.

More than four out of five finance directors believed that an interim funding system should be put in place until the formal payment by results system has been developed for mental health services – not expected until at least 2008.

There was split opinion over how the interim funding system should operate, with a range of possibilities being highlighted, including using historical funding levels, facilities available and weighted population.

But mental health finance directors were clear over the basis for a long-term system. Nearly 80% said that care pathways defining treatments and interventions used should be the basic currency for any future tariff.

Most respondents felt that cost and volume contracts would be most appropriate, although some directors suggested that some block and cost per case contracts could be useful in some circumstances for community teams and some learning disability services, for instance. Contracts that provided risk sharing were also suggested.

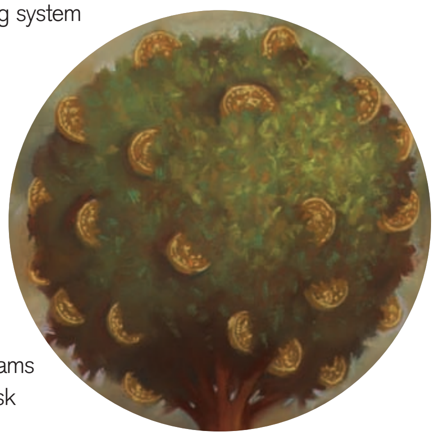


ILLUSTRATION: JAMEL AKIB

Directors demand pace of change policy for tariff

FINANCE DIRECTORS HAVE backed the Department of Health's steady state approach to payment by results in 2007/08 but called for measures to dampen volatility the following year.

The Department has announced minimal changes to the tariff in 2007/08, with a simple uplift to this year's tariff pricing rather than updating based on more recent reference costs. There has also been no change in the scope of services covered. The HFMA's finance director survey shows that directors overwhelmingly support this approach, with nearly 90% of finance directors from English acute, primary care and foundation trusts giving it their backing.

However, there are concerns that making minimal changes next year will mean organisations face much more volatility in income (for trusts) or expenditure (for PCTs) in 2008/09.

The expectation is that the tariff for 2008/09 will again be based on new reference costs and could see bigger one-off changes in individual healthcare resource group prices than if reference costs had been updated every year. The picture is further complicated by a change in the tariff currency, with a new version of healthcare resource groups due to be introduced the same year.

More than 70% of finance directors called for a 'pace of change' policy to dampen any significant step change in tariff prices in 2008/09.

There was also significant backing (82%) for an independent tariff-setting body and for tariffs to be fixed for longer than one year (65%).

All foundation trusts taking part in the survey claimed they knew which specialties made them a profit/loss and all but one said that they would be able to make this assessment at HRG level.

Acute trusts were less sure of trading winners and losers. While 86% said they understood their profit/loss profile at specialty level, this dropped to just over 60% for HRGs.

• England is leading the way in developing healthcare tariffs in the UK. However, Scotland has introduced a tariff for cross-boundary flows between health boards, and all three of the Celtic nations are looking to develop and use tariffs in some form. Finance directors' preference across all three nations is for new tariffs to be used as a benchmark to drive efficiency savings. This was an almost unanimous position in Scotland and Northern Ireland, although in Wales there was some interest in using tariffs directly to set prices for activity undertaken by trusts.