

5 APPROACHES TO EFFECTIVE BUDGETING & FORECASTING IN HEALTHCARE



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axiomEPM

INTRODUCTION

Healthcare Finance in the Post Reform Era

Much has been written about the impact that healthcare industry reform is having on hospitals and health systems. And with the challenge of reduced reimbursements looming, Finance teams understand that realizing the bottom-line benefits of cost containment and process improvement initiatives is becoming a business imperative. However, as organizations critically evaluate their financial management capabilities, many realize they have ineffective approaches designed around antiquated tools that aren't up to the task.



Sound familiar? And does the notion of redesigning your planning processes sound daunting? The five approaches in this ebook represent a framework that can improve the efficiency and accuracy of your budgeting and forecasting processes.

OBSTACLES TO EFFECTIVE PLANNING

A Lack of Process and Data Integration



Disconnected Planning Processes

As modeling uncertainty becomes more common, the process of intelligently and efficiently linking multi-year, monthly forecasting and annual budgeting models that becomes much more important. However, organizations that rely on spreadsheet-based, stand-alone financial models struggle to modify assumptions and evaluate the impact of changes across plans - at an entity and operational (by dept) level – because it is too resource intensive and error-prone.

Fragmented Data Across Financial & Patient-Centric Sources

Finance is being asked to produce more sophisticated financial models. Data to support decisions is increasingly being sourced from data not contained in the General Ledger to support volume, workload, revenue and labor planning. Most organizations lack a common platform to effectively manage this data, adding increased complexity and inefficiencies to the planning process.

5 APPROACHES TO EFFECTIVE BUDGETING AND FORECASTING IN HEALTHCARE



Best practices are often advertised as “silver bullets”. As Finance teams look to re-engineer inefficient and ineffective budgeting and planning methodologies and tools, they realize that one approach can’t be right for every hospital or healthcare provider.

In reality, a ‘best practice’ planning methodology can’t really be hard-wired and applied to every organization. An optimal process is often a function of an organization’s

culture or even the competitiveness of their market. We’ve compiled a list of five common approaches we’ve seen followed across a variety of successful healthcare provider organizations.

1

Align rolling forecasts, multi-year plans, and detailed budgets



2

Embrace statistically-driven approaches to enable efficient 'what-if' modeling

3

Incorporate Service Line Analytics to refine projections



4

Provide cross-departmental initiative-based modeling

5

Promote feedback loop with management and executives via reporting



Planning across multiple time horizons has become increasingly important because of industry reform. Historical run-rates are no longer the best indicator of future performance, driving the need for more dynamic forecasting and ‘what-if’ modeling. Aligning plans, models and budgets is imperative.

- **Rolling Forecasts** – Actual and monthly projections for 18 months provide a trended view of performance, typically represented at an entity level. The model helps assess current realities that will influence longer-range (multi-year) projections, as well as detailed operational plans.
- **Multi-Year Plans** – This process is increasingly being used to understand not only the impact external market business drivers will have on bottom-line results, but also internal initiatives. The notion of baseline assumptions (current outlook 3-5 years) combined with independently modeled initiatives (projecting the impact of targeted growth strategies or cost containment efforts) can be combined to evaluate different ‘scenarios’.
- **Detailed Budgets**– When done effectively, budgeting gives each Manager visibility into how baseline projections and new initiatives are impacting his/her financial plan. Refinements are made collaboratively with each department resulting in a plan that promotes ownership of resulting numbers.

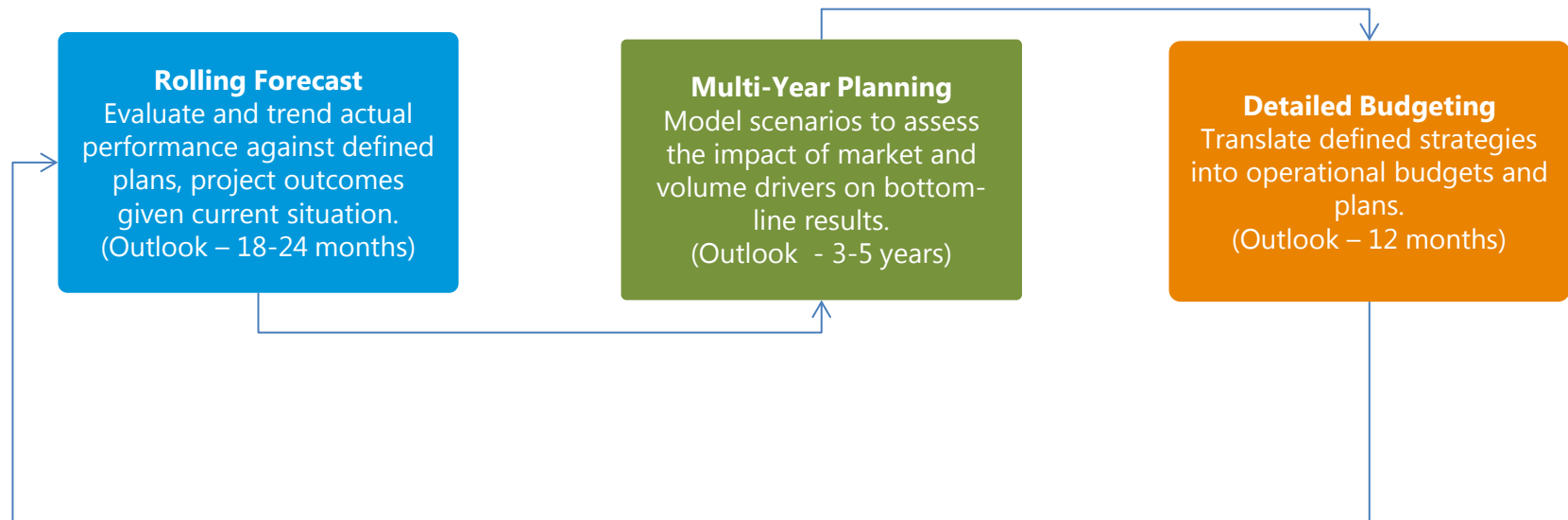


All of these plans must be kept in sync using the same assumptions to provide a holistic outlook in the short and long term to support informed decisions.

1

Align rolling forecasts, multi-year plans, and detailed budgets

1 Align rolling forecasts, multi-year plans, and detailed budgets



2

Embrace statistically-driven approaches to enable efficient 'what-if' modeling

The obvious challenge faced when organizations are leveraging stand-alone spreadsheet models – or if they are using 'bottoms-up' approaches – is the models aren't easily adjusted to reflect impacts to varying volume & rate assumptions.

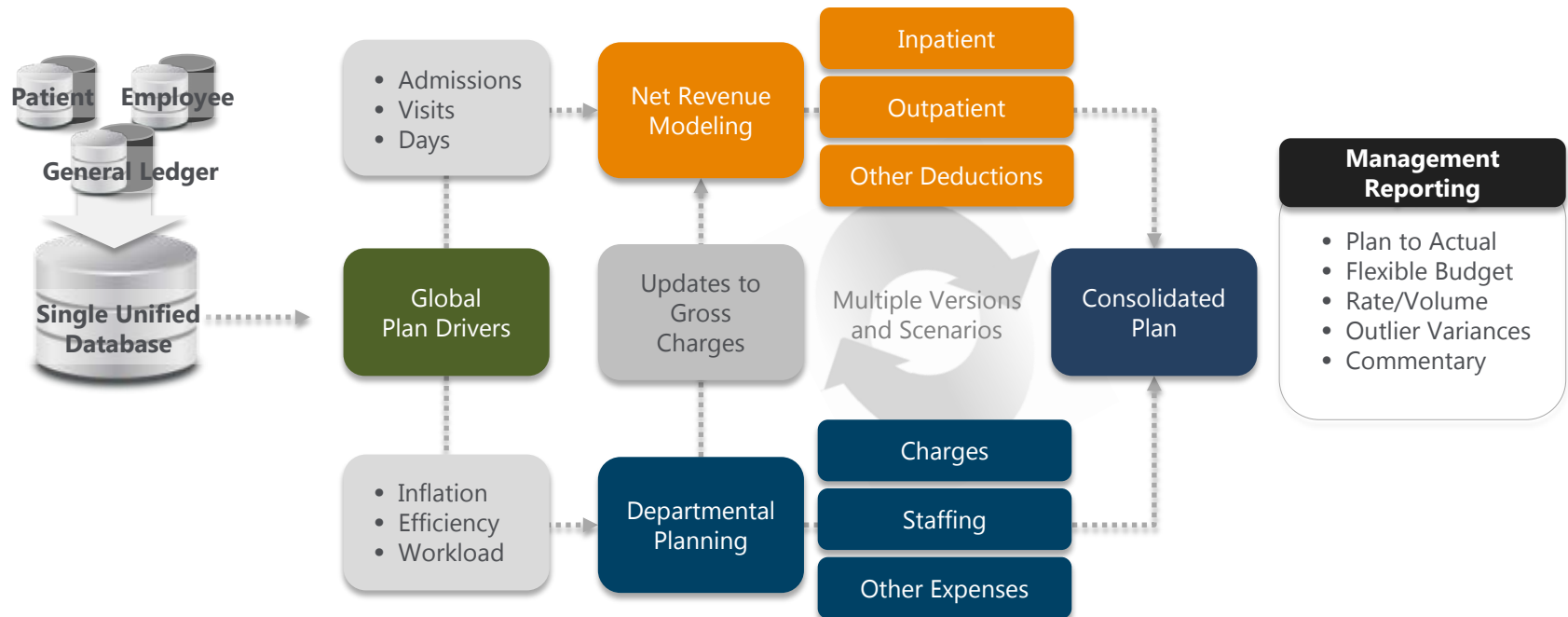
Establishing the proper statistical relationships to adjust hospital drivers to "flex" volume, workload, revenue and departmental plans is essential to efficient planning in healthcare. Assumptions related to global volumes, reimbursement rates, inflation factors, labor rates and efficiency targets should all cascade down to "flex" revenue and expense plans.

When evolving to a driver-based model, the following are key design considerations related to data flow and 'points of control' in the model:

- Identify with each department the statistic that represents their workload intensity (Acuity Adjusted Patient Days, Weight RVUs)
- Establish the relationship each Department Workload stat has to Global Drivers (Acute Admissions)
- Calculation methods should be intuitive; manager's clearly see impact of volume and rate changes on variable dollars/hours
- In Nursing floors, accommodate 'step functions' so changes in volume adjust daily census and flex hours using staffing grids



2 Embrace statistically-driven approaches to enable efficient 'what-if' modeling



4 Key Improvement Initiatives:

Streamline Processes

Consolidate data from financial, employee and patient-centric sources.

Improve Accuracy

A statistically-driven approach enables the efficient flow-thru of volume/rate changes.

Promote Buy-in

Efficiently consolidate results of baseline projections and add-on initiatives.

Drive Accountability

Effective management reporting can show volume adjusted plans, identifies controllable expenses.

3

Incorporate
Service Line
Analytics to
refine
projections

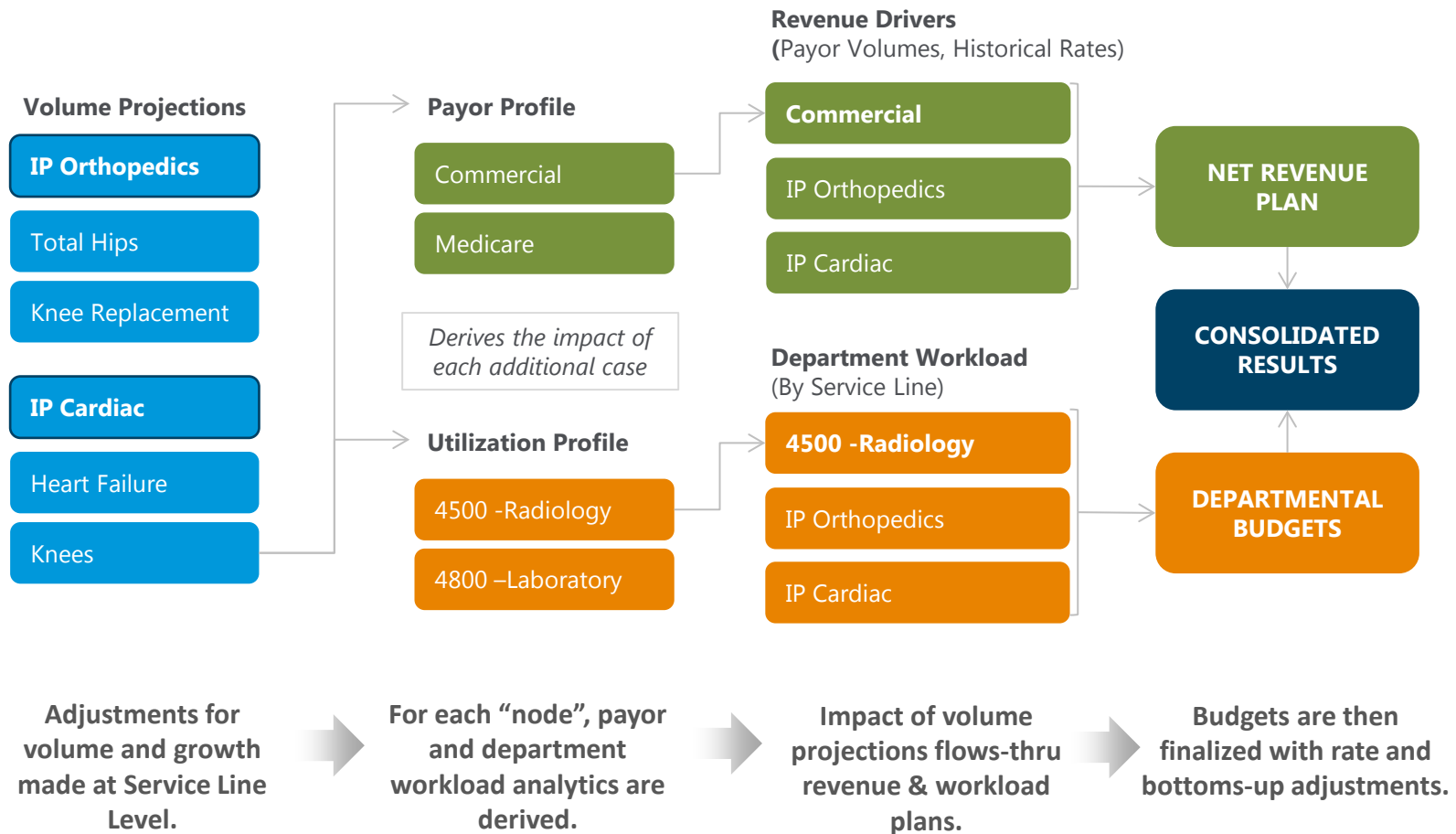
More and more organizations are looking to incorporate patient-centric data into their planning models to drive more accurate volume and workload projections. Resulting plans more accurately reflect and offer transparency to the impact a service line's growth would have on department budgets and net revenue.

**Why incorporate Service Line Analytics into your planning model?**

- If service line volume, cost and profit measures are used consistently across multi-year plans, forecasts and budgeting models, it aligns key functions such as market planning, physician recruitment and revenue forecasting
- Allows for historical or modeled department utilization profiles by service line to project workload statistics
- Integrates the volume planning with revenue planning so future reimbursement rates can be modeled more precisely by clinical population
- With volume and revenue plans based on service line categories, variances to the overall volume and mix of cases is better explained in plan-to-actual reporting

3

Incorporate Service Line Analytics to refine projections



4

Provide cross-departmental initiative-based modeling

For most organizations, the applications and frameworks in place to forecast hospital budgets were structured at a Department level (i.e., Lab, Radiology), or in the case of multi-year plans, projections are performed at the entity level.

How are new planning realities influencing planning models?



Baseline & Initiatives-Based Planning - Budgets and multi-year plans are comprised of a baseline set of assumptions, based upon business as usual given known market and industry-related variables. More than one baseline set of assumptions might be needed (i.e., conservative, aggressive). Additionally, initiatives modeled separately allow organizations to evaluate how directed efforts related to growth, cost containment or process improvement will (or should) impact functional departments.

What-if Modeling – To evaluate the best course of action, Finance teams need to evaluate which combination of baseline assumptions and initiatives offer the best ‘go-forward’ plan. The ability to ‘turn on and off’ the impact of these projections in consolidated reporting becomes essential.

4

Provide cross-departmental initiative-based modeling

Base Case

Given current trends, what is our financial outlook 3-10 years?

Projected	Forecasted	Baseline	Initiative #1	Initiative #2	Total
Income Statement					
Revenue	54,840	51,761	1,000	-	56,841
Expenses	10,514	10,508	25	-	10,547
Net Income	44,326	41,253	975	-	46,299
Other Expenses	5,000,000	5,000,000	0	0	5,000,000
Total	5,054,326	5,051,253	975	0	5,052,228

Base Case (Conservative)

DRIVERS MODEL:

- Volume and Service Line Mix
- Payor Mix and Net Revenue
- Labor & Cost Rates

Initiatives

What is the impact of various growth and cost containment initiatives?

Initiative #1

Initiative #2

Initiative #3

Initiative #4

EXAMPLES INCLUDE:

- Re-Design ER to Improve Patient Flow Thru
- Expand Cardiac Cath Lab
- Expand OP Urgent Care

Scenarios

To evaluate go-forward plans, what is the financial impact of different strategies?

Consolidated Results

ANALYSIS CONTAINS:

- Income Statement
- Balance Sheet
- Cash Flow
- Key Ratios

5

Promote
feedback loop
with
management
and executives
via reporting

All too often reporting is a one-direction dump of statistics or numbers. Reporting is more effective when outlier variances have an explanation or action plan associated with it. This improved feedback loop promotes greater accountability across management levels. It's critical to have reports for each level of the organization to provide visibility as well as promote accountability.



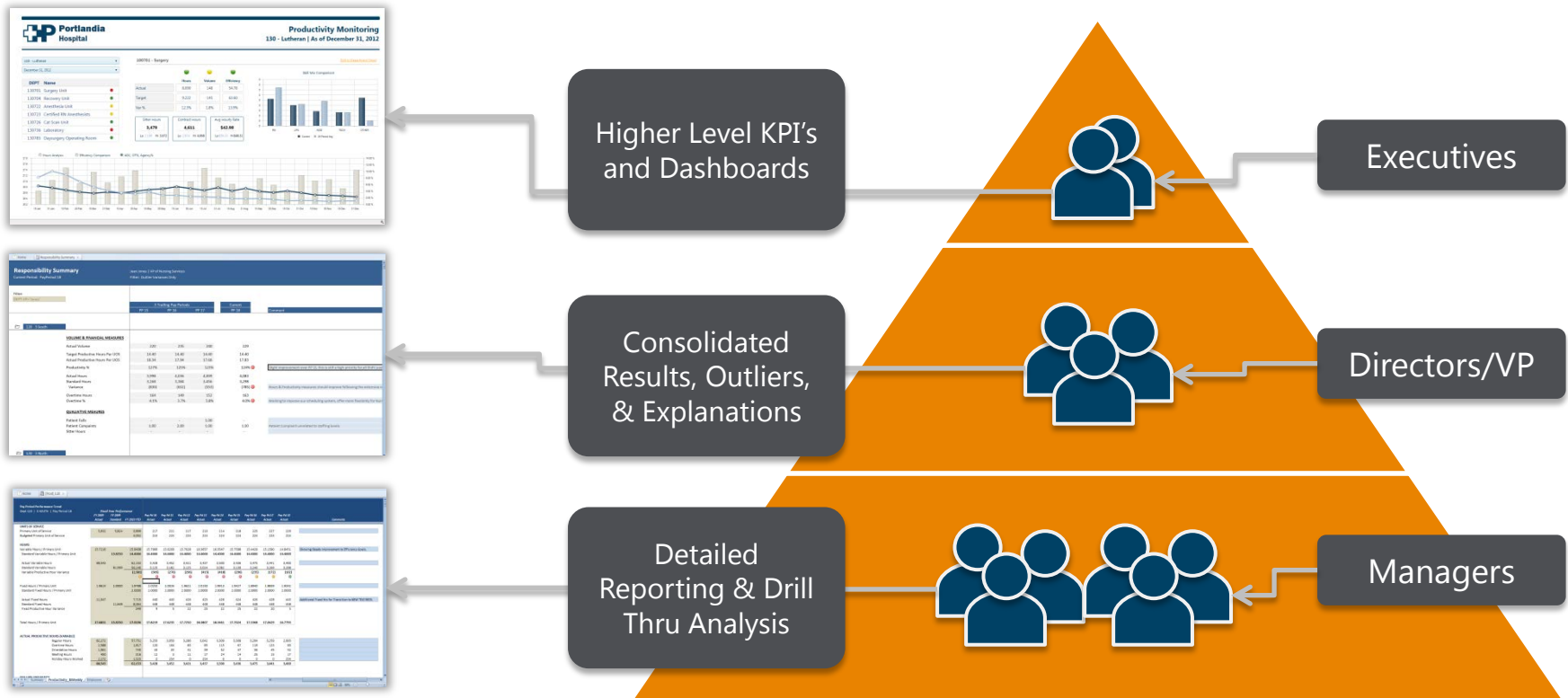
Effective financial performance reporting should have the following characteristics:

Be Role-Based – Dashboards provide effective high-level indicators of performance to Executives, more detailed self-service for manager's.

Incorporate Alerts & Notifications – We are so conditioned today to have notifications 'pushed' to our inbox or phones. Notifications related to report readiness or outlier variances should proactively notify users in that same way.

Improve the Feedback Loop – Ideally, explanations & commentary are part of the reporting process. Manager's must understand "what" outliers exist and then offer commentary around "why".

5 Promote feedback loop with management and executives via reporting



AXIOM EPM's UNIFIED PERFORMANCE MANAGEMENT SOLUTIONS

Delivering an Integrated Financial Planning and Decision Support Platform for Healthcare

Align business realities and financial plans with one, unified performance management platform. Designed for healthcare organizations, Axiom EPM delivers sophisticated planning, reporting and decision support functions in a single solution.

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