

BUDGETING FROM AN ORGANIZATION'S POINT OF VIEW

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DISCUSSION VIEWPOINT

- ▶ Adult Hospital
 - ▶ Decision Support supporting operational leaders
 - ▶ Assisted leaders for budget preparation and analysis
 - ▶ Decision Support supporting CFO and Controller
 - ▶ Assisted with budget summary and annual forecast
 - ▶ Leader for float pools and staffing office
 - ▶ Managed budget for 50+ employees
 - ▶ Leader for Financial Planning and Analysis
 - ▶ Facilitated annual budget process
 - ▶ Utilized EPSi


ORGANIZATION PLANNING PROCESS

- ▶ Strategic Plan
 - ▶ Capital Plan
 - ▶ Operating Budget
 - ▶ Long Range Forecast
 - ▶ Planning Calendar
 - ▶ Rolling Forecast
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STRATEGIC PLAN



WHAT IS A STRATEGIC PLAN

- ▶ Foundation of the planning process
 - ▶ Contains a road map for the future operations
 - ▶ Lays out the goals and objectives for the organization
 - ▶ Provides 3-5 year view
 - ▶ Refreshed annually
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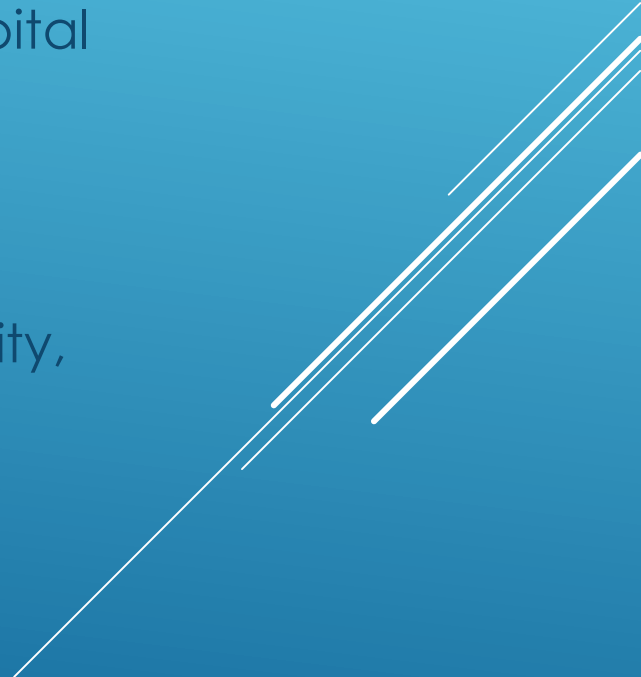
STRATEGIC PLAN PROCESS

- ▶ Year 1 plan needs to be detailed and measurable
 - ▶ Outlines plans for departments to align budgets and goals
 - ▶ Marketing
 - ▶ Operations
 - ▶ Finance
 - ▶ Administration
 - ▶ Facilities
 - ▶ Detailed plans assist with building long range forecast and budget plus assist with understanding future resource planning
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CAPITAL PLAN



WHAT IS A CAPITAL PLAN

- ▶ Capital planning process enables organizations to use a more structured and disciplined approach to allocate and manage capital
 - ▶ The process helps to determine the right amount of investment in capital projects to support the strategic plan and effective care delivery
 - ▶ The process will assist an organization to gain consistency, objectivity, and visibility to the entire capital need
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CAPITAL PLANNING PROCESS

- ▶ Requests should outline both operational needs and benefits as well as the financial impact
 - ▶ Requests should be objectively evaluated by a diverse capital committee
 - ▶ The process allows for prioritizing capital requests through objective ranking based on impact to the organization and alignment with strategic goals
 - ▶ Detailed plans assist with building long range forecast and budget plus assist with understanding future resource planning
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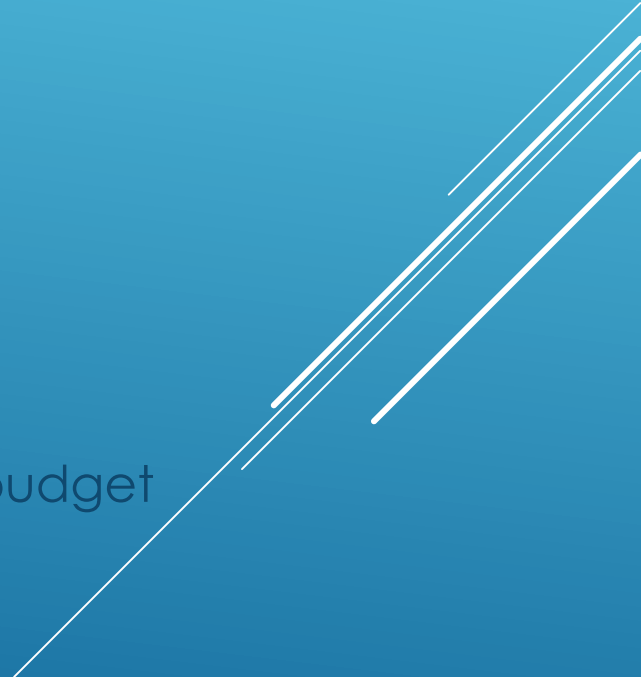
OPERATING BUDGET




OPERATING BUDGET

- ▶ 5 key elements to budget
 - ▶ Volumes / Statistics
 - ▶ Revenues
 - ▶ Operating expenses
 - ▶ Strategic plan initiatives
 - ▶ Capital projects
 - ▶ Budgets may be built at any level within the organization
 - ▶ Aggregate
 - ▶ Department
 - ▶ Service line
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OPERATING BUDGET

- ▶ Before beginning the budget process, there are things that need to be determined:
 - ▶ What timeframe will be used for budget base
 - ▶ Prior completed fiscal year
 - ▶ Prior completed calendar year
 - ▶ Current YTD annualized
 - ▶ What cost centers are fixed vs. variable
 - ▶ What job codes within variable cost centers will be variable vs. fixed
 - ▶ What accounts within variable cost centers will be variable vs. fixed
 - ▶ Will there be any accounts that will be locked and budgeted by the budget team
 - ▶ Example: education per FTE, employee recognition
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OPERATING BUDGET – VOLUME / STATISTICS

- ▶ The volume / statistics budget is the foundation budget, in that it develops the input data needed for the other budgets like revenue and expenses
 - ▶ Volume / statistics may include
 - ▶ Patient days
 - ▶ Admissions / discharges
 - ▶ Outpatient visits
 - ▶ Worked RVU's
 - ▶ Procedures
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OPERATING BUDGET – REVENUES

- ▶ Patient revenue factors in adjustments to pricing
 - ▶ Patient revenue factors in reimbursement expectations for payers
 - ▶ Final patient revenues factor in:
 - ▶ Price adjustment
 - ▶ Budgeted volume / statics data
 - ▶ Reimbursement expectations
 - ▶ Other non-patient revenue factored in to establish total revenue
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OPERATING BUDGET – EXPENSES

- ▶ The expense budget combines budgeted volume / statistics data with detailed resource utilization data to forecast expenses
 - ▶ To be most useful, expenses should be broken down into fixed and variable components
 - ▶ Fixed are a definite amount every month and do not change
 - ▶ Fixed expenses are typically easier to budget
 - ▶ Example: Building and equipment leases
 - ▶ Variable expenses are the costs that change with the volumes
 - ▶ Example: Medication, disposable supplies
 - ▶ Like revenues, expenses must be forecasted at multiple levels
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OPERATING BUDGET – EXPENSES

- ▶ Expenses are broken down into various categories
 - ▶ FTEs / Salaries / Fringe Benefits
 - ▶ Purchased services
 - ▶ Professional fees
 - ▶ Supplies
 - ▶ Other operating expenses
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OPERATING BUDGET – EXPENSES - FTES

- ▶ FTEs can be categorized as fixed or variable
 - ▶ Similar to expenses, fixed are a definite amount every month and do not change
 - ▶ Variable FTEs are driven by volumes / statics
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OPERATING BUDGET – EXPENSES – FIXED FTES

- ▶ Fixed are a definite amount every month and do not change
 - ▶ Process to true up FTEs is needed
 - ▶ Process to request additional FTEs is needed
 - ▶ Leaders to present to labor committee for approval to add to budget
 - ▶ Presentation should include at minimum the below elements:
 - ▶ Clarify the need for the additional FTEs
 - ▶ Define why you are unable to fill this need with existing staff
 - ▶ Identify the cost associated with the requested position(s)
 - ▶ Identify the potential revenue generated for the addition of the FTEs
- ▶ Budget at the paid FTEs level including all paid hours


OPERATING BUDGET – EXPENSES – VARIABLE FTES

- ▶ Variable FTEs are driven by volumes / statics
 - ▶ FTEs are determined based on volume and worked hours per unit of service (UOS)
 - ▶ Worked hours per UOS can be determined based on historical experience or based on benchmark goal
 - ▶ Organization needs to determine definition of worked hours
 - ▶ Does it include orientation
 - ▶ Ensure matches definition of benchmark if using as goal
 - ▶ Once worked FTEs are determined additional hours are added for non-productive time to get to total paid FTEs
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OPERATING BUDGET – EXPENSES – ALL OTHER

- ▶ Purchased services, professional fees and other operating expense can be built based on historical spend and adjusted for known changes
- ▶ Supplies can be determined in various ways
 - ▶ If the cost center is variable, volume and prior cost per unit can determine budget
 - ▶ Budgeted cost will only change if budgeted volumes changes
 - ▶ If the cost center is fixed, can be built based on historical spend and adjusted for known changes

OPERATING BUDGET – STRATEGIC PLAN INITIATIVES

- ▶ Year 1 plans should be built into budget(s)
 - ▶ Plans may include increased revenue and / or decreased expenses
 - ▶ Budget team ensures plans are added
 - ▶ Will be critical to final budget presentation to ensure understanding of impact of plans on the budget
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OPERATING BUDGET – CAPITAL PLAN

- ▶ Year 1 plans should be built into budget(s)
 - ▶ Plans may include increased revenue and / or increased expenses
 - ▶ Ensure any budgeted offsets of capital are also budgeted
 - ▶ Budget team ensures plans are added
 - ▶ Will be critical to final budget presentation to ensure understanding of impact of plans on the budget
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OPERATING BUDGET – PRESENTATION

- ▶ Final presentation of budget should include:
 - ▶ Current year forecast
 - ▶ Walk forwards outlining changes
 - ▶ Should outline change to each budget section:
 - ▶ Volumes / Statistics
 - ▶ Revenues
 - ▶ Operating expenses
 - ▶ Strategic plan initiatives
 - ▶ Capital projects
 - ▶ Next years budget
 - ▶ Major assumptions

LONG RANGE FORECAST



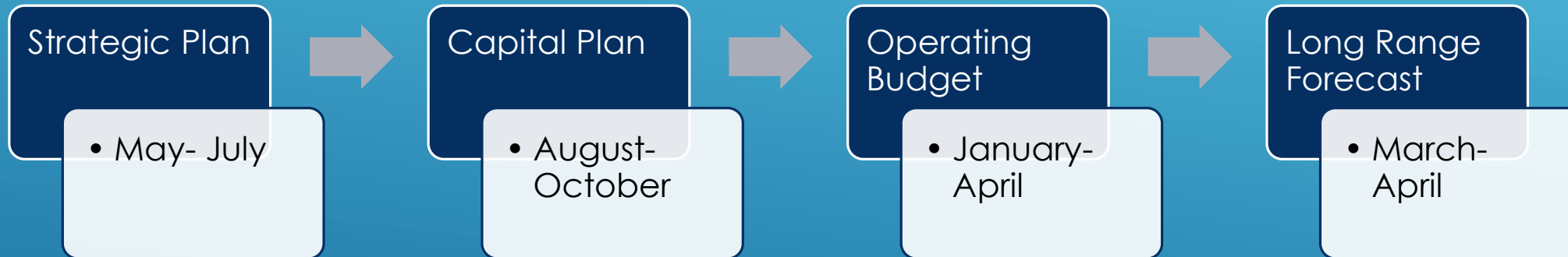
LONG RANGE FORECAST

- ▶ Includes
 - ▶ Current year forecast
 - ▶ Budget for next year
 - ▶ Forecast for next three to five years
 - ▶ Factors in known strategic initiative impact
 - ▶ Factors in known capital plan impact
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PLANNING CALENDAR



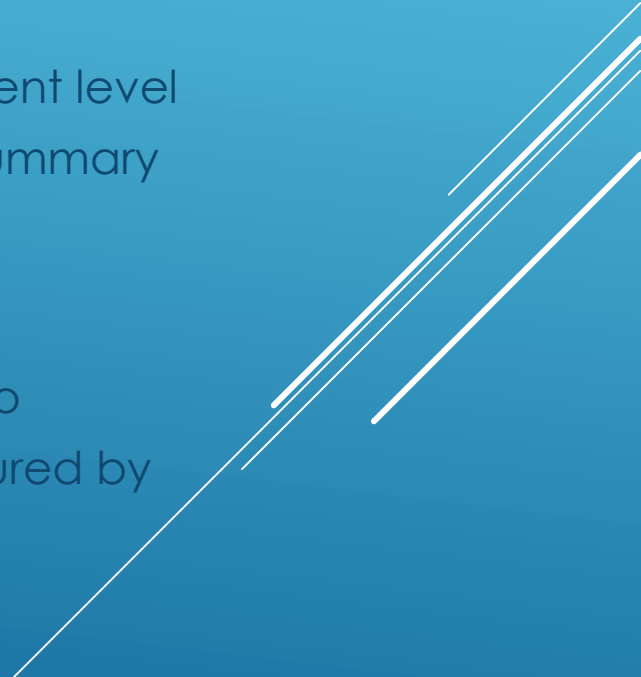
PLANNING CALENDAR – FISCAL YEAR END JUNE



ROLLING FORECAST



ROLLING FORECAST

- ▶ Plan to transition from traditional to rolling budget process
 - ▶ A traditional budget calls for financial planning once a year while a rolling forecast uses a continuous planning cycle, such as monthly or quarterly
 - ▶ The traditional budget details line-item revenue and expenses at the department level and the account level. In contrast, the system's rolling forecast is a quarterly summary of revenue and expenses at the organization level.
 - ▶ A rolling forecast also differs from traditional budgeting in how performance is monitored. The focus of performance shifts from meeting a set budget figure to meeting efficiencies in labor and workload productivity. Performance is measured by unit of service for every department (e.g., FTE, patient revenue, and expense).
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thank you!



THANK YOU FOR YOUR TIME