Rolling Forecasting:
A Strategy for Effective Financial Management

July 24, 2014
Agenda

Overview of Rolling Forecast

Cultural considerations

Quarterly update process

Quarterly update process timing

Structure setup and configuration

Monthly reporting process
Clarification of Terms

Long-Term Financial Plan

- Annual planning process to forecast financial trajectory for next 5-10 years.

Rolling Forecasting

- Process of reviewing and projecting financial trajectory for next 12 quarters (3 years), using existing budget + forecast techniques
Clarification of Terms

**Current Year Forecast**

– Monthly forecast of remaining months of current fiscal year starting with YTD actual.

– Variety of projection methods
  – Rolling Trend
  – Rate per unit
  – Percent of Budget to Actual Variance
  – Remaining Budget
  – Annualization
Rolling Forecasting:

*Imagine a road trip from New York to L.A....*
Financial Planning – Where are we going?

• Establish long range goals
• Generate long-range projections
• Compare what-if scenarios
The Strategic Financial Plan

- Strategic Financial Plan = foundation for rolling forecasting

- Reviewed on annual basis to set trajectory for next 3-5 years

- Baseline assumptions for strategic financial plan same as those historically used for annual budget process
The Strategic Financial Plan

- **Volume growth assumptions:**
  - Patient Days\Discharges\Admissions
  - Outpatient Visits
  - Physician Clinic Visits

- **Inflationary assumptions:**
  - Price Increase
  - Expense inflation
  - Salary merit and market adjustments
Rolling Forecasting – Are we on course?

• Review progress towards targets
• Generate intermediate-range projections
• Make course corrections / adjustments as necessary
Rolling Forecasting Defined

Use historical relationships to project where operations will take us given current operating relationships.

Forecast compared to financial plan & other targets.
Rolling Forecasting Defined

Resulting “gap” analyzed to identify the changes in operations needed to move forecast to more closely match financial plan
Operational Reporting – Where are we now?

• Assess present situation
• Report on status of organization
• Identify challenges and opportunities
• Forecasting: map the route for the next 8-12 quarters
Where does Rolling Forecasting fit?

Long-Range Financial Planning

ROLLING FORECASTING

Monthly Variance Reporting

Biweekly Reporting

Operational Budgeting
Rolling Forecast – Cultural Considerations

- Radical change in approach and philosophy
- Requires cultural readiness for the process
- Not for everyone
- Culture of accountability
  - Team approach
  - Collaborative efforts
- Is there executive support for rolling forecasting?
- Do you have an extremely detailed budget process?
- Does management staff understand the concepts of rate per unit / fixed and variable cost?
Rolling Forecast – Cultural Considerations (Cont.)

– Have you discussed what it means for the organization to not have a detailed monthly budget?
  ▪ Impact on biweekly\daily productivity
  ▪ Budget could be the annual plan from HAE
  ▪ Are there debt covenant or other requirements for a detailed budget?

– Have you implemented process improvement per Total Quality Management, Lean Accounting, Kaizen or Deming approaches?

– Are you interested in a monthly forecast to the end of the current fiscal year or a quarterly forecast over 12 quarter horizon?
  ▪ CY forecast utility a good first step to organizational readiness for rolling forecasting.
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How do we manage expenses with changing volume?
4. How are we doing?
5. How do we sustain the gains?
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How do we manage expenses with changing volume?
4. How are we doing?
5. How do we sustain the gains?

**VOLUME UPDATES**

**Method / Tools:** Financial plan; Gaps from the financial plan and current year forecast, Executive survey

**Key Participants:** Finance, Executive team, Key division leaders
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How do we manage expenses with changing volume?
4. How are we doing?
5. How do we sustain the gains?

**ASSESSMENT**

**Method / Tools:** Financial plan; Gaps from the financial plan and current year forecast

**Key Participants:** Finance, Executive team, Key division leaders (with potential input from dept managers)
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How do we manage expenses with changing volume?
4. How are we doing?
5. How do we sustain the gains?

PLANNING

**Method / Tools:** Forecast workbook, KPI Metrics, Comparison of Rolling Forecast to Financial Plan

**Key Participants:** Forecast Directors\Managers
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How do we manage expenses with changing volume?
4. How are we doing?
5. How do we sustain the gains?

**TRACKING**

**Method / Tools:** Actual vs. Historical comparisons, Forecast Group rollups, Updated targets

**Key Participants:** All
The Quarterly Forecast Process

1. What volume changes do we expect?
2. What revenue and expense changes will result?
3. How to implement the cost reduction?
4. How are we doing?
5. How do we sustain the gains?

**SUSTAINING**

**Method / Tools:** Actual vs. Historical comparisons, Forecast Group rollups

**Key Participants:** All
Quarterly Process Steps – Option A

• Month 1
  – GL close of month 3 from previous quarter
  – Monthly reports distributed
  – Executive review of previous quarter results
  – Annual plan update, if necessary
• Month 2
  – GL close of month 1 of current quarter
  – Monthly reports distributed
  – **Update to quarterly forecast for next quarter**
• Month 3
  – GL close of month 2 of current quarter
  – Monthly reports distributed
  – Publish final quarterly forecast for next quarter
Quarterly Process Steps – Option B

• Month 1
  – GL close of month 3 from previous quarter
  – Monthly reports distributed
  – Executive review of previous quarter results
  – Update to quarterly forecast for current quarter
  – Annual plan update, if necessary

• Month 2
  – Publish final quarterly forecast for current quarter
  – GL close of month 1 of current quarter
  – Monthly reports distributed

• Month 3
  – GL close of month 2 of current quarter
  – Monthly reports distributed
Key Elements of the Process

1. Define Forecast Groups
   - Forecast Group = grouping of functional departments that define a hospital service
   - “Surgical Services” would include
     - Operating Room
     - Anesthesiology
     - Recovery Room
     - Any other departments that contribute to provision of surgical services at the hospital
Key Elements of the Process

1. Define Forecast Groups (cont.)

- Normally 20-25 forecast groups defined per facility

- Rolling forecast done at this level rather than individual department or cost center level

- Input for rolling forecast done by forecast group director with input from managers within the forecast group team
Key Elements of the Process

2. Define Key Driver

Key statistic used to create relationship to organization-level volume drivers

– Patient Days
– Outpatient Visits
– Physician Clinic Visits
Key Elements of the Process

2. Define Key Statistic

Used for KPI (Key Performance Indicator) monitoring as divisor in rate per unit measures such as:

- Total cost per unit
- Hours per unit
- Salary cost per unit
- Average hourly rate
- Supply cost per unit
- Revenue per unit
Key Elements of the Process

3. Define Level of Account Detail

Salaries are normally forecast at the Job Class level (Management, RN, Clerical, etc.)

– Summarize salaries and hours to job class categories
– FTE inputs → hours x hourly rate + increase assumptions
– Productivity improvements can be factored into calculation
Key Elements of the Process

3. Define Level of Account Detail (cont.)

– Forecasting can be done at General Ledger level of detail or more aggregate level of detail

– For expense categories where significant change not expected over time, can forecast at more aggregate level

  • Summarize all medical supply accounts to one category (as opposed to forecasting for medical supplies, sutures, gloves, etc.)

  • Other supplies can be summarized together
Key Elements of the Process

3. Define Level of Account Detail (cont.)
   – Expense categories with different inflationary assumptions or that have different cost behaviors can be carved out separately
     – Implants
     – Blood Products
     – Utilities
Monitoring Performance

Traditional budget variance reporting replaced by metrics comparisons

- Monitoring at KPI (Key Performance Indicator) level
  - Total Cost per unit
  - Salary Cost per unit
  - Supply Cost per unit
  - Paid Hours per unit

- Focus on improvement in trends
  - Quarter over quarter
  - Same quarter last year
  - 3 month, 6 month, annual average
# Monitoring Performance - Target Variance by Dept

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<thead>
<tr>
<th>Account Number</th>
<th>Account Description</th>
<th>Monthly Analysis</th>
<th>Year-to-Date Analysis</th>
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<td>Current Month</td>
<td>Last Month</td>
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<td>Feb-13</td>
<td>Jan-13</td>
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## Scorecard

- **Workload Statistic**
  - ▲ Favorable
  - ▼ Unfavorable

## Revenue

- **Revenue Per Unit**: ▼
- **Revenue Per Hour**: ▲
- **Revenue Per Paid Hour**: ▲
- **Revenue Per Paid FTE**: ▼

## Salary & Benefits

- **Average Hourly Rate**: ▼
- **Paid Hours per Unit**: ▲
- **Salaries Per Unit**: ▲
- **Benefits Per Unit**: ▼

## Other Expenses

- **Supplies Per Unit**: ▲
- **Total Expense Per Unit**: ▼
- **Total Paid Hours**: ▲
# Monitoring Performance - Target Variance Rollup

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### Scorecard

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<th>Workload Statistic</th>
<th>Revenue</th>
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<th>Salary &amp; Benefits</th>
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- **ENUFF Budget Advisor Rate per Unit Analysis**
- **PostDept: 202700 Forecast - Imaging Services**
- **Director: Dianne Parnell**
- **Manager: Chris Sparks**
QUESTIONS?