The Mechanics of Rolling Forecasting

AGENDA

Healthcare Planning Challenges
Frame the business challenges and growing demand (and need) for planning agility

Rolling Forecasting for Various Organizations
Various structures and uses for forecasting

Reporting Aspects
How does the conversation change with rolling forecasting

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Kristi Taylor

Senior Software Implementation Consultant,
Syntellis Performance Solutions

Kristi is responsible for implementing, providing software consulting and client support for the firm's Budgeting, Rolling Forecasting and Productivity solutions. Prior to Syntellis, she was a Financial Analyst at Summit Health in Chambersburg, Pa. and previously served as an accountant.
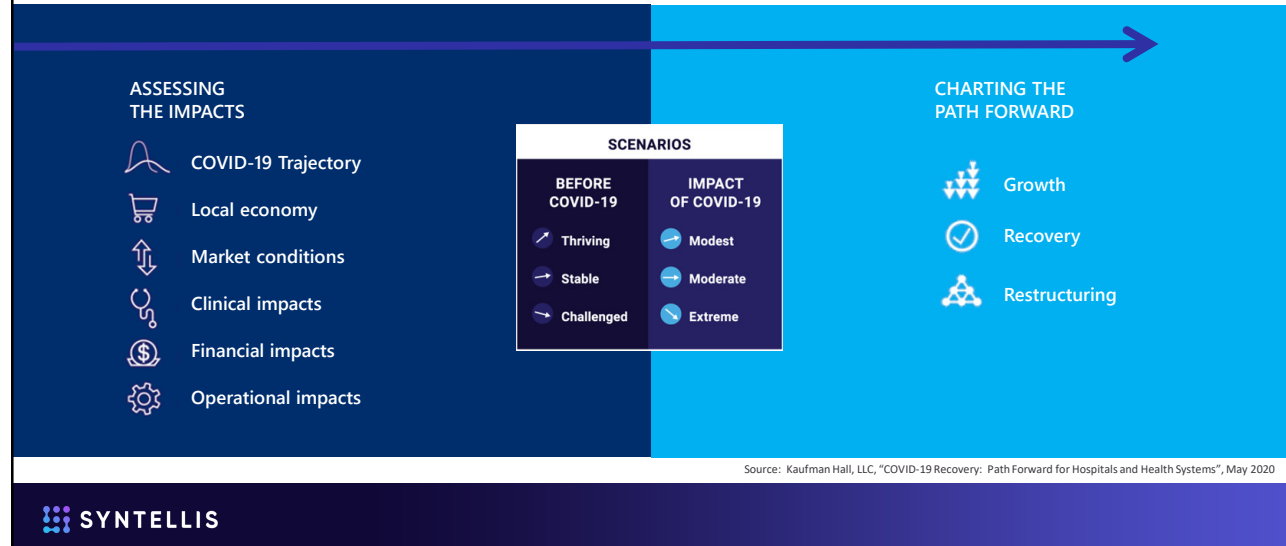
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Healthcare Planning Challenges

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What we experienced …
COVID introduced tremendous business disruption (and continues to do so).

Introduced the need for more agile financial modeling & forecasting tools to understand business & financial impacts

ASSESSING THE IMPACTS

- COVID-19 Trajectory
- Local economy
- Market conditions
- Clinical impacts
- Financial impacts
- Operational impacts

SCENARIOS

BEFORE COVID-19	IMPACT OF COVID-19
Thriving	Modest
Stable	Moderate
Challenged	Extreme

CHARTING THE PATH FORWARD

- Growth
- Recovery
- Restructuring

Source: Kaufman Hall, LLC, "COVID-19 Recovery: Path Forward for Hospitals and Health Systems", May 2020

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The question: Were we well-prepared as finance teams to adapt?
Results of pre-COVID survey highlighted potential challenges given current tools & processes.

95%
Agree: **Should be doing more** to leverage financial, operational, analytical data to inform

75%
Agree: **Resource constraints** impact the effectiveness of financial planning and analysis activities

83%
Do not regularly simulate business and financial impacts of alternative planning scenarios

Source: Pre-COVID Survey, Syntellis Performance Solutions, 2020 Financial Outlook Survey, January 2020

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For many, their budgeting process lacked the agility they needed
A process that was ill-equipped for managing through future uncertainty

Budget Development can be a time and resource-intensive process.

Assumptions can become outdated by the time plans are finalized.

Plans tends be 'rigid' and detailed, not easily adapted to changing conditions.

Management Reporting is <u>retrospective,</u> with a focus on variance explanation.

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Key benefits of a rolling forecast process
Improving planning efficiency and agility

Shift & adapt plans
given changing healthcare environment

Address time constraints
across a strained & multi-tasking enterprise

Model scenarios
and financial impacts more efficiently

Shift the focus
from 'dollar variances' to 'per unit' measures

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Finance priorities heading into 2022
Results from Syntellis' most recent CFO Outlook Survey
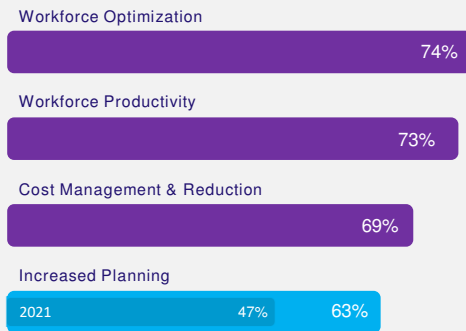
Labor & Cost Management

- **Top 3 priorities** focus on cost control & reduction
- No surprise given the **+25% increase** in **Total Expense Per Adjusted Discharge** compared to pre-pandemic levels (*)
  (*) Compares December 2019 to December 2021

Increased Planning

- **63% cited the need** for increased planning
- Response reflects **an increase in importance** over prior year (47%)

Top four priorities cited as "very important" to fiscal health:

Workforce Optimization — 74%

Workforce Productivity — 73%

Cost Management & Reduction — 69%

Increased Planning — 2021: 47%, 63%

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Rolling Forecasting for Various Organizations
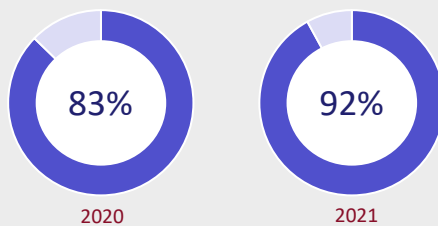
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Polling Question:

1.) What is the current state of rolling forecasting in your organization?

A.) Rolling forecasting has replaced our annual budget.

B.) Rolling forecasting is used as a complement to our annual budget.

C.) We are planning to implement rolling forecasting within the next year.

D.) We have no plans to use rolling forecasting.

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Confidence grows in ability to be more efficient and agile
Results from Syntellis most recent CFO Outlook Survey

Expressing greater confidence in organization's ability to quickly adapt plans & strategy due to changing market/business conditions …

83%
2020

92%
2021

Improving efficiency as percentage of organizations with budget cycles of six months or more continues to drop …

50%
2019

33%
2020

29%
2021
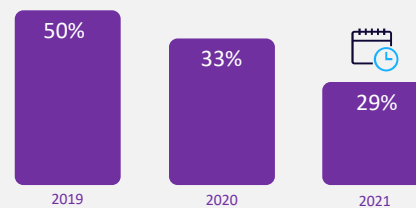
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Adoption of rolling forecasting continues
Results from Syntellis most recent CFO Outlook Survey

What describes your organizations **use of rolling forecasting**?

- Use rolling forecasting as a **replacement** to the annual budget
- Use rolling forecasting as a **complement** to the annual budget
- **Do not use r**olling forecasting, but **plan to implement**
- **Do not use** or plan to use rolling forecasting

26%

39%

20%

15%
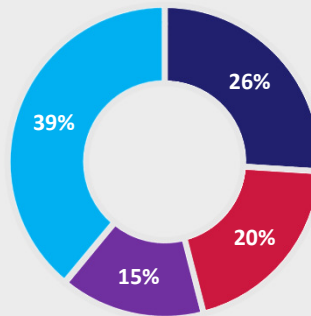
Overall adoption of rolling forecast as a finance tool has increased significantly since 2017

31%
2017

54%
2021
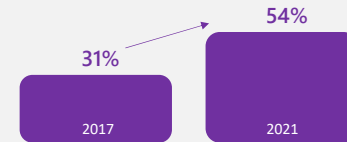
Trend continues of organizations adopting the rolling forecast **to replace the budget**

2019	7%
2020	12%
2021	15%

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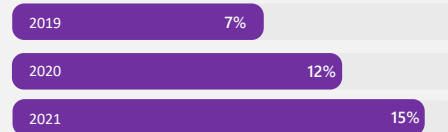
What to consider as you evaluate a rolling forecasting process
Keep in mind – there is not a one-size fits all approach

COMPONENT	RECOMMENDATIONS
Role of Rolling Forecasting Will it complement or replace the budget?	• Determining this will guide other model decisions • Replacing the budget is a culture shift; executive buy-in is critical
Time Horizon Projections performed monthly/quarterly?	• Trending 24-36 months is most common • Use of monthly proved valuable when simulating COVID-19 impacts
Level of Detail for Projections How do I roll-up my financial data for planning purposes?	• For service-line forecasting, group those with common driver stats • Consider approach for labor projections, how much detail is needed
Planning Contributors/Roll-ups Who will be accountable each month or quarter?	• Role clarity is important across finance & forecast owners • Target efficiency – if you can achieve a 2-3-week cycle, that's ideal

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Process and model comparison
Rolling forecasting is designed to be efficient and forward-looking

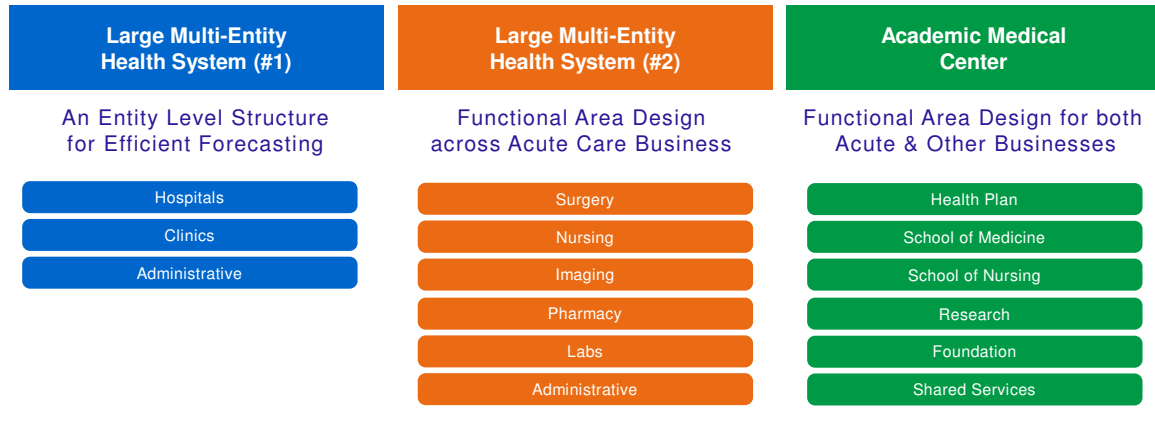|	ROLLING FORECAST	FINANCIAL PLAN	ANNUAL BUDGET
Planning Frequency and Time Horizon	Quarterly or monthly, planning out 18-24 months	Re-visited annually, projections out 3-5 years	Annual process, planning next year
Time to Complete the Cycle	2 – 3 Weeks	1-2 months	3-6 months
Planning "Entity"	Planned at a summary level, by entity or department groups	System or entity level	Department-specific
Level of Detail	Less detail, summary groupings of accounts	More summarized, in line with financial statement categories	Most detail – GL account, by line item, by employee

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Design considerations
Examples of how rolling forecast groups are set up

Forecast Groups	Forecast Codes	Labor Considerations
• By service line or entity level	• **Roll-up** of income statement detail	• **Incorporating job code level detail** is typical (management, RN, clerical, etc.)
• **By service line** – Surgical services (OR, anesthesiology, recovery room, other departments that contribute to provision of surgical services)	— Salaries — Benefits — Supplies – Medical — Supplies – Drugs — Supplies – Office	• Can use salary by pay-type for complement to productivity tool (ex. Prod, NonProd, OT)
• **By entity** – Hospital, clinics, physician groups		
Consider how departments roll-up for management purposes. Can they share a common group statistic?	*Consider breaking out expense categories that require a unique inflationary factor.*	*Consider groupings that allow for productivity improvements to be modeled effectively.*

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Design considerations (con't.)
Examples of how rolling forecast groups are set up

Large Multi-Entity Health System (#1)	Large Multi-Entity Health System (#2)	Academic Medical Center
An Entity Level Structure for Efficient Forecasting	Functional Area Design across Acute Care Business	Functional Area Design for both Acute & Other Businesses
Hospitals	Surgery	Health Plan
Clinics	Nursing	School of Medicine
Administrative	Imaging	School of Nursing
	Pharmacy	Research
	Labs	Foundation
	Administrative	Shared Services

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Sample forecast structures
There is not a one-size-fits-all approach

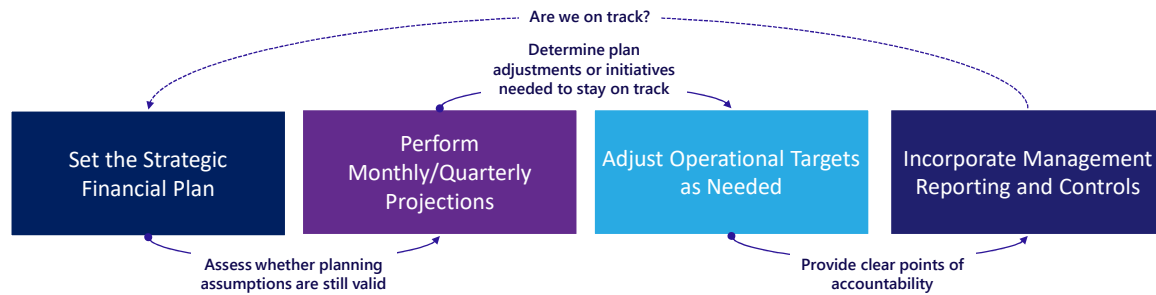|	Large National Health System 150+ Hospitals	Large National Health System 100+ Hospitals	Large Regional ~12 Hospital System, 2 Research Centers	Mid-Size 2 Hospitals,~12 Medical Offices, ~20 OP Centers
Departments	45,000	50,000	5,000	500
Forecast Groups	6,500	1,500	800	50
Role of forecast	Replacement	Complement	Replacement	Complement
Model Design	**Combination** ~10 Groupings Per Hospital	Entity Hospital, Physician, Other	Functional w/ more detail, but not Department Level	By Functional Group

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Reporting Aspects

Rolling forecasting is designed to change the conversation – to talk about actionable short-term goals instead of constantly explaining previous budget variances.

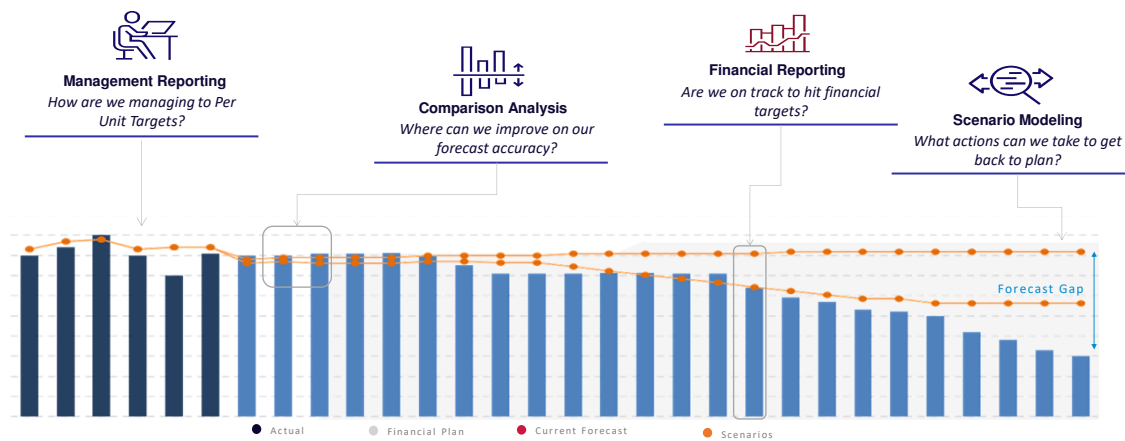**From integrated to a <u>continuous planning</u> model**
Framing the role of rolling forecasting

Are we on track?

Determine plan
adjustments or initiatives
needed to stay on track

| Set the Strategic Financial Plan | Perform Monthly/Quarterly Projections | Adjust Operational Targets as Needed | Incorporate Management Reporting and Controls |

Assess whether planning
assumptions are still valid

Provide clear points of
accountability

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Reporting Capabilities
Understanding terminologies and core capabilities

Management Reporting
How are we managing to Per Unit Targets?

Comparison Analysis
Where can we improve on our forecast accuracy?

Financial Reporting
Are we on track to hit financial targets?

Scenario Modeling
What actions can we take to get back to plan?

Forecast Gap

● Actual　　● Financial Plan　　● Current Forecast　　● Scenarios

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Financial reporting
Are we on track to hit financial targets?

CORE CAPABILITIES:

Enable integrated reporting comparing actuals, budgets, forecast scenarios and financial plan targes

Should answer – Are we on track compared to our financial plan targets, what course correction is needed?

Key Ratios Analysis	2020 Actual	2020 Actual	2021 Actual	2022 Forecast	2022 Financial Plan	Forecast To Prior Year	Forecast To Financial Plan
Profitability							
Operating Margin %	2.4%	0.1%	-2.7%	1.5%	2.9%	4.2%	-1.4%
Excess Margin %	3.8%	2.9%	0.1%	2.0%	3.3%	1.9%	-1.3%
Salaries\Benefits Cost Per CMI Adjusted Admission	3,325.05	3,883.26	4,225.00	5,436.74	5,386.59	1,211.74	50.15
Supply Cost Per CMI Adjusted Admission	1,190.84	1,378.27	1,553.36	2,186.07	1,936.78	632.71	249.29
Total Cost Per CMI Adjusted Admission	9,020.08	9,168.32	10,506.01	10,988.99	10,977.25	482.98	11.75
Net Revenue Per CMI Adjusted Admission	7,520.08	7,668.32	9,006.01	9,488.99	9,087.25	482.98	401.75
Benefits - % of Salaries	21.5%	2.2%	21.4%	22.5%	21.5%	1.1%	1.0%
Supplies - % of Net Patient Service Revenue	2.1%	22.2%	22.0%	21.7%	20.6%	-0.3%	1.2%
Net Revenue - % of Gross Patient Revenue	44.6%	45.6%	44.2%	47.5%	49.2%	3.3%	-1.6%
Bad Debt - % of Gross Patient Revenue	1.7%	1.8%	2.0%	1.5%	1.4%	-0.5%	0.1%
Labor Utilization							
Compensation Ratio	43.9%	47.2%	47.8%	43.5%	44.5%	-4.3%	-1.0%
Labor Cost Per FTE	26,506	27,306	26,891	29,454	28,795	2,563.00	659.00
Paid Hours per CMI Adjusted Admission	215	441	271	313	321	42	(8)

Key Performance Indicators
What trends exist?

Integrated Reporting
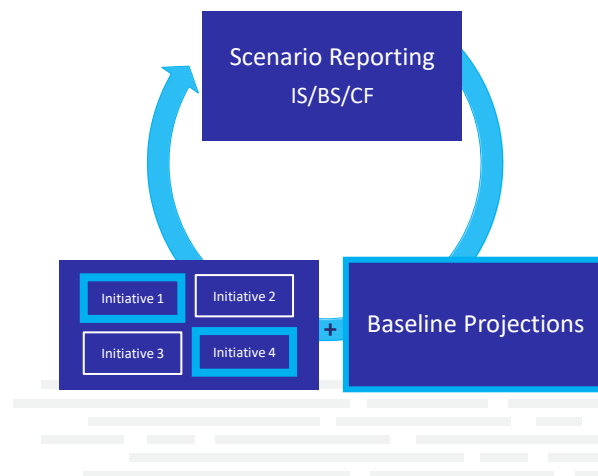What are implications to broader strategy?

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Scenario Modeling
What actions can we take to get back to plan?

CORE CAPABILITIES:

Efficient forecasting designed to quantify the range of potential financial outcomes across any number of business scenarios and 'what-if' models.

Should answer – What combination of strategies and performance improvement initiatives are needed to ensure we stay on plan?

Scenario Reporting
IS/BS/CF

Initiative 1 Initiative 2
Initiative 3 Initiative 4

+

Baseline Projections

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Polling Question:

2.) Do you regularly incorporate scenarios into your planning process?

      A.) Yes

      B.) No

      C.) Not sure

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Ways Organizations Utilize Rolling Forecasting
It can vary depending on organizational needs at the time

  ✓ As a replacement to budgeting

  ✓ As a complement to budgeting

  ✓ As a way to make sure they are on target with long range financial plan

  ✓ As a way to complete "what if" scenario modeling

  ✓ As a way to identify performance improvement initiatives

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Best Practices Rolling Forecasting
Which Path is right for your organization

- Complementing Budget
  - Determine role of each tool
  - Keep manager dept accountability
  - Review the budget cycle timeline
  - Provides another point for comparison throughout the year
  - Allow to work through transition

- Going Beyond Budgeting
  - Determine how to manage the various levels of reporting
  - Make sure structure will meet needs of internal / external reporting
  - Complete a transition plan
  - Be firm with structure, this is not a budget

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Where to go from here

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How to begin the journey
Initial steps you can take today to prepare

Assess the organization's understanding of concepts like 'rate per unit' as well as 'fixed versus variable' cost

- Flexible budget is a great tool to increase "Financial IQ"
- Focuses on 'controllable' elements of budget - Budget Rate per Unit times Actual Volume

1

Formulate an approach – Are you interested in a monthly forecast to the end of the current fiscal year or a quarterly forecast over a 6-12 quarter horizon?

- **CY forecast** is a good first step to organizational readiness for rolling forecasting

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Lessons learned
Tips from organizations that leverage rolling forecasting successfully

1	The forecast is directional	Intended to be directional at a point-in-time comparing to Financial Plan targets, **answers the question, "Are we on track?"**
2	Stay 'materiality' focused	Avoid building too much detail into your model that keeps you from being agile – **focus on what matters**
3	Better work, not busy work	Don't spend too much time chasing 'outlier explanations'; rather, focus on **developing 'forward-looking' action plans** (initiatives)
4	Target setting is important	Forecast owners should work with department leaders to establish 'targets' **– staying 'per unit' focused is key**

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Closing remarks
What 'lessons learned' have we learned …

Define the purpose of the rolling forecast in your organization – will it **complement or replace** the annual budget?

Executive sponsorship is critical
- *Leadership can't expect detailed reporting provided by a budget*
- *Conversations will shift to per units and incremental improvements*

Identify who will be the **Planning contributors**

Clearly set reporting expectations – what feedback loop is needed and expected

As you start the journey – keep it simple to start … walk before you run

Ongoing – establish a continuous improvement mindset related to your forecasting capabilities

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Closing remarks
What will the future hold for rolling forecasting in healthcare?

Adoption of rolling forecasting could accelerate	Processes will evolve and mature	Tools will become more data science driven
Disruption continues in healthcare and establishing more agile planning is becoming a business imperative.	For many, rolling forecasting was deployed as a finance tool and is now being deployed across operations.	Machine learning and predictive modeling are becoming infused into forecasts to inform demand planning.

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Questions

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