

Michigan Great Lakes HFMA

CHFP Exam Prep Session #4

January 26, 2023



Certified Healthcare Financial Professional - CHFP

Module I - The Business of Healthcare

Course 4: Strategic Financial Issues

Learning Objectives

- Understand how strategic planning influences budgeting,
- Differentiate between various budgeting methods,
- Define the different types of budgets used in a healthcare business, and
- Complete a simple budget variance analysis

Today's Context

Strategic Planning & Budgeting

Basics of Strategic Planning

Strategic Planning Cycle



Mission Statement

- Strategic Planning **starts** with the company's Mission Statement.
- Fundamental purpose
- Why an organization exists



Examples

“To improve health, instill humanity and inspire hope.”

-Corewell Health

“To advance health to serve Michigan and the world.”

-Michigan Medicine

Vision Statement

- Linked to Mission Statement
- Organization's aspirations
- What seeking to achieve



Examples

“A future where health is simple, affordable, equitable and exceptional.”

-Corewell Health

“Our discoveries change care; our care changes lives.”

-Michigan Medicine

Values

- States how an organization will accomplish their Mission & Vision
- What is brought to work
- What is said and done
- Important

Examples

“Compassion, Collaboration, Clarity, Curiosity, & Courage.”

-Corewell Health

“Caring, Innovation, Inclusion, Integrity, Teamwork.”

-Michigan Medicine



Strategic Plan

- Broad plan to guide towards fulfillment of Mission.
 - Current state
 - Goals & Action Steps
 - Opportunities & Threats
 - Strengths & Weaknesses



Polling Question # 1

What is at the center of an organization's strategic plan?

- a) Vision
- b) Mission
- c) Budget
- d) Strategy

BUDGET?



Basic Budget Concepts

- An organization's plan in financial terms
- A management tool
- Sets targets
- Compare to benchmarks
- Set up by departments or service areas
- Can be monthly, quarterly, yearly
- Best Practice: Review often, monthly



Approaches to Budgeting

- Incremental Budgeting
 - Traditional method
 - Based upon actual performance with incremental adjustments
 - Can preserve operational deficiencies, assessment periodically
- Zero-based budgeting
 - Start with no prior year baseline
 - Each line item must be justified
 - Tightly controlled yet appropriate for financial difficulty

Polling Question # 2

What type of budgeting does your organization use?

- a) Incremental Budgeting
- b) Zero Based Budgeting
- c) I have no idea
- d) Other (post in chat)

Polling Question # 3

Budgeting is the process of quantifying:

- a) An organization's strategic plan
- b) Resource allocations
- c) An organization's fiscal structure
- d) Market strategy

Elements of the Budget for a Healthcare Business

- **Operating Budget**
 - Benchmark for normal, day-to-day operations of the business
 - Detailed projection of revenue and expenses over a certain period of time
 - Estimates of service volumes, revenues and expenses (healthcare specific)
 - Future projection of income statement
 - *Contains components of a statistical budget, revenue budget, and expense budget.*

Statistical Budget & Example Items

To create a statistical budget, leaders need to start with projections of service volumes for the upcoming fiscal year.

Outpatient Clinic	Hospital	Health Plan
Patient Visits	Patient Days	Enrolled Members
Lab Tests	ER Visits	Number of Claims
Diagnostic Images	Meals Served	Number of Customer Service Calls
	Patient Accounts Billed	Prior Auths Processed

Statistical Budget

When creating a Statistical Budget, keep in mind the strategic plan and ensure targets align with desired outcomes.

Common examples of targets:

1. Profitability.
2. Expand access to the uninsured.
3. Price competitive in health insurance exchanges.

Revenue Budget

Once an understanding of service volumes is established, leaders convert those volume to collected revenue projections.

Assumptions may be for:

1. Rate and volume increases,
2. Change in prices due to contracts,
3. Change in prices due to competition or government programs,
4. New lines of business.

Expense Budget

Develop estimates of expenses by understanding operational relationships, such as

- Number of labor hours per patients served
- Average time to address billing questions
- Salaries for employed executives and physicians

Health plans pay great attention to expense budgets since medical claims account for 80% or more of all operating expenses.

Summary

Operating Budget – main budget for labor, operating expenses, and revenue. Includes:

Statistical Budget – projection of next year's volumes, used to create:

- Revenue Budget – itemized sources of revenue
- Expense Budget – itemized list of purchase and operating expenses

Once created, the Operating Budget becomes a tool for controlling operational performance. Serve as a benchmark to compare actual results.

Polling Question # 4

Which type of budget provides a benchmark for the normal day-to-day operation of a business?

- a) Operating Budget
- b) Statistical Budget
- c) Capital Budget
- d) Expense Budget

Polling Question # 5

The Operating Budget includes which other budgets?

- a) Statistical Budget
- b) Capital Budget
- c) Expense Budget
- d) Both A & C only
- e) All of the above

Capital Budget

A budget allocating money for the acquisition or maintenance of **fixed assets** such as land, buildings, equipment.

Capital expenditures are depreciated over the useful life of an asset.

Typically represent 6-10% of operating expenditures.

Categorized as **Maintenance** or **Strategic Capital**.

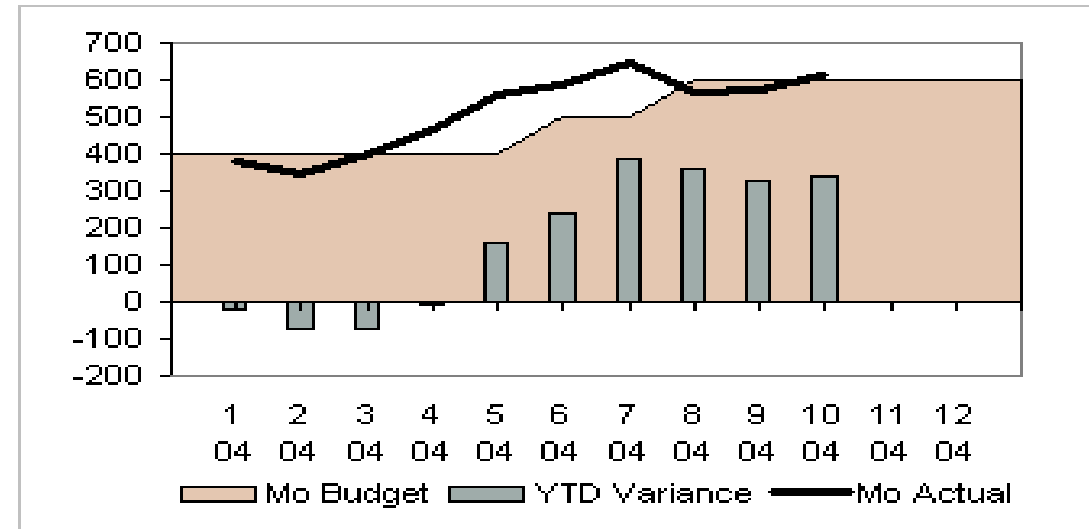


Budget Variance

$$\text{Actual VS Budgeted} = \underline{\text{Variance}}$$

Two Types:

1. Favorable Variance
2. (Negative) Variance



$$\text{Actual} - \text{Budget} = \text{Revenue Variance}$$

$$\text{Budget} - \text{Actual} = \text{Expense Variance}$$

Budget Variance Analysis

- **Simple:** Uses the budget as prepared before the beginning of fiscal period and computes the difference between projection and actual results.
- **Flexible:** Adjust the budget for changes in volumes by applying revenue and expense-per-unit standards to the actual volumes.



Polling Question # 6

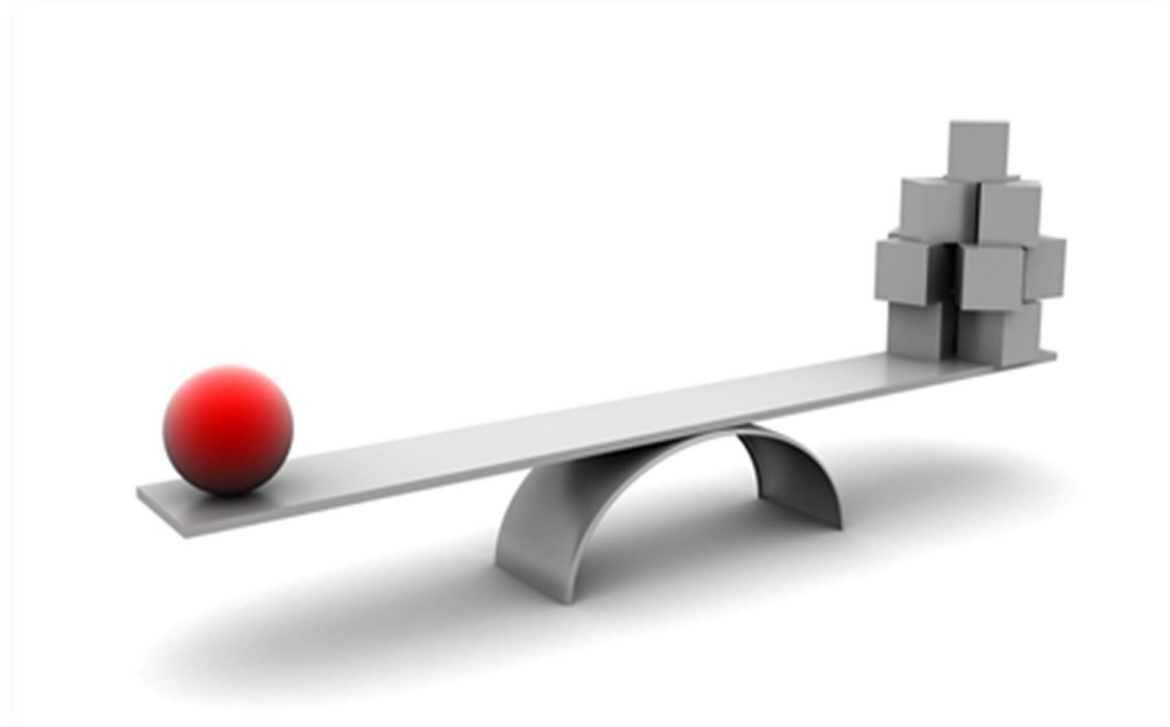
Use the following data to calculate a simple budget variance for revenues.

	Budget	Actual Result
Statistical Budget		
Total Office Visits	10,000	9,500
Income Statement		
Revenues		
Total Revenue	\$1,500,000	\$1,550,000
Expenses		
Salaries	\$700,000	\$720,000
Supplies	500,000	500,000
Fixed Supplies	250,000	255,000
Total Expenses	\$1,450,000	\$1,505,000
Margin	\$50,000	\$45,000

- a) \$5,000 favorable
- b) \$5,000 unfavorable
- c) \$50,000 favorable
- d) \$50,000 unfavorable

Other Guidance for Strategic Financial Planning

- Benchmarking



In Summary

- Strategic planning is a function all leaders should actively engage
- Start with the big picture: Mission, Vision, Values
- Financial leaders must focus on the big picture
 - Understand the business' goals
 - Understand the care delivery models
- Use of financial management tools like budgets and variance analysis assists with proper use of resources



Questions?

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Supplemental Question # 1

All of the following are critical elements of working with a budget EXCEPT:

- a) Budgets need flexibility as the business environment shifts
- b) Budgets are a management tool, not a financial tool
- c) Budgets are critical to accurately benchmarking organization performance
- d) Budgets are the concern of upper management only

Supplemental Question # 2

The process where managers start each budget projection as if there were no past experience and each item in the budget must be justified as to its reasonableness each year is known as:

- a) Evidence based budgeting
- b) Zero-based budgeting
- c) Strategic budgeting
- d) Expense-bases budgeting

Supplemental Question # 3

The operating budget provides:

- a) A benchmark for the normal, day-to-day operation of the business
- b) An understanding of the expected volume of services provided
- c) Estimates of expenses by knowing operational relationships
- d) Determination of capital investments

Supplemental Question # 4

The analysis process that determines the variance between actual results and a budget projection that has been “flexed” to the actual service volume experienced is:

- a) Simple variance analysis
- b) Budgeted Volume variance analysis
- c) Flexible budget variance analysis
- d) Volume projection analysis

Supplemental Question # 5

The comparison of an organization's performance on key performance measures relative to the competition, other organizations, or groups of organization is known as:

- a) Market analysis
- b) Key Performance Indicators management
- c) Competitive positioning
- d) Benchmarking