

Budget planning has become a year-round process

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WITH AN OVERWHELMING NUMBER of vectors and variables to consider, planning a hospital budget might now be considered in the same league as rocket science.

Yet budget planning doesn't have to be so complicated, financial experts say.

"The days of planning your budget six months before the year begins is over," said Sherrie Simmons, vice president of product planning and development for Atlanta-based MedAssets' Decision Support Technologies and Services. "The changes we're seeing in the economy are so fluent and coming up throughout the year that CFOs and their teams need to react as they happen. So they have to be able to come up with solutions to change their tool set and processes so they can look at their plan and flex throughout the year."

Simmons points to commercial health plans as an area for vigilance.

"Because contracts are typically based on patient volume assured by the payer, providers should review the plan each quarter to verify whether that number is being realized," she said. "If the number is lower than promised, they should renegotiate the terms."

Identifying excess costs is always a challenge, yet Simmons says "there is always fat to be trimmed." She suggests taking a fresh perspective when looking at the organization.

"CFOs and their teams work very hard at examining their operation, but they tend to have a 'siloed' view of the landscape," she said. "They need to take an end view of the services they deliver and determine which ones are profitable and which ones aren't. For instance, are oncology services profitable? If so, why, or if not, why not? It comes down to information and going beyond the traditional benchmarks – look across service lines and the landscape instead of the buckets."

Ed Maher, senior consulting manager for Chadds Ford, Pa.-based IMA Consulting, also says external factors are rendering traditional budget planning methods obsolete.

"Hospitals are creatures of habit in that they typically look at what happened in the last year to predict where to go in the future," he said. "But the economy and healthcare reform are big unknowns. It is difficult to forecast what will happen in the next year, let alone the next three and five years."

Healthcare reform and the contentious debate surrounding it only serve to muddy the waters when it comes to providers' strategic initiatives, Maher said.

"What does it mean for an entity that is usually the largest employer in the community and the implications healthcare reform discussions have for their operating characteristics?" he asked. "They're still talking about making something happen with reform, but if you assume we'll get some type of reform, it will most likely have an impact in the near term and needs to be addressed."

There are some specifics CFOs can address, Maher says, such as gauging potential demand for services. "If you start on the demand side, look at utilization rates," he said. "If you have a busy emergency room, what does it do for demand if most of the population gets some type of coverage with healthcare reform?"

Automation option

While the unknowns about healthcare reform are causing anxiety in hospital C-suites across the country, other more imminent developments, such as preparation for the influx of ARRA stimulus funds and the looming switch to ICD-10 reimbursement codes, shouldn't escape the attention of budget planners, said Sean Benson, co-founder and vice president of consulting for Minneapolis-based ProVation Medical, a subsidiary of Wolters Kluwer.

"These are two huge waves coming that will impact healthcare and hospitals should make room in their budgets for technologies that will reduce costs and increase revenues," he said.

ProVation automates the process with a team of coders who work with physicians to design a system that automatically prompts all the appropriate details for generating codes.

"This can be a nice increase in revenue because more detail leads to more codes and more revenue," Benson said. "It also eliminates transcription costs."

Though the October 2013 implementation for ICD-10s is still nearly four years off, Benson advises administrators not to procrastinate on system implementation.

"Between the stimulus funds, 'meaningful use' and ICD-10s, the first wave will hit in 2011," he said.

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