

## Reform creating budgeting changes

Posted on Mar 04, 2014

By *Chuck Green, Contributing Writer*

In light of the cadre of reform measures reverberating through the healthcare industry, hospitals are responding to the pressure by changing up their budgeting formats.

Five or 10 years ago, hospitals largely operated their budgets through their general ledger, which, essentially, served as a vehicle for understanding their cost of running a department, said Jay Spence, vice president of product and solutions strategy for Axiom EPM, a Portland-based performance management software firm.

Today, however, he believes healthcare systems have become more sophisticated and, as a result, are using what he called patient-centric data, which bolsters the ability of hospitals to examine the volume of patients treated within various patient categories and make budget projections for the following year.

San Francisco-based Dignity Health, for example, will "almost certainly" implement a form of budgeting based on managing patient populations, said Dan Albaugh, the health system's senior director of financial planning and analysis.

Under such a budgeting system, explained Albaugh, healthcare facilities focus more on maintaining a healthy population than they do under the industry's current model, in which the more patients that come through the door, the more revenue is generated.

Healthcare reform's push to focus on value versus volume is having a large impact on budgeting, Albaugh said. "It's a mindset that the industry needs to figure out fairly quickly," he said, however, CFOs are still evaluating how to respond to the changes brought on by healthcare reform.

From a financial perspective, he said, it's an educated guess on how the environment will unfold with more people signing up for health insurance through the exchanges. "What kind of demographics are going to sign up for these plans and how will that impact our hospital is still unknown," he said.

Consequently, as Dignity Health positions itself to adapt to changing variables and contemplates a budgeting change focused more on population health management, it is trying to cover itself by performing both a current month projection and a current year projection.

Like Dignity health, the University of California Davis Health System is also looking at how it can develop "more flexible" budgets to adapt to changing demands, said Tim Maurice, the system's

chief financial officer.

Enhanced flexibility will enable department heads to add and reduce resources according to patient demand, he said. "We have to be more nimble and respond more rapidly to changes in our environment. We're expected to do more and find new ways to be better."

Currently, in addition to budgeting tools, UC Davis relies on five-year forecasting to look further down the road in order to anticipate and deal with the risk of uncertainty.

Change – including tough budget decisions – can be effective if done at a manageable pace and with some advance planning rather than in crisis mode, he said.

Unfortunately, healthcare reform created a lot of uncertainty, which hasn't allowed CFOs to do much advanced planning or make decisions about updating their budgeting formats, Maurice noted.

"It's not clear where the puck's moving, so it's hard to know where to skate," he said. Restructuring the insurance marketplace for instance, has consequences, some of which are known and understood, others that aren't.

"The Affordable Care Act creates a vision, but implementation decisions may not be what we expected," he noted.

Regardless, he said, "We have to be prepared."

**Source URL:** <http://www.healthcarefinancenews.com/news/reform-creating-budgeting-changes>