



# Budgeting Through Volatility

September 20, 2022

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# Introduction

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# Objectives – At the end of this session, you will be able to:

1

Describe how you can reimagine the purpose and use of a budget and understand how re-forecasting your budget throughout the year can benefit your organization

2

Identify what levers your organization can pull to create a realistic budget despite external pressures

3

Describe tips on how creating a budget from the bottom up can impact the overall process



# What is a budget?



**A forecast of  
income and  
expenditure**

“**Profitability**” ...in other  
words



**A tool for  
decision making**

An “**action** plan”



**A tool for  
monitoring  
performance**

What doesn't get  
measured, doesn't get  
done- “**accountability**”

# Need for Comprehensive Planning

**Lower  
Accuracy**

**Long term  
strategic  
planning**

**Short term  
planning**

**Higher  
Accuracy**

**Budgets**

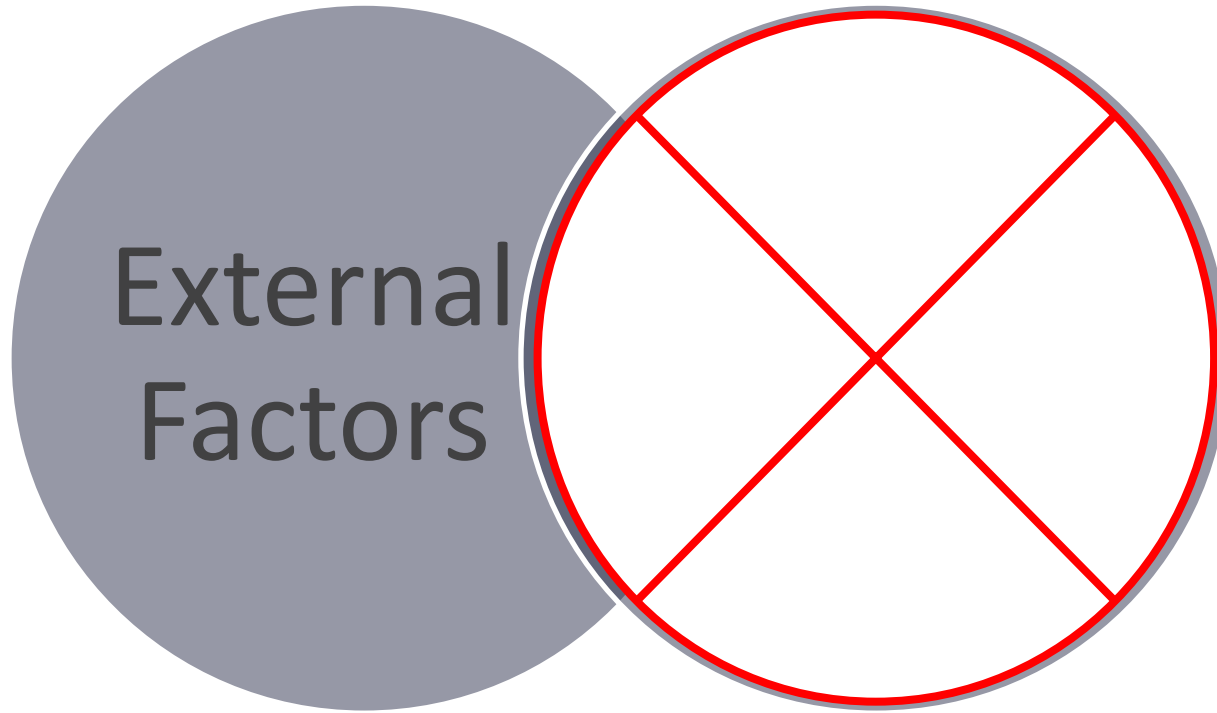
**Short Time Horizon**

**Long Time Horizon**

**CLA Intuition©**



# Budgeting Through Volatility



# Internal Factors: The Budget Slayers

- Complacency
  - We are doing what we can/as good as we can
- Board Disengagement
  - No sense of direction
  - No sense of urgency
- Lack of consensus
  - Department heads are disengaged
- Hope
  - Things will get better
- Accountability
  - We don't have a culture of execution
- Lack of information
  - We make bad decisions
- We are “nonprofit”





# Managing Change

VISION	VISION	VISION	VISION	VISION	VISION	VISION
DATA	DATA	DATA	DATA	DATA	DATA	DATA
RESOURCES	RESOURCES	RESOURCES	RESOURCES	RESOURCES	RESOURCES	RESOURCES
PRIORITIES	PRIORITIES	PRIORITIES	PRIORITIES	PRIORITIES	PRIORITIES	PRIORITIES
EXECUTION	EXECUTION	EXECUTION	EXECUTION	EXECUTION	EXECUTION	EXECUTION
EVALUATION	EVALUATION	EVALUATION	EVALUATION	EVALUATION	EVALUATION	EVALUATION

NEEDS MET	UNKNOWN DIRECTION	SHOOTING FROM THE HIP	FRUSTRATION	LACK OF FOCUS	ON A TREADMILL	UNKNOWN OUTCOMES
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# Vanity Metrics



Our Days Cash on Hand are over 300 and our debt service coverage is 3.00x. We are doing great!



# Erosion of Net Operating Margin (EBITDA)



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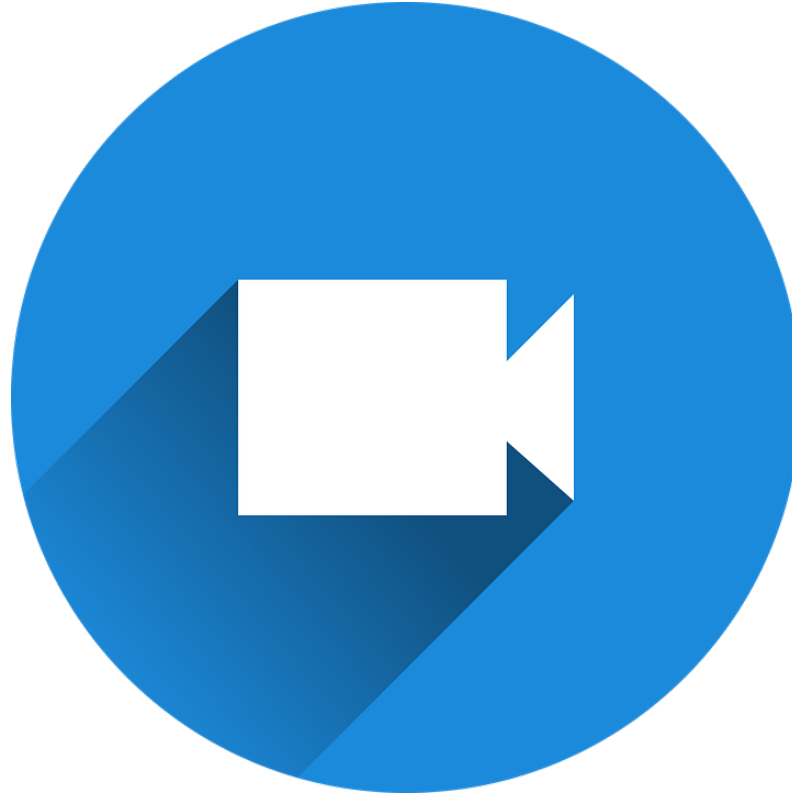
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# The Long-Term Budget

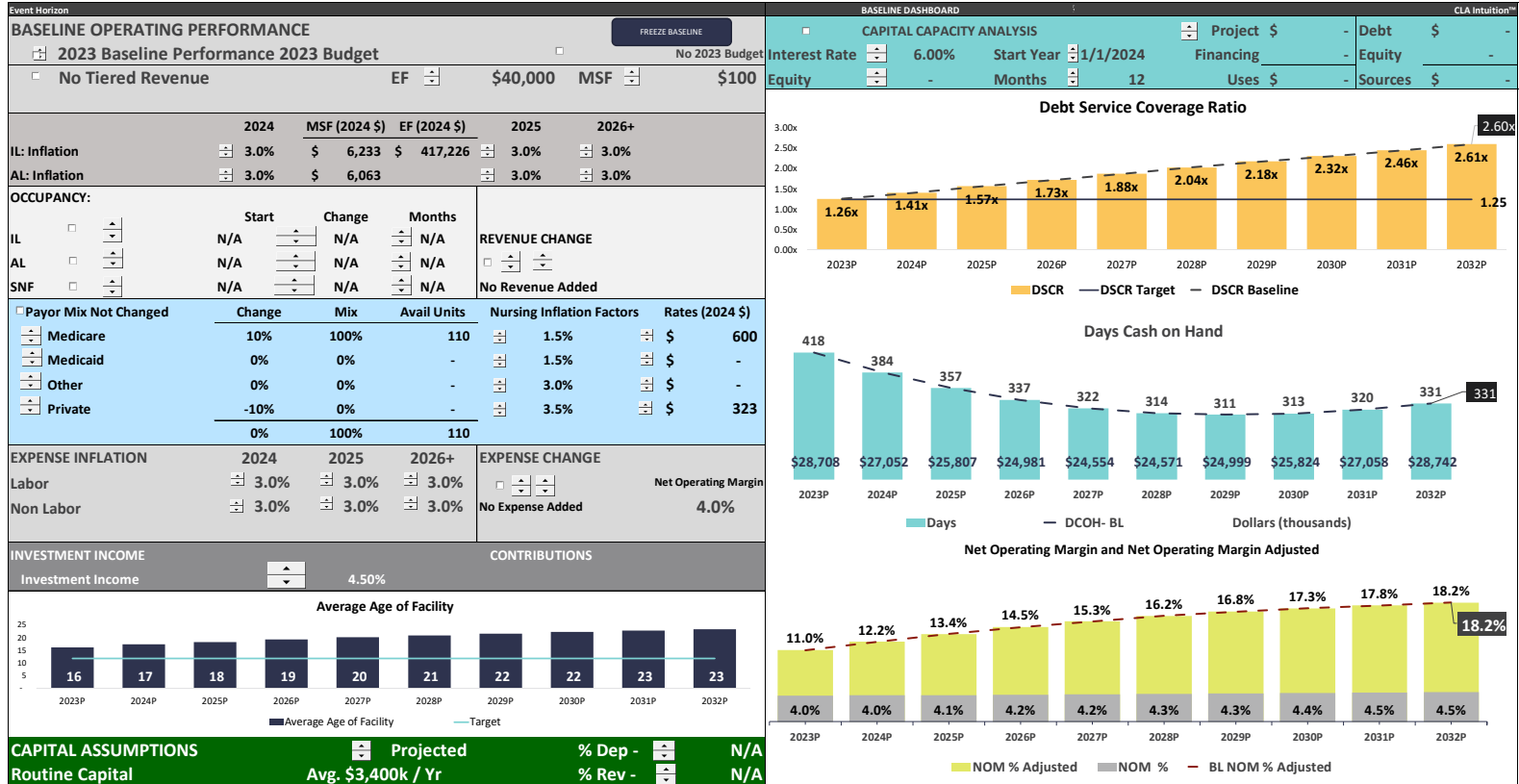
- What is today, but yesterday's tomorrow?
  - In theory, a consecutive series of budgets bridges now to our vision/future state
- The most effective means to keep you pointed in the right direction
- Small changes are amplified (leveraged) over time
  - Positive AND Negative
  - **Think “Leverage” and how decisions, good or bad, are leveraged by time**



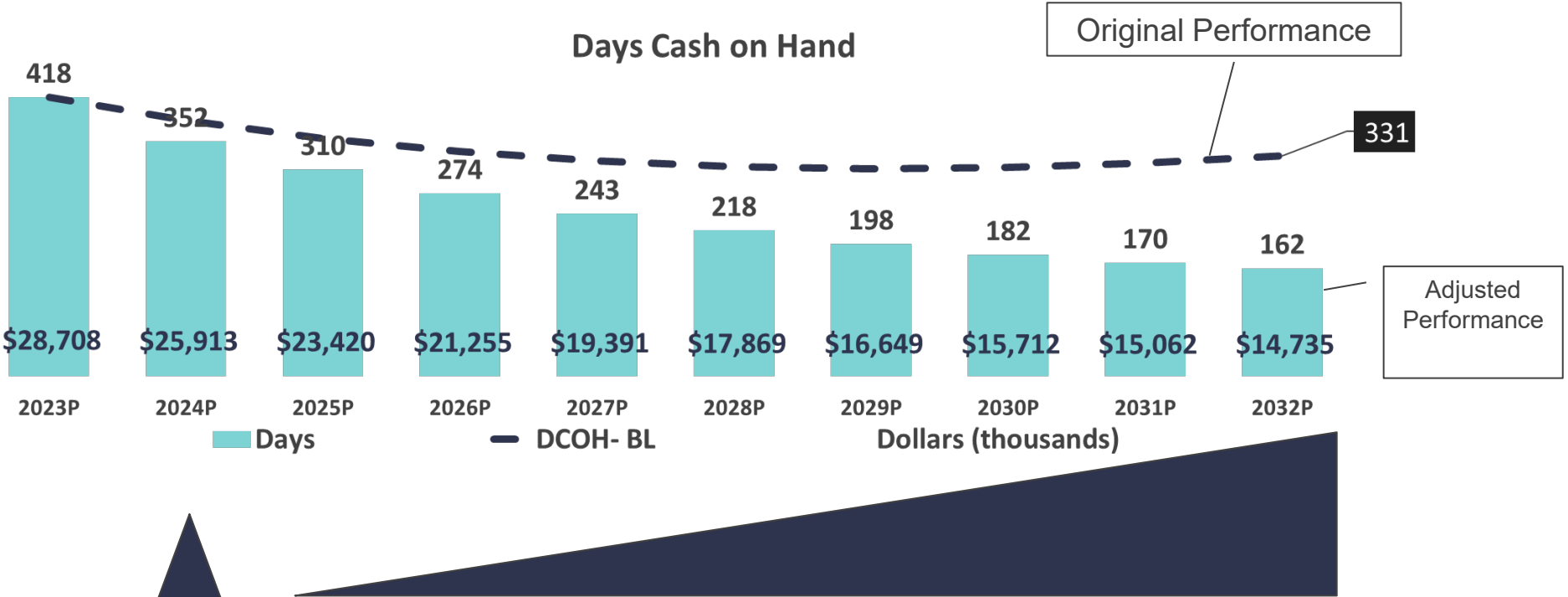
# Video



# Even “Spreads” (Rev=3%, Exp=3% Inflation)



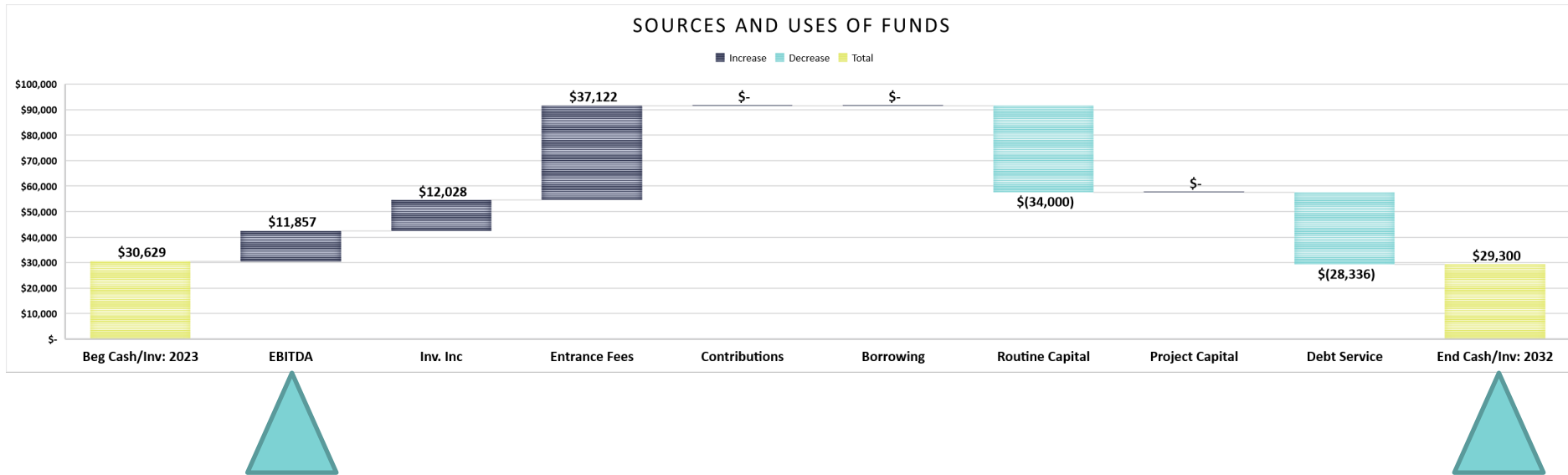
# 8% operating expense inflation in 2024, no other changes



Point of Change

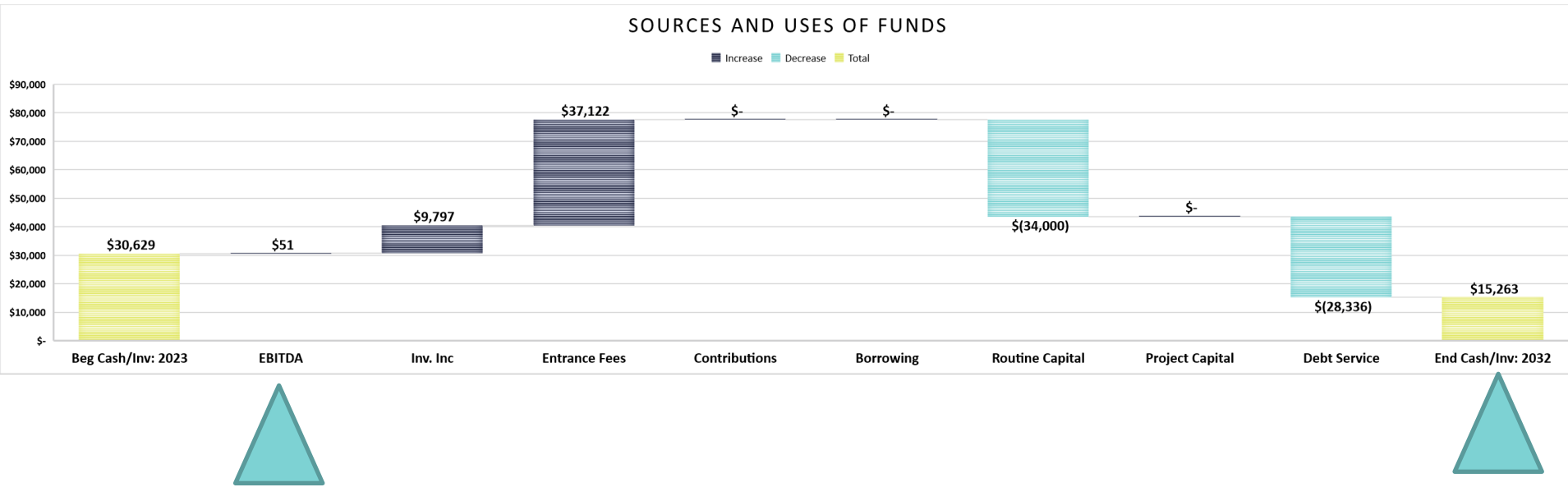
Increased Impact of Change, Leveraged by Time

# 10 Year Sources and Uses of Funds



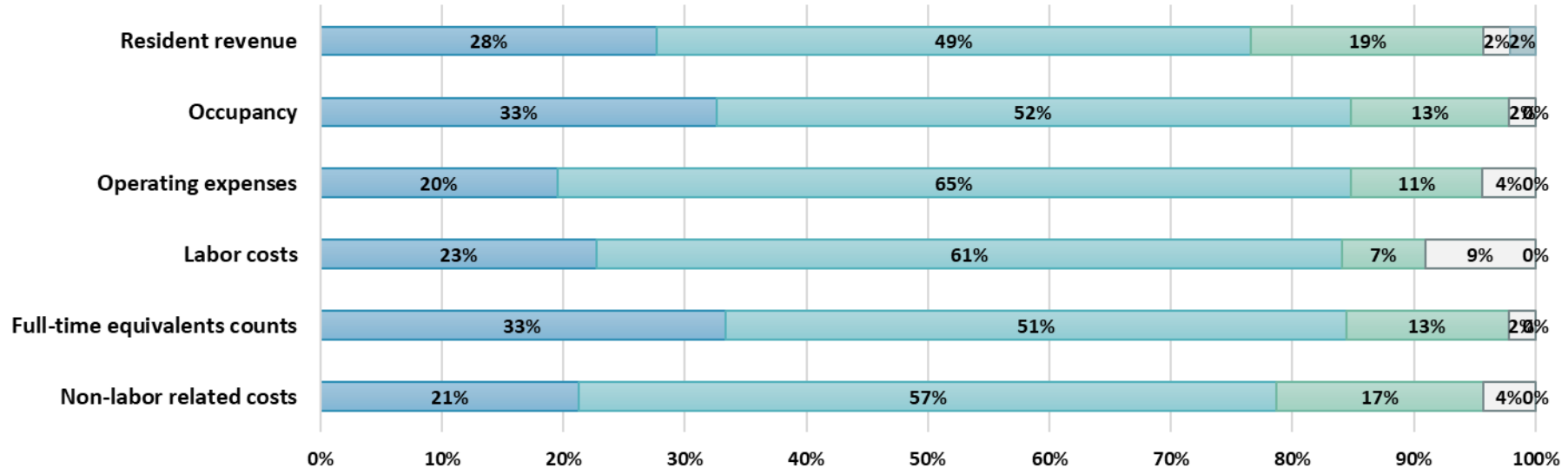


# 10 Year Sources and Uses: 8% Inflation in 2024



# Survey Says:

Please indicate what you consider to be a reasonable actual vs. budget variance:



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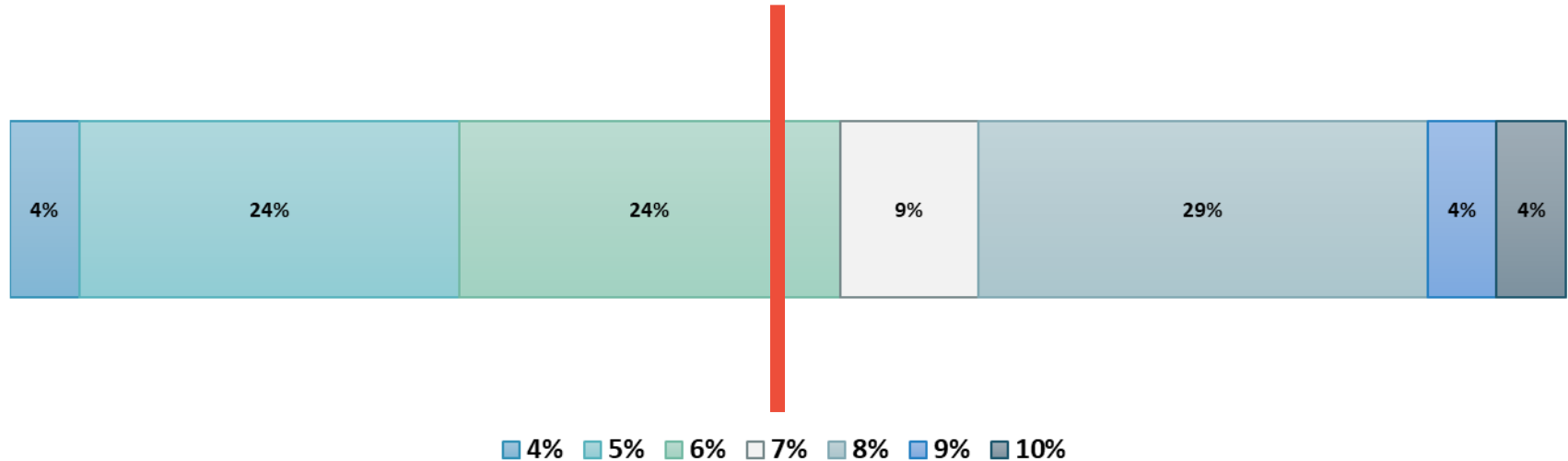
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■ 1-2% ■ 3-5% ■ 6-8% ■ 9-10% ■ >10%



# Survey Says:

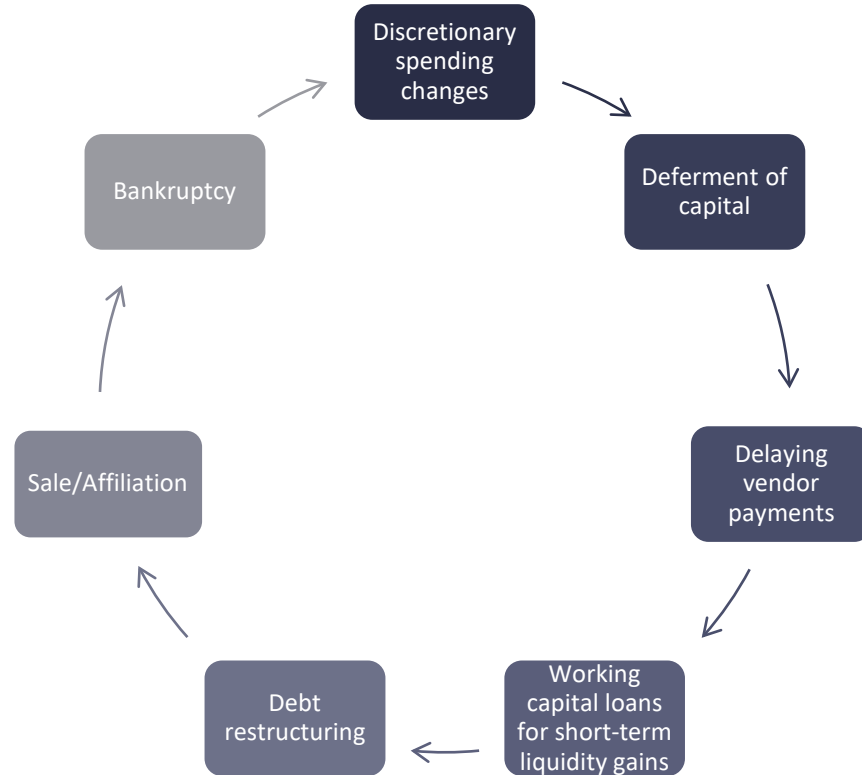
What level of inflation do you anticipate over the next 12 months?:



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# Consequences: The Road Well Traveled



# The Road Less Traveled

- Growth as a means to higher profitability
- Elimination of low profitability business lines
- Elimination of service creep
- Brutal focus on Net Operating Margin
- ☐ The items above are hard to pull off from a position of financial or market weakness
- ☐ Need to implement when financials are strong
  - ☐ Paradoxically, when organizations are less likely to feel the need to change!



# Budgets in Action

- Budget: Occupancy as planned
  - Profitability of \$500,000
- Budget Scenario? What if census is 10 percent lower?
  - Profitability impact of **\$(\$300,000)**
  - Organizational response:
    - Marketing Incentives? [What does our contingency plan call for?]
    - Discretionary expenses frozen? [What does our contingency plan call for?]
    - FTEs reductions? [What does our contingency plan call for?]
    - Wage freeze? [What does our contingency plan call for?]
- Toughest Question:
  - **When should you take action?**
    - This should already be agreed upon before the crisis!





# The Business of Budgeting

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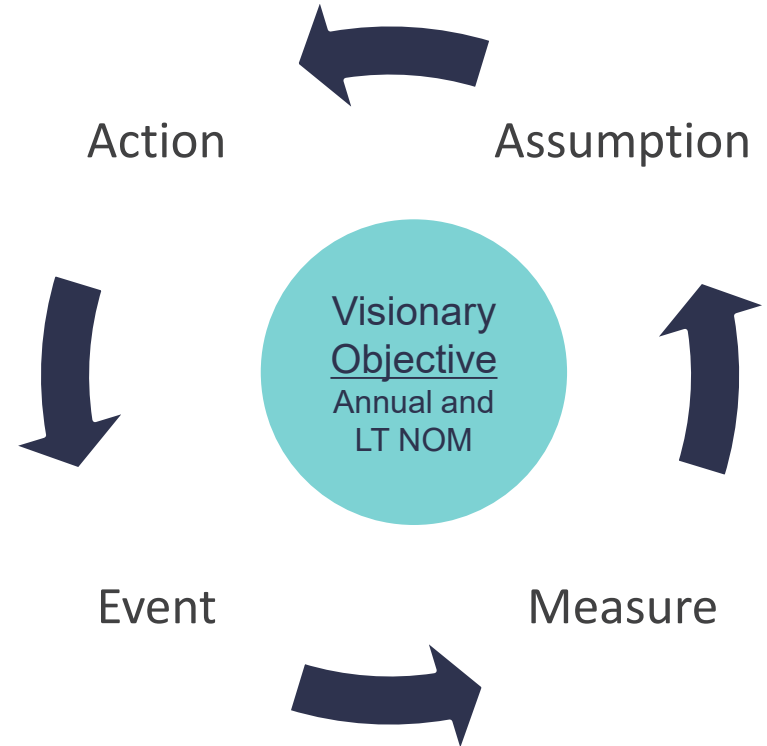


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# Strategic Budgeting Framework

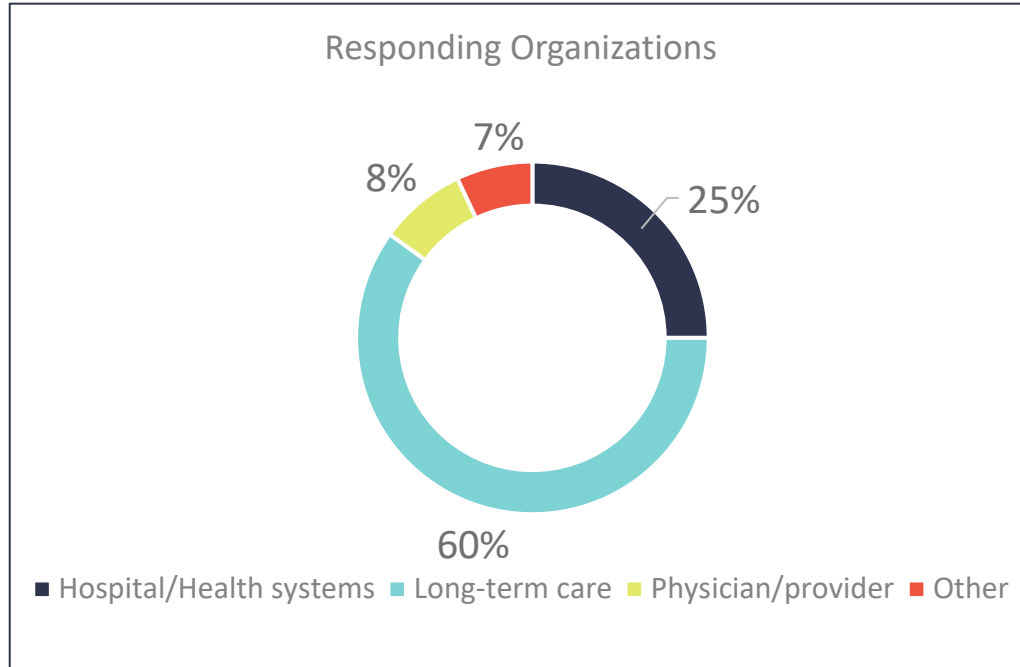




# Qualitative & Quantitative data tell the whole story



# The Survey – Budgeting Through Volatility



- Almost unanimously, and across the health care industry, these issues (plot twists) were identified as the most challenging to your organizations:
  - Staffing & Wages
  - Budget shortfalls (either missed revenue or expense targets)



# Your Voice – Feedback from the survey

What other plot twists are complicating your budgeting process?

A word cloud of budgeting challenges. The words are arranged in a circular pattern around the center. The most prominent words are 'turnover' and 'lack'. Other words include 'lack of automation', 'lack of clarity', 'lack of consistency', 'timely', 'Poor communication', 'lack of data', 'budget', 'lack of understanding', 'data', 'lack of communication', 'lack of staff', 'Employee turnover', 'lack of IT resources', 'lack of control', and 'Lack of time'.

Overwork due to lack  
lack of consistency  
lack of data  
lack of understanding  
lack of communication  
timely  
budget  
data  
lack of automation  
Poor communication  
turnover  
lack  
lack of clarity  
Lack of time  
lack of control  
lack of staff  
Employee turnover  
lack of IT resources

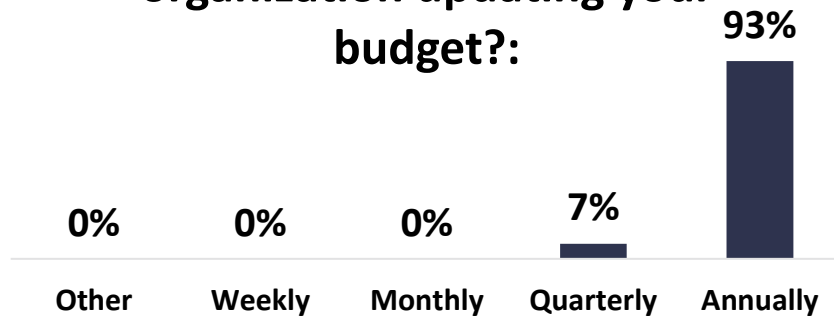


# The Survey – Budgeting Through Volatility

- When do you think labor issue will be resolved?
  - 23%+ “Never”
  - 22% “2-4 years”

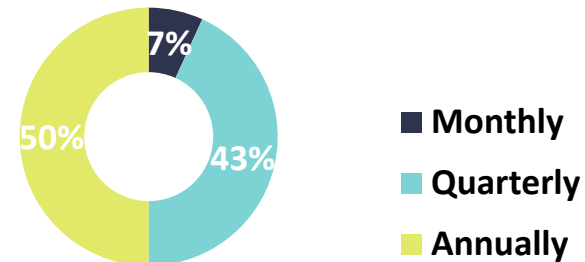
# Your Voice – Feedback from the survey

How frequently IS your organization updating your budget?:



Contact:  
Mario.Mckenzie@claconnect.com

How frequently SHOULD your budget be adjusted?:



Contact:  
Mario.Mckenzie@claconnect.com

The survey results indicate that you already recognize the need for a **change**.

# Take Aways

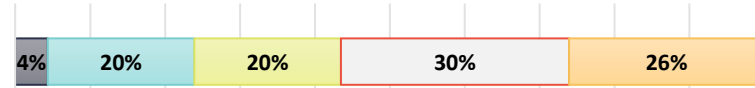
- Strategic budgeting is a **process** that operates more like empowered/distributed cash flow management versus a once-a-year forecasting experience driven by the business office.
- Budget assumptions can **change** during the budget cycle and operational decisions can be made in order to meet the visionary budget goal. Your organization is **generating data** that can inform your operational decisions.
- We believe staffing and occupancy are stabilizing and what you are experiencing is close to your **“normal”**.
- Your health care market is **volatile**, that is not going to change, there is market data available.
- Insight into solutions to your day-to-day problems is **closer to the front-line** than to the “C-Suite”.



# Good News and Opportunities!

## Reactions to the following statements:

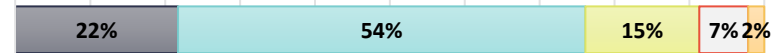
**We are using machine learning and other processes to harness historical data.**



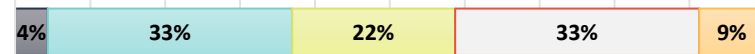
**We have developed live operating dashboards for different aspects of the budget that are pushed to those responsible for those areas.**



**Our budgeting process is manually very intensive.**



**We readily automate processes with technology in order to free up staff time.**



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Contact: [Mario.Mckenzie@claconnect.com](mailto:Mario.Mckenzie@claconnect.com)  
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■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

The technology and data are available.

Strategic budgeting is most effective when team members are engaged and empowered.



# Budgeting

## Old:

Documented  
history of  
financial  
assumptions.

## Current:

Documented  
vision of what  
the authors  
want the  
future to be.

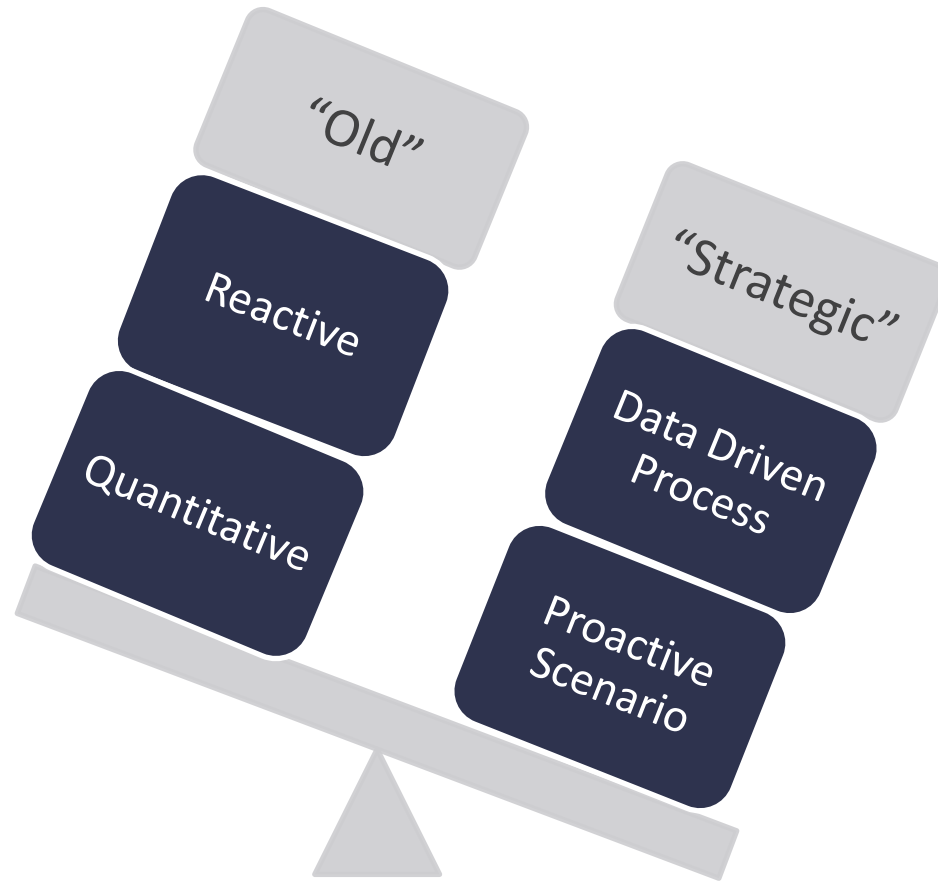
## Strategic:

A decision  
support tool  
used to fulfill  
the financial  
vision.





# Budgeting



# A First Step: Identify the areas of greatest impact



Who are my peers?

\*Opportunities (\$000s) represent mathematical differences where your costs are higher or your revenues are lower than the benchmarks. These opportunities are presented for informational purposes only and not intended to be a guarantee of the value of improved performance.

ProMedica's Philosophy



# Transition from data to knowledge through action

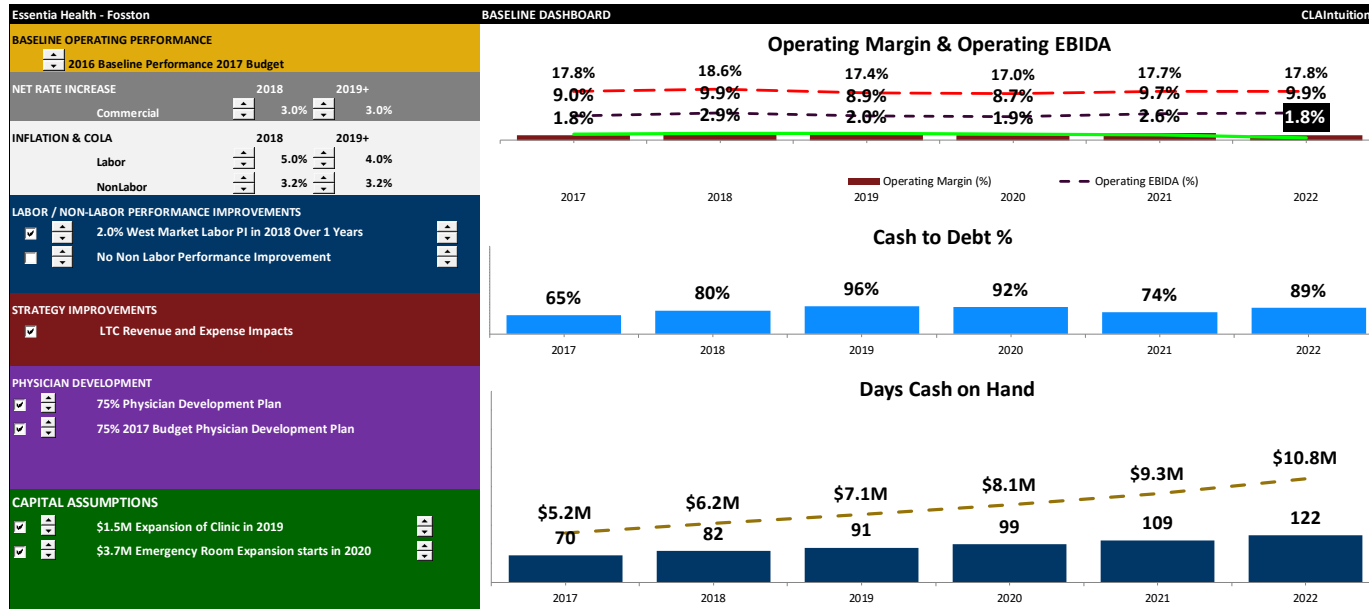
- Old budgeting is a Manual processes –
  - 3 years of trend data (old)
- Strategic budgeting is still a manual process, but more people, deeper in the organization are involved at a per patient day (PPD) level
  - “Many hands make light work.” (John Heywood, 1500)
  - Statistical analysis correlate old data points and dollar variances to new/predictive data points (levers)
- After an area of impact is identified –
  - Organize your team
  - Conduct analysis (i.e., 5 Why)
  - Identify an action
  - Identify a metric
  - Plan
  - Implement
  - Measure impact and adjust assumption
  - Implement



# Example – Identify the financial levers to pull. This is Scenario Planning

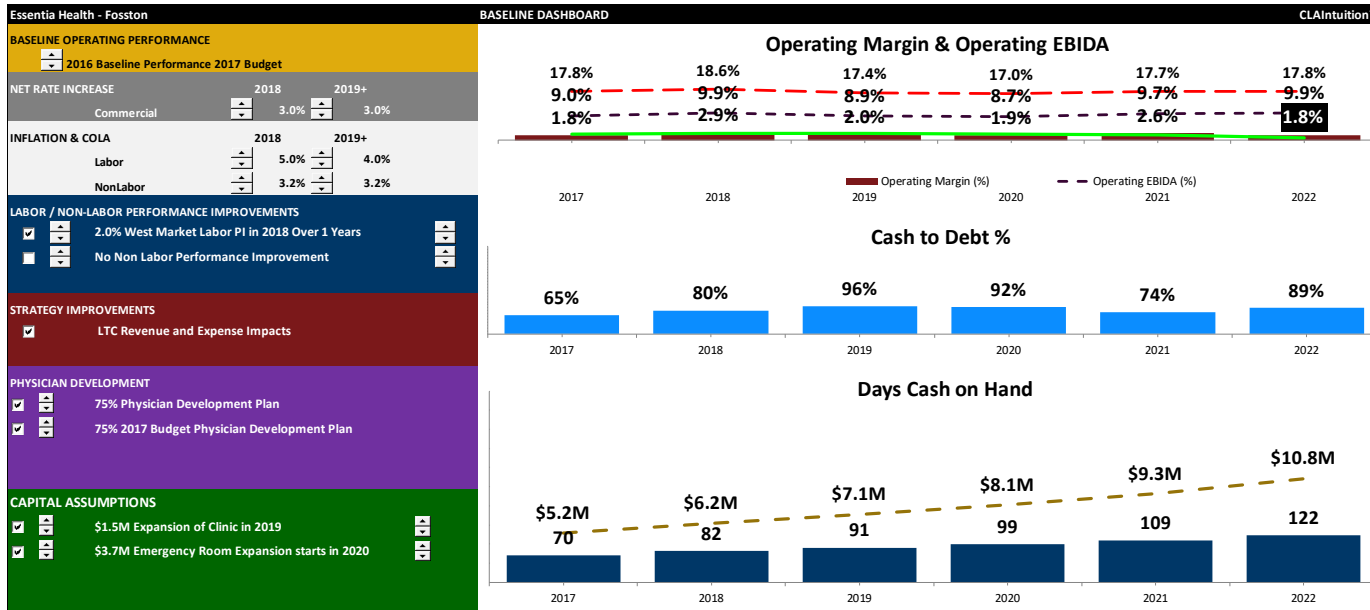
Identify what action to take:

- Labor costs
- Non-labor costs
- Interest rates
- Pricing



# Example – Identify the operational/cultural levers to pull.

## More Scenario Planning – What drives billable time?

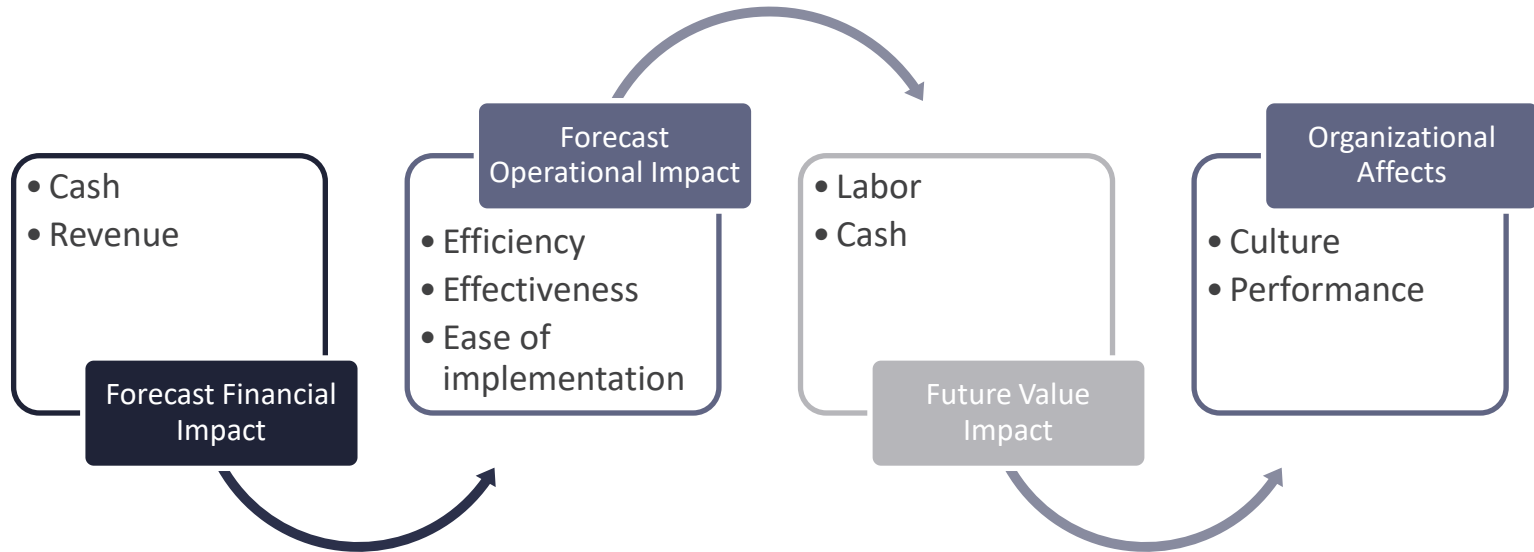


Identify what action to take:

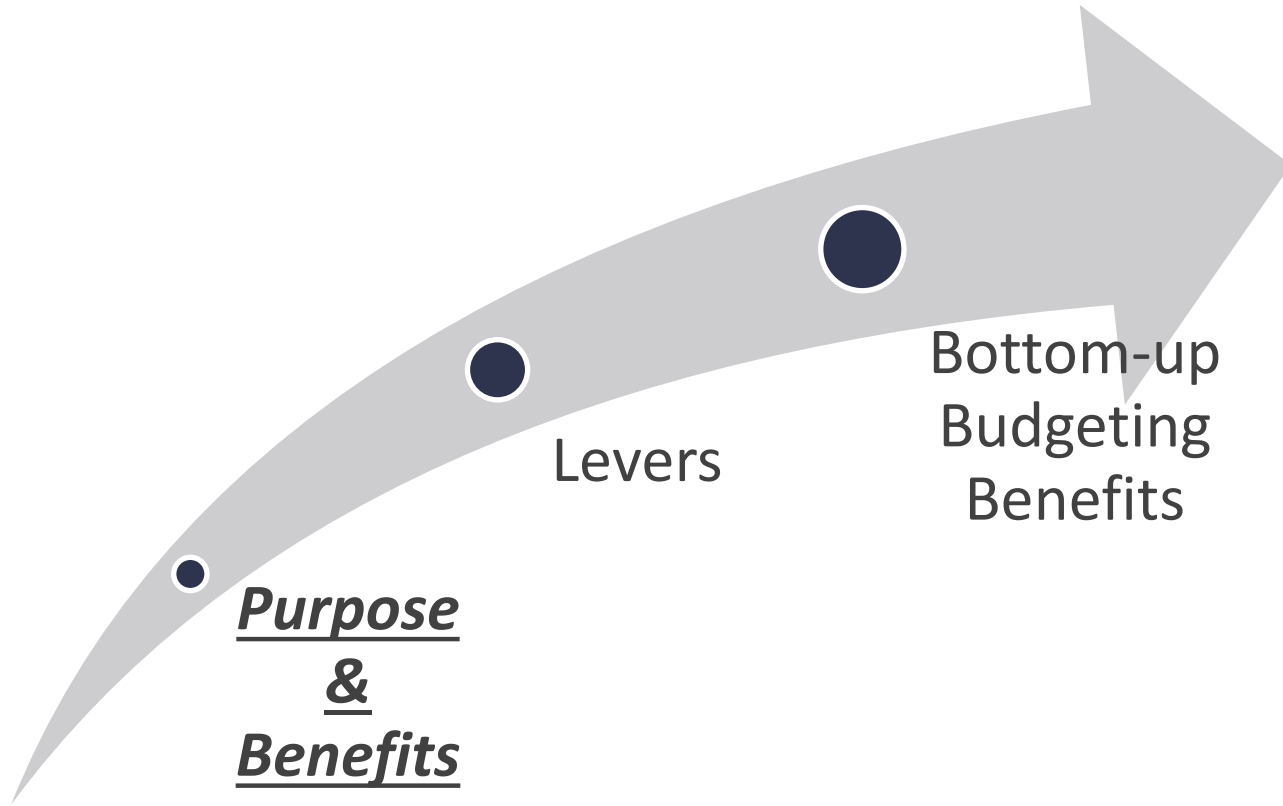
- Customer service
- Punctuality
- Social service
- Situational awareness



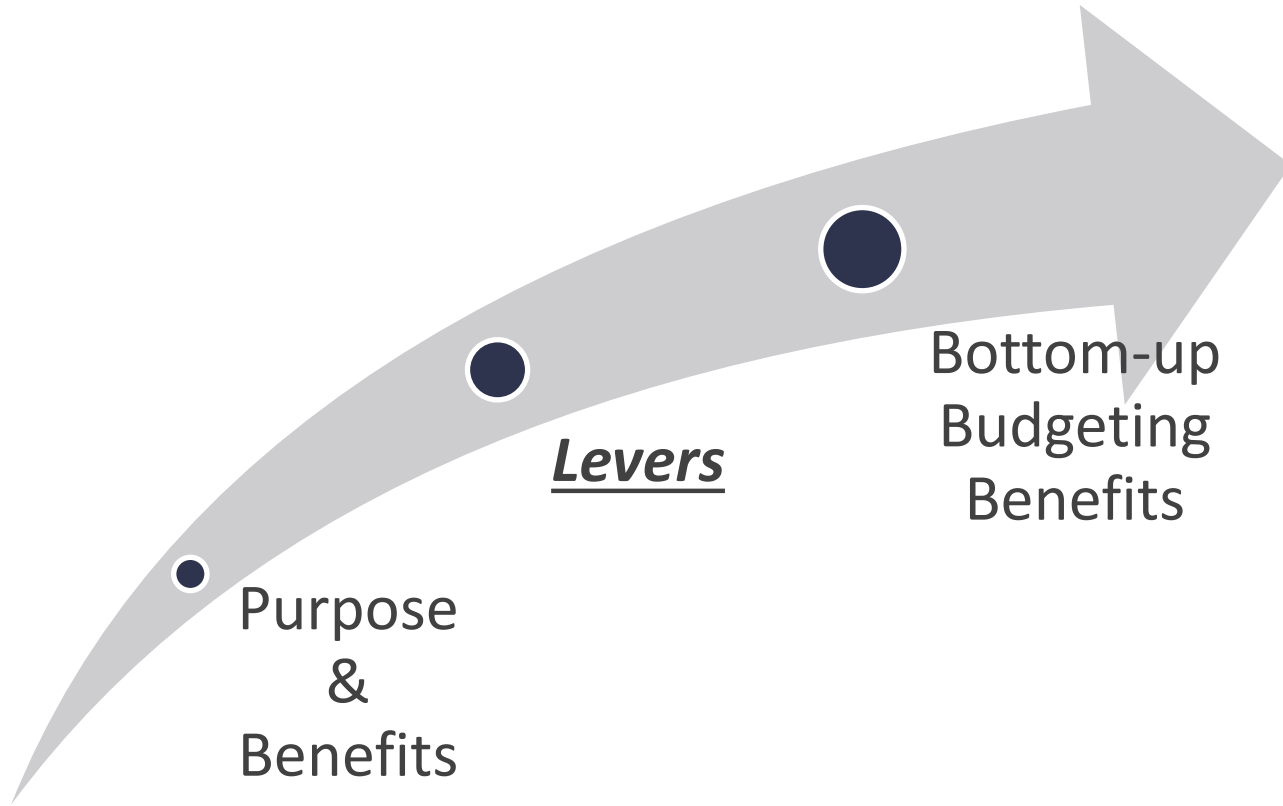
# Impact Discussion



# Road Map

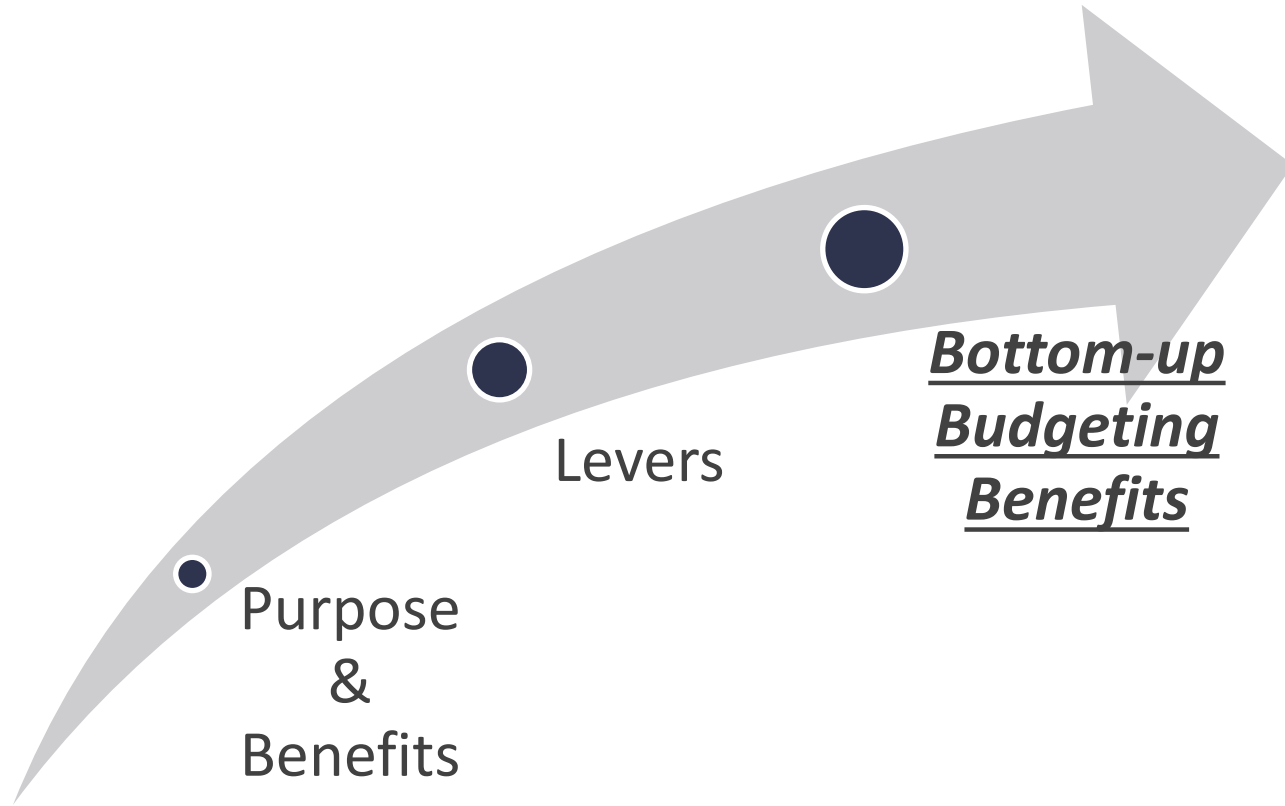


# Road Map

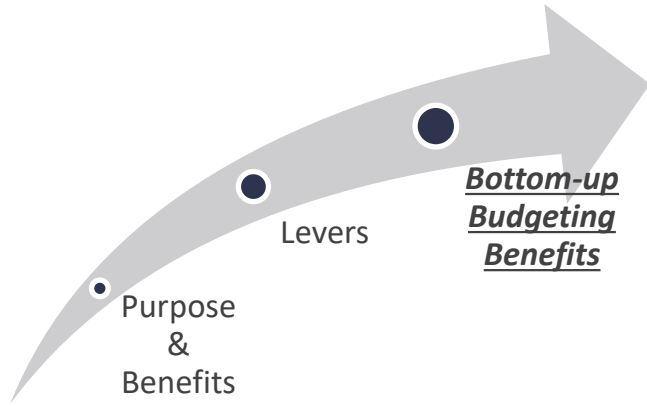




# Road Map



# Road Map - FAQs



1. Can you have bottom-up budgeting and limit the authority of department heads to adapt to changing circumstances?
2. How do you know you are failing?
  - “Cosmetic BUB”
  - Lack of metrics
3. Pitfalls
  - True failure becomes cultural and gets ingrained in the organizational memory



# Things you can do right now:

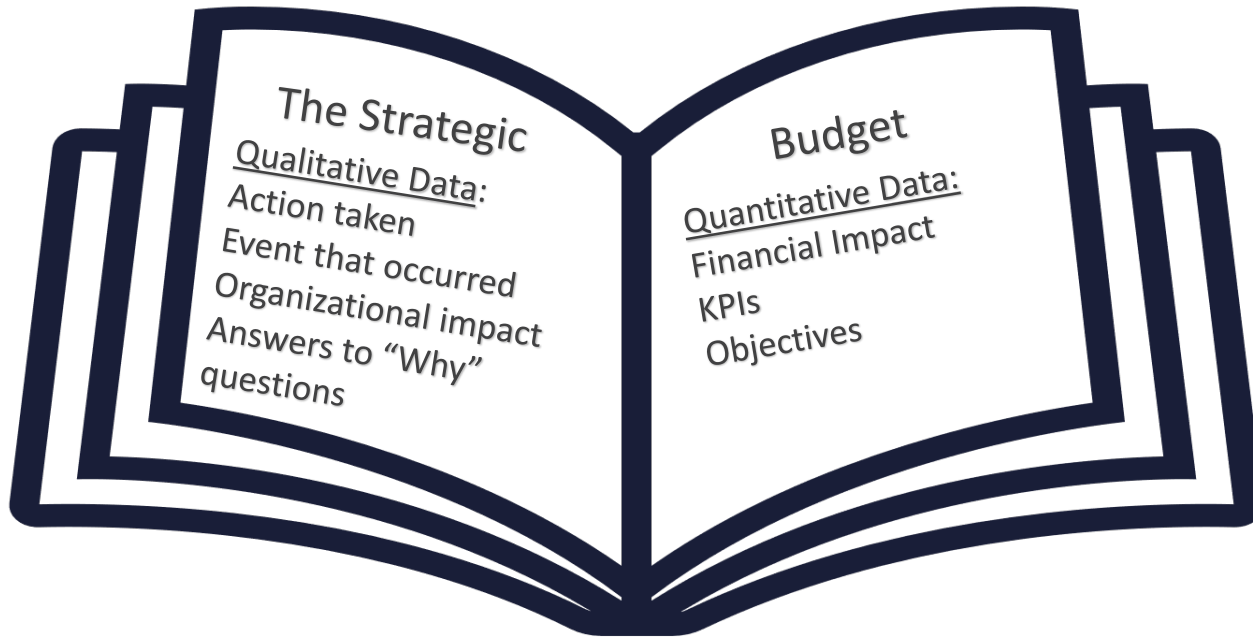
- Get to know your NOM, and the levers that affect it for your organization
- Identify your Internal Budget Slayers and begin changing your culture to minimize their impact
- Identify the areas that have the greatest impact on your NOM (e.g., the bubble chart)
- Run war-room scenarios now to identify the triggers that will spark action
  - Census
  - Labor
  - Other Costs
- Involve staff from all levels of the organization in the scenario sessions
- Five-year projections
  - Recovery plans if necessary
- Quarterly updates to recast remainder of year's budget



# Things you can do right now:

- Create your Visionary Goals for Five-year projections
  - Recovery plans if necessary
- Improve your organizational culture's ability to RESPOND quickly to the events that will affect your NOM/Visionary Budget Goal, as opposed to REACTING to crises
- Use your budget as a monthly management tool and be prepared to recast it Quarterly

# The Budget Documents contain the Whole Story





# Speaker Bios

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## Robert F. Frediani, MHA, NHA

### CLA (CliftonLarsonAllen LLP)

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Minneapolis, Minnesota 612-376-4686  
robert.frediani@CLAconnect.com

#### Profile

Rob is a director with the health care team focusing on operations analysis and improvement for health organizations. Rob has over twenty years of experience, entirely devoted to the health care industry. His background includes for profit health practice ownership and non-profit "C-Suite" positions in multi-site health and long-term care organizations. Rob focuses on providing operational, strategic consulting and process improvement services for senior health organizations. Rob serves a variety of health care clients including senior health organizations, physician practices, and other health service organizations.

#### Technical experience

- Owner Operator, multi-site ambulatory care practice
- "C-Suite" positions in health service and professional service organizations
- Strategic planning
- Operations analysis

#### Speaking Engagements

- Speaker and Presenter at regional and national meetings
- Lecturer at the University of Wisconsin-Milwaukee
- Presenter at Leading Age

#### Education and professional involvement

- Licensed Nursing Home Administrator
- Masters degree in hospital and health services administration, the Ohio State University
- Bachelors degree in health service administration, the University of Wisconsin-Milwaukee

## Mario Mckenzie, CPA

### CLA (CliftonLarsonAllen LLP)

Partner 704-998-5236  
Charlotte, North Carolina mario.mckenzi@CLAconnect.com



#### Profile

Mario is a partner with CliftonLarsonAllen specializing in assurance and advisory services. Mario focuses in financial and market feasibility studies, strategic planning, compensation consulting, as well as master planning and project planning and assistance.

#### Technical experience

Mario has more than 30 years of experience in the senior living and healthcare field. He has assisted senior living organizations (for example, CCRCs, Assisted Living, Nursing, etc.) with:

- Strategic planning
- Facility master planning (start-up or repositioning)
- Financial and market feasibility studies
- CLA Intuition ® financial planning
- Board development/retreats
- Operations assessments and benchmarking
- Acquisition due diligence and affiliation facilitation

#### Education and professional involvement

- Bachelor of Science and Master of Accountancy degrees from the University of South Florida, Tampa, Florida.
- Certified Public Accountant
- American Institute of Certified Public Accountants
- US Army Medic

#### Speaking engagements

- Regular speaker at LeadingAge National, and at local LeadingAge affiliates (North Carolina, Virginia, Maryland, South Carolina, Georgia, and Florida)





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## Our Promise

We promise to know you and help you.

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We're one family, working together to create opportunities.

## Our Strategic Advantages

Deep industry specialization  
Seamless, integrated capabilities  
Premier resource for private business and owners  
Inspired careers

## Driven by Our Values



### Curious

We care, we listen, we get to know you



### Collaborative

We help you seamlessly, bringing innovative teams to the table



### Transparent

We communicate clearly and authentically



### Inclusive

We embrace all voices and create opportunities for you in an energetic and inspiring environment



### Reliable

We respond in hours, not days; we follow through, protect our client data, and produce quality results



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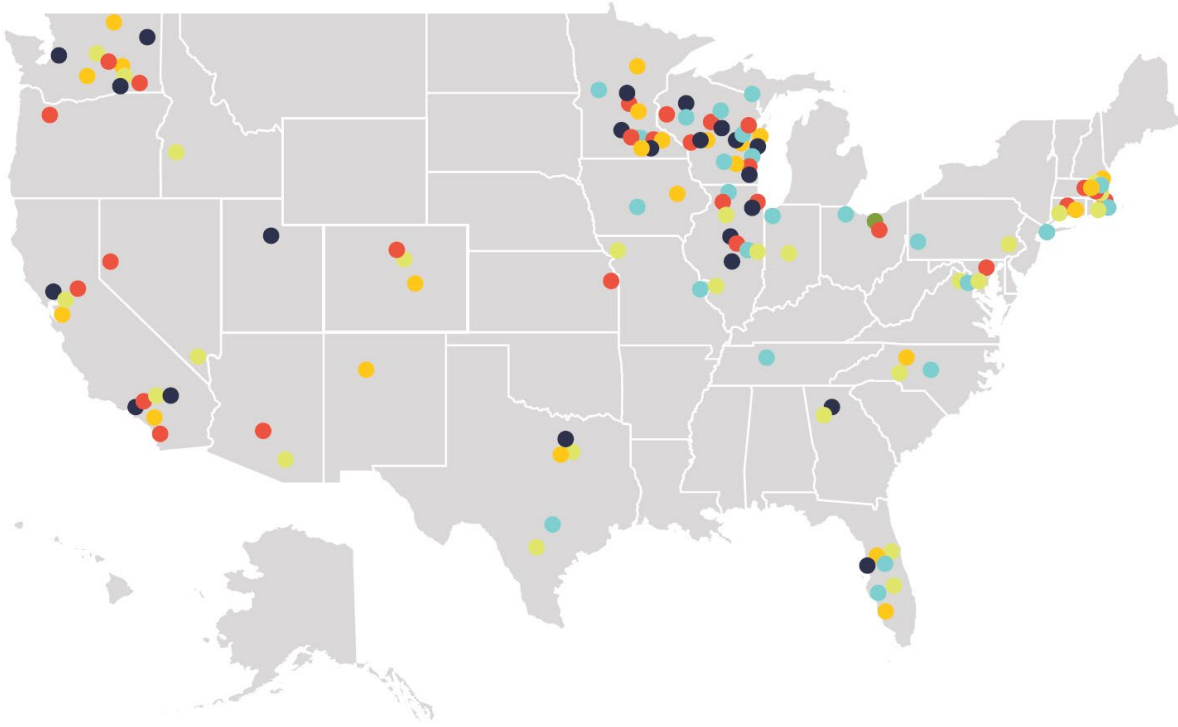


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