FACILITY CARE Serious Solutions for Healthcare Facility Managers

Today's Top 10 Budget Considerations for Healthcare Facility Managers: Part I

By Todd Wilkening

Every facility manager (FM) needs to be concerned with the cost of business. Your goal as FM is to improve the net revenue and cash flow of your organization through numerous strategies. In your tool kit should be ways to maximize the total cost of ownership of all the assets you maintain, namely, buildings and equipment.

Budgeting is a very necessary component of healthcare. The funny thing is, I often hear that budgeting is not on the forefront of the FM's mind, as we are deemed a "not for profit" department and budget is within the finance department's scope. If this is your view on budgeting, think again. Even not-for-profits need to be profitable at every level. The fact remains that healthcare is at every level a business. Budgeting requires the full consensus between administration and hospital operations. Anything less than this represents a gap in expectations.

If budgeting isn't on your typical task list, help is here. I've compiled 10 considerations I believe the healthcare FM should have in mind when preparing financial budgets. This month, we'll go over the first five.

10. Do Not Budget in a Silo

Hospital budgets are based on business volumes. Essentially, your volumes have been "fixed" in terms of square footage and number of pieces of equipment you serve. Facility management budgets are more static than dynamic, as they have not been traditionally business-volume based. Times have changed this, however. The revenue projections of your organization may require you to be squeezed into a shortfall of funds to deliver your traditional level of service. Provided the FM remains compliant, be prepared to throttle your maintenance activities up and down based on business needs. On December 20, 2013, the Centers for Medicare and Medicaid Services adopted a strategy to assist the FM. It is called the Alternative Equipment Maintenance (AEM) program.

Do not consider your budget alone. Financial planners look at the budget from an organizational perspective, such as forecasting revenues and expenses per unit of service. Understand yours in terms of the business. This gives each department more control over the budget process and empowers each to create arguments for funds based on future patient levels and services. FMs should know and be able to communicate their arguments well.

Plan the entire budget holistically. One reason budget planning can be difficult is by using a fragmented approach. Developing a budget in a silo will undoubtedly create problems, as each department will be competing with the others for funds. Financial planners look at overall volumes and net revenue, not departmental revenue alone. Consider how support of your budget is a positive reflection of other departmental budgets. This is good for the FM.

9. History and Predictive Maintenance

Financial planners understand what they have experienced. A mental gauge for performance exists for them. Provide them a brief historical review of what's gone right. Additionally, provide them great detail about what may go wrong, based on the data from the FM's predictive maintenance program. The FM can demonstrate that the data from an assets history will show the historical cost savings that were achieved through support of the FM's efforts and/or strategized deferred maintenance. Exceeding the useful life of the asset is a job well done. However, if the savings will now be offset by an increase in failure rates and risk, FMs should be provided with the capital costs it will require to replace the asset in order to reduce operating expenses.

Keep in mind that financial planners will be thinking return on investment (ROI). Demonstrate the ROI as well as the cost of doing nothing. Couple this with the cost of business disruption. Business disruption costs are often well outside of the facilities department, but the FM has rightful access to this information. For example, shutting down an operating suite for just one hour can affect revenue by nearly $23,000 — not to mention the dissatisfied surgeons and surgical staff.

8. Use the Buzzwords

The FM needs to be listening to the buzzwords of the C-suite, as they are important indicators of how to capture their attention and meet business goals. Tailor your budget with information to help the C-suite understand how supporting your budget needs will help them meet challenges. From what I am hearing, here are the top five pieces of information:

- Healthcare Reform and the Accountable Care Organization (ACO)
    - Understanding the implications to your organization.
- HCAHPS — Hospital Consumer Assessment of Healthcare Providers and Systems
    - Knowing how the FM can affect the patient experience.
- Medicare 2% Payment Reduction
    - Recognizing that reimbursements will fall, impacting revenue. An expense reduction opportunity softens the blow.
- Competition
    - What are competing hospitals doing to acquire patients? What can the FM do to help "one up" the hospital's competitors and be the patient's place of choice? Think beyond direct patient care! Opportunities abound.
- Capital Avoidance
    - Support for the FM budget through adequate funding to maintain critical business needs such as staffing for preventive maintenance can help avert the spending of capital for premature failures that increase business risk and cost.
- Expense Reduction
    - Explaining, with supporting information, that a reduction in operating costs is equivalent to an increase in revenue. For example, at a 2% margin, reducing operating expenses by $100 offsets $5,000 in required revenue. At a time when patient volumes are falling and reimbursements dwindling, this is a key point. Supporting investments in cost reduction strategies makes a lot of sense.

7. Benchmarking

Use benchmarks from the FM's own organizational experience, competing hospitals, prior years' budgets or best practices. Volume benchmarks help determine optimal revenue and expense levels. Predicting volumes is one of the biggest challenges financial planners face; however, in a variable budget, volumes are the primary drivers of revenues and expenses. Develop strategies to be flexible with the business needs.

Financial planners and the C-suite are very busy people. Provide the data in the terms in which they are measured.

6. Investment in Expense Reduction Strategies Equals Revenue

Do not provide the C-suite with financial information based simply on square footage. Give them the information in terms they understand, such as staffed beds, procedures and adjusted discharge. For example, "My budget will improve our net revenue by $50 per adjusted discharge. Based on 25,000 adjusted discharges, this is $1.25 million in improved cash flow." Yes, you will be in a position to compete with the needs of revenue-producing departments.

Next month we'll go over the next five considerations to help you prepare a budget. In the meantime, please email the Health Care Institute for questions or comments at www.linkedin.com.

About the Author

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Today's Top 10 Budget Considerations for Healthcare Facility Managers: Part II

By Todd Wilkening

Last month, I explained that every facility manager (FM) needs to concern him- or herself with the cost of business and began suggesting ways to maximize the total cost of ownership of all the assets being maintained. This month, let's discuss five additional considerations the healthcare FM should have in mind when preparing financial budgets.

5. Find the cash. FMs need to look beyond the traditional rebates provided by utility companies. Explore the private, local, state and federal programs that can assist you. They are out there, especially for those who are focused on sustainability. Include these programs in your Performas!

4. Improve performance. How will supporting your budget actually improve your departmental performance, or better yet, the organization's? This can be in terms of savings, risk mitigation, compliance, patient experience and such. Provide this information in a measureable way. Include quarterly updates of your progress to the C Suite. Share successes, opportunities and challenges.

3. Connect with the bottom line. Enough cannot be said about connecting the needs of the facilities management department to the performance indicators of the business. The FM's success lies in doing so. Do not underestimate this, as this is today's requirement of the FM. Accept nothing less. Embrace the concept that exceptional patient care requires money. And lots of it. Demonstrate how you will protect the financial requirements and, ultimately, your organization's mission.

2. Tell the story of how you are improving the performance of revenue-producing departments. The FM needs to think about how support of budget needs actually can improve the profitability of revenue-producing departments. Be armed with this information. This is huge! Beyond profitability, this can also include increased nurse "face time" with customers, which improves the patient experience, as an example. FMs are in a position to help patient care departments gain momentum in support of the bottom line and even HCAHPS. Keep in mind, a healthy bottom line means a healthy patient population. Your organization's mission is then met. Keep it measurable!

1. Accountability. Hold your department accountable for the budget, and report in frequently. From an operations and marketing viewpoint, allow financial planners to budget more effectively over a longer period of time. Instead of just looking at the next year, the C Suite can look at budgeting over a five-year period, which is far better for business planning. Everyone loves predictability with no surprises.

This concludes my observations on Today's Top 10 Budget Considerations for Healthcare Facility Managers. Please email the Healthcare Institute for questions or comments at its site on www.linkedin.com. Take care, my fellow colleagues. Success to you!

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