4 COMPONENTS OF SUCCESSFUL CAPITAL PLANNING AND TRACKING IN HEALTHCARE
INTRODUCTION

Transform Capital Planning into a Strategic Function

Without question, the process of capital planning has become an increasingly strategic function for hospitals and health systems. If done effectively, the allocation of capital dollars across facility, medical equipment, physician strategies, and IT-related categories can result in true competitive advantage. Few would argue that the "right" investments can positively impact the process and quality of care.

However, the challenge for many organizations is the lack of enabling frameworks and tools to enhance the efficiency and effectiveness of the process used to initiate, evaluate, and approve capital. As such, the capital processes can not optimally align and support the organization’s overall strategic plan.
INTRODUCTION

Typical Capital Planning and Tracking Process

Areas where technology and process can enhance the capital planning and tracking process

With limited capital dollars and high demand for those dollars, the question of where to properly allocate that capital is one that requires collaboration and participation from key financial, operational, and clinical stakeholders. Having a structured process in place can help organizations ensure they make the right decisions. However, as organizations assess their current approach, they often are faced with challenges at various stages in the process. Not only do these include capacity modeling, evaluating and comparing requests, and ongoing capital tracking, but also integration of the process components.
OBSTACLES TO SUCCESSFUL CAPITAL PLANNING

Inconsistency and Lack of Transparency

Transforming the capital process into a more strategic activity requires that several common challenges be addressed:

**Incomplete Requests**
Requests often are incomplete or lack the supporting detail and analytics. Inconsistency among project submissions makes it difficult to assess and compare projects across quantitative and qualitative measures.

**Inconsistent and Fragmented Evaluation**
Without a common and consistent set of evaluation criteria, capital planning committees struggle to effectively and fairly evaluate projects. Review processes often are fragmented and may not be based on merit but rather on a "first come, first serve" basis. The ability to evaluate the "capital portfolio" is vital if the organization wants to understand the impact of its capital decisions on its financial plan.

**Poorly Defined Tracking and Measurement**
Planning and tracking are especially difficult when there is no central repository where all requests are maintained. Budget to actual spending performance and monitoring of project progress support overall management of the organization's cash flow.
As industry trends continue to drive down operating margins, go-forward strategic and tactical plans must be more critically evaluated to consider their financial impact. This dynamic has been a catalyst for organizations to streamline and improve inefficient planning processes. This is especially true with decisions related to capital investments – particularly large capital projects – where the risk and reward associated with such projects are each much greater. In turn, initiating, consolidating, and evaluating capital requests is demanding more efficient processes to ensure that investments are made that provide the greatest return and best support for the overall organizational strategy.

The following are four components that are vital to improving the capital planning process.
1. Require common elements in every capital request

2. Define consistent workflow for reviewing capital submissions

3. Evaluate all capital requests against uniform criteria

4. Leverage the same method for tracking and reporting progress
By standardizing the "input form(s)" associated with all new capital requests, organizations can structure how proposed projects will be evaluated across financial and non-financial measures. Project champions should be guided with structured prompts and instructions to help convey the core elements of the project in a consistent manner.

**Common elements in requests should include:**

- Project owner and management sponsor
- Project type
- Strategic goals and objectives supported
- Underlying assumptions
- Financial impact and ROI calculations
- Capital needs in current and future years
- Key milestones and project timelines
- Supporting documentation

**Other considerations for the submission process:**

- All requests should be consolidated in a central repository that creates a single source of information from which to make portfolio decisions. This eliminates the need for standalone spreadsheets to compare and track projects.
- The submission process can be made easier by providing an intuitive, online submission form accessible to all who need it.
1. Require common elements in every capital request

**Objective:**
Enhance the evaluation process with submissions that are detailed and consistently presented

**Approach:**
1. Eliminate standalone Excel models
2. Provide online request forms to guide and structure submissions
3. Embed basic and additional review requirements in the project evaluation tools

**Key Milestones**
- What key milestones are noteworthy?

**Strategy Alignment**
- How does this project align to Strategy?

**Justification**
- Why is this capital investment important?

**Funding Type**
- Is this project funding facilities, IT, services, etc?

**Financial Impact**
- What is the incremental impact on financial position?

**Supporting Docs**
- What supporting documents are needed?

**Owner/Sponsor**
- Who will own and sponsor the project?

**Review/Approve**
- What reviews and approvals are needed?

**INITIATE**
**SUBMIT**

**Single Repository for all Capital Submissions**
Having the right and complete information starts with engaging the right people in the process. This helps to ensure that projected costs, timelines, and risks are well-defined and clearly communicated.

With that in mind, a capital request should follow a predefined, automated workflow that ensures comprehensive review from a variety of perspectives. Workflow tools should be used to ensure both expediency and the proper level of scrutiny and perspective. All submissions must follow the same workflow, albeit conditional in some cases, allowing for the automation of alerts and notifications to relevant stakeholders as their review and approval are needed.

As an example, large projects might require review by multiple departments before finalizing. In doing so, these "expert" reviews will help ensure that each project submission is comprehensive and accurate before committee review.

A final submission that has been reviewed and deemed "complete" by the proper stakeholders assures the Capital Committee that the project includes all critical pieces of information. As a result, the decision-making process can move forward with the confidence of knowing that all potential requirements and impacts have been assessed.
Define consistent workflow for reviewing each capital submission

**Objective:**
Ensure that requests are complete and ready for Capital Committee evaluation

**Approach:**
1. The review process is automated with workflow tools
2. Conditional rules are designed to direct requests to proper individuals/groups for comprehensive review
3. Completed sign-off/review means projects are ready for the final approval decision
The Capital Committee is tasked with approval and allocation of dollars to those projects that best align with the organization's near-term needs and strategic priorities. In the absence of technologies specifically designed to support this process, the final process of capital allocation can easily lead to sub-optimal decisions. If tools designed to allow the Capital Committee to evaluate the potential capital portfolio are not in place, email, Word and Excel become de facto collaboration and database platforms, something they were never designed to do.

Moving to an applications framework that is designed to store and report on capital submissions can significantly improve access and visibility into the portfolio of capital requests. A central repository of capital projects allows the Committee to more effectively review and compare capital requests based on strategic "fit," need, and priority. This positions leaders to achieve their goal of balancing the portfolio of approved projects across all areas requiring investment.
3 Evaluate all capital requests against uniform criteria

**Objective:**
Evaluate a comprehensive set of requests to "balance" investments across key spending categories

**Approach:**
1. Reporting can be performed across project attributes
2. Investment decisions are made in the context of comprehensive organizational spending

**Major Equipment**
- Expand Sports Med (N Campus)
- Acquire Home Health (Berwick)

**Major Software**
- Clinical IT
- Clinical Benchmarking Software
- Financial IT
- Materials Management (New)

**Routine Capital**
- New Nurse Stations (4 south)
- Laptops for Coding Team

**Infrastructure and Construction**
- Building Improvements
- Parking Lot Renovation
- Construction
- Physician Office (Clark Street)
Having timely access to reports that highlight actual project spending to-date against approved capital provides leaders with the visibility they need to monitor progress and ensure that committed funds are tracking as expected. Additionally, more consistent and timely data allow management to review actual spending against approved spending for each major capital project. This monitoring function is supported by transaction-level financial reporting and, where appropriate, could include commentary to highlight milestone achievement on major projects by named project sponsors.

The shift away from resource-intensive, manual capital planning and tracking to a more automated process has benefits including:

1. It ensures that the right stakeholders are engaged in the review/decision making
2. It increases transparency around the portfolio of approved capital and ensures that all required costs are included in the process
3. The increased collaboration with reviewing departments helps increase the accuracy of cost and scheduling estimates
4. Comprehensive project costs are more consistently identified and included with capital projects. This helps ensure that actual spending stays within approved spending limits
4 Leverage the same method for tracking and reporting progress

Objective:
Provide stakeholders with clear visibility to project-related spending and milestone achievement

Approach:
1. Enable ad hoc spending analysis
2. Incorporate periodic updates through automated Project Tracking Update reports

Capital Project Monitoring
Ongoing Major Projects

- Facility (Construction)
- Main Lobby Renovation
- OB/Newborn Wing Expansion

Actual, committed and planned spending

Workflow Alerts and Notifications
Project “Owner”

Workflow Alerts and Notifications
Executive Sponsors

- Workflow Notifications (email) to key Project Owners
- “Books” incorporate analysis, solicit commentary on status

- Consolidated and summarized performance of spending and milestone achievement

Project Tracking

1. Workflow Alerts and Notifications
2. Project Tracking Updates

Consolidated and summarized performance of spending and milestone achievement
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