5 COMPONENTS OF ACCURATE ROLLING FORECASTS IN HEALTHCARE
Accurate budgeting, planning, and forecasting are essential for executives and managers at all levels of an organization to have confidence when making decisions and investments. Although forecasts will never predict the future with 100 percent accuracy, Finance teams can improve forecasts by updating them throughout the year, rather than annually. According to a recent survey from Aberdeen Group¹, 71 percent of top-performing organizations mitigate risks related to volatile business conditions by continuously updating forecasts to better reflect current business conditions. This is known as "rolling forecasting". In addition to risk mitigation, rolling forecasts can help to identify new opportunities and ensure that investments achieve maximum possible returns available in real time.

WHY ROLLING FORECASTS?
Reasons Top-Performing Businesses Use Rolling Forecasts

- Enables a consistent, accurate, and forward-looking financial outlook despite volatility
- Uses a cadence that aligns to the business versus the accounting calendar
- Provides ability to model and execute course correction throughout the year
- Offers ability to model and seize market opportunities as they arise
- Informs focus on what is really happening versus the aspirational bias of a desired outcome
- Reduces organizational politics as compared with traditional annual budgeting processes
With industry dynamics putting increased pressure on organization bottom lines, healthcare provider organizations are having to critically evaluate their financial management tools and processes. Many are shifting away from more rigid annual planning practices in favor of more continuous planning. This approach incorporates more driver-based* forecasting methodologies, coupled with frequent monthly or quarterly updates, resulting in a rolling forecast. Although there is no one best practice for creating the most accurate rolling forecasts, there are five key components commonly found across healthcare organizations that successfully use rolling forecasts.

*see page 7 for the definition
1. Select the forecast horizon that fits your organization

2. Implement a driver-based planning model

3. Retain prior-period forecasts for back testing

4. Ensure your organization makes the cultural shift

5. Leverage technology to support the forecasting process
Organizations should consider two factors when setting the horizon for rolling forecasts.

**Resource availability** – It is best to make the forecast horizon as long as possible provided that planners can give proper attention to more distant periods. Although there may appear to be value in having the longest range forecast possible, little value accrues from forecasted data for periods where limited attention was given to data or limited data were available.

**Lead times** – Organizations should align their forecasting horizon with lead times associated with the organization (i.e., reimbursement cycle). Consider how slowly or rapidly the drivers to your organization change. Agile organizations whose lead time is short need a shorter forecasting horizon than slower changing organizations.

We recommend that organizations have a strategic, long-range forecast spanning 3 to 5 years, updated annually, and a rolling forecast spanning the next 6 to 12 quarters, updated quarterly. This model assesses current realities that will influence longer-range projections, as well as detailed operational plans.

Our September 2013 survey of 244 enterprise organizations revealed that 1 in 2 companies have a forecasting horizon of current fiscal year only.
Forecasts should always be driver-based – incorporating critical operational data or drivers that ultimately influence financial outcomes. Drivers are, in modeling terms, the independent or predictor variables or the main causal factors that should be highlighted and leveraged in planning models. In healthcare, a well-constructed, driver-based planning model allows for top-level adjustments to visits and admissions – typically performed at a patient type or service line level – to cascade through revenue and expense plans. This helps "flex" variable aspects of the plan. Other fixed elements of the plan can be trended against established run-rates and adjusted as needed. When done correctly, driver-based planning actually requires fewer inputs than traditional forecasting and helps to automate and shorten planning cycles.

**Key benefits of driver-based forecasting:**
- Enables organizations to design models that focus on leading versus lagging indicators
- Allows planners to evaluate alternative scenarios based on driver fluctuations
- Improves the predictive accuracy of forecasts through time
- Promotes a continuous planning process, which allows resources to be redirected when needed
Retention of prior-period forecasts is critical to improved predictive accuracy. Prior-period forecasts should be compared against actual results to identify trends and variances that can be used to improve the business logic for future-period forecasts. Additionally, retaining these prior-period forecasts enables back testing, a key ingredient to improving the predictive accuracy of forecasts.

Although back testing of forecasting assumptions has been used for years in the financial industry, the Finance teams in other industries are now using it as a means for improving the predictive accuracy of projections over time. Planners can take assumptions and replace them with actual values for those drivers to test the quality and predictive accuracy of their models. They can analyze where values differed from estimates, and how inputs may have resulted in different outputs than modeled. This analysis often helps modelers assess the volatility of plan elements given changes in volume and/or mix of services.
Ensure your organization makes the cultural shift

Changing the process isn't enough. Healthcare organizations must shift the culture from traditional annual budgeting and forecasting to rolling forecasts that are continuously or frequently updated based on new learnings that improve accuracy.

**Participation** - Although people are accustomed to devoting a large block of time once a year for budgeting, they must come to expect shorter, more frequent blocks of time as focus throughout the year will become the norm.

**Behavior change** - Traditional budgeting often invites some less-than-desirable behaviors involving "burying" dollars or asking for higher budgets because it's the only chance for the year and they can't predict what they'll need in 6 to 12 months.

**Positioning** - Leaders can encourage participation and support of rolling forecasts by explaining how they allow the organization to capitalize on new opportunities as business conditions change and new opportunities surface. A key question to ask is "What information has come to light in the last 30 days that changes our view of the future and how we plan for it?"
Rolling forecasts can’t be leveraged effectively using standalone spreadsheets, especially in larger organizations. Standalone spreadsheets lack specific capabilities needed to perform rolling forecasts. More and more healthcare organizations are turning to technology designed to address needs including:

- **Integration of core data** – Rolling forecasts must be linked to both financial and patient-centric data sources to promote accurate planning across volume, reimbursement, and expense plans.

- **Collaboration enablement** – Rolling forecasts typically need input from multiple individuals, teams, and departments. Having a solution that supports collaboration and an audit trail of inputs are imperative.

- **Workflow to manage process** – When using a collaborative process, designing a workflow to be followed ensures all inputs are collected and that designated approvers "lock in" specific drivers and volumes without disruption.

- **Storage of past forecasts** – Comparing past forecasts against actuals is a great exercise to improve your future forecasting efforts. Analysis may uncover the need to adjust drivers or other business logic to improve predictive accuracy.
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