Rolling Forecasting

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Industry Context

Top financial planning initiatives organizations are looking to improve in 2017 :

#1 Operational budgeting & forecasting

#2 Reporting to support strategic decision making

#3 Cost containment & efficiency

#4 Capital planning & tracking

Industry Context

Top challenges preventing organizations from effective financial planning & analysis:

#1 Resource constraints

#2 Outdated processes

#3 Insufficient tools

#4 Personnel skill set

What is Rolling Forecasting

- **Financial management process used by organizations to project future periods using the most current, data-driven assumptions.**
- **Common approach in recent years used across many industries and by many Fortune 500 Companies.**
- **Rolling Forecasting generates forecasts for the next 6-12 quarters (2-3 years).**
- **The forecast is compared to the long-term financial plan as well as other targets.**
- **The resulting "gap" is analyzed to identify what changes in operations are necessary to move the forecast to more closely match the financial plan.**
- **Understand that how we are operating today may need to change.**
- **Identify what needs to change today and what Initiatives need to be enacted to close the gap.**

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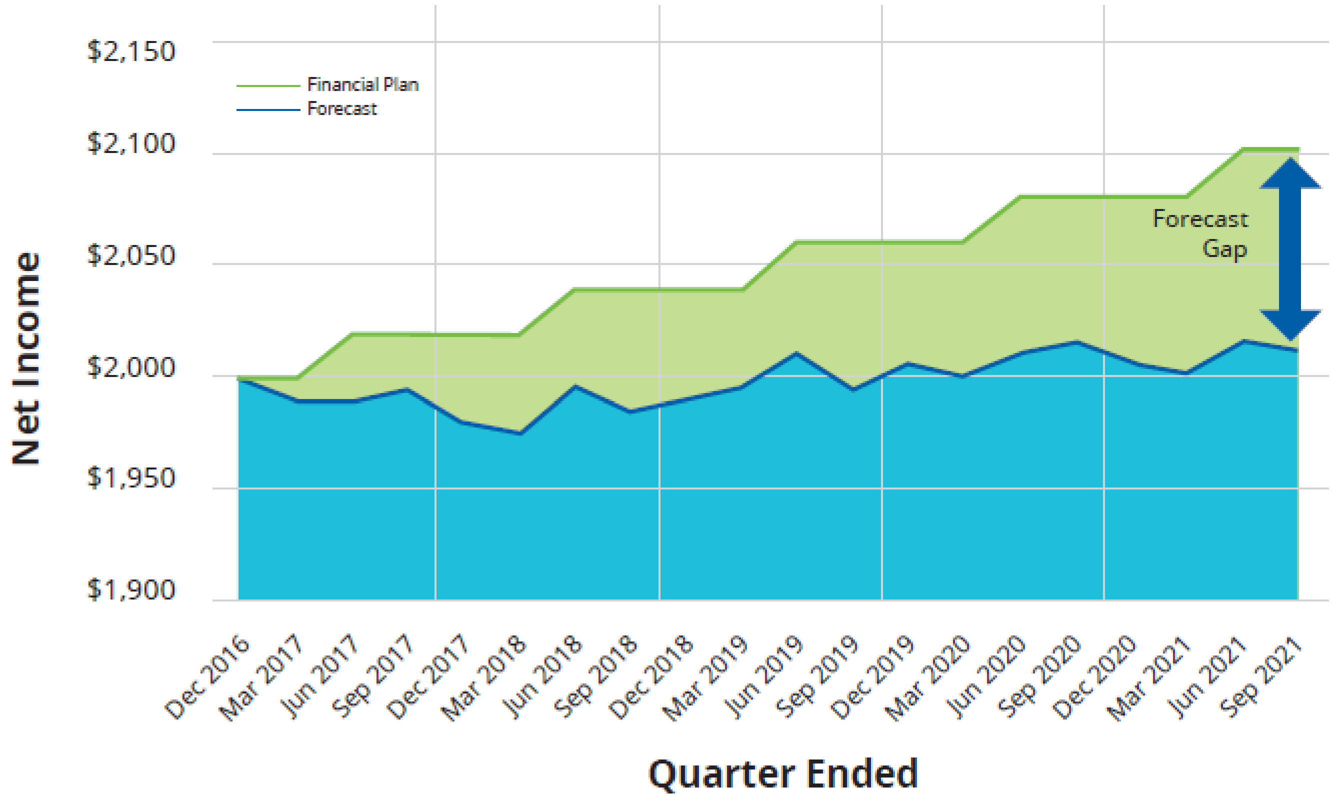
Long Range Financial Plan Relationship to Rolling Forecasting



Components of Rolling Forecasting Tools

- **Select the forecast horizon that fits your organization (forecast 3 years, updated quarterly)**
- **Driver based planning model (critical operational drivers that influence financial outcomes)**
- **Retain prior-period forecasts for back testing**
- **Culture shift**
  - Participation
  - Behavior Change
  - Positioning
- **Leverage technology to support the forecasting process**

Industry Context

In a recent survey of Chief Financial Officers and senior financial leaders in hospitals and health systems nationwide:

- 28 percent indicated their organizations are using rolling forecasting as a complementary process to their annual budgets.
- 3 percent have replaced their annual budgeting process with rolling forecasting.

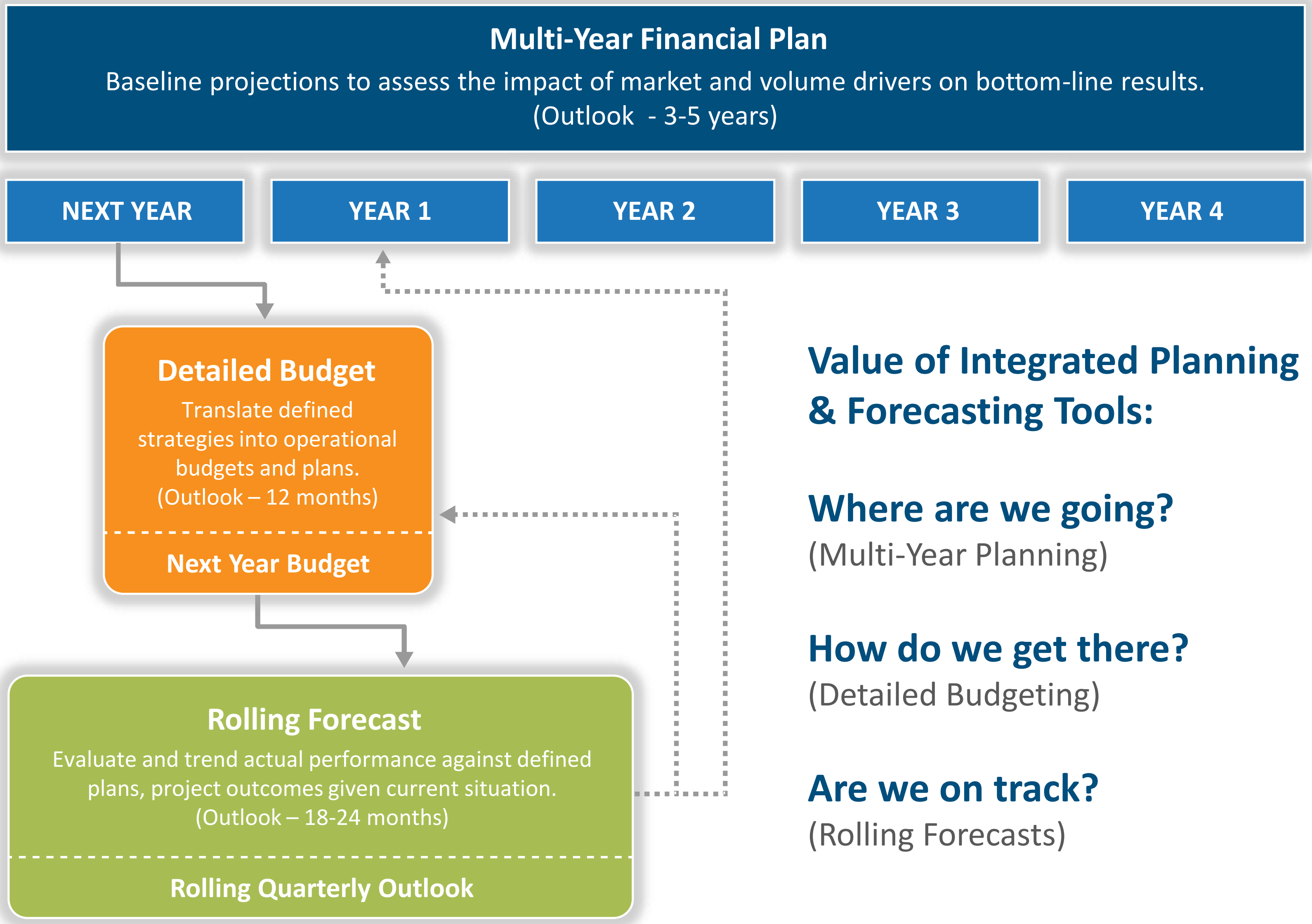
ROLLING FORECASTING -

Improving the Predictability of Financial Results

Eliminates
the annual budget process …

OR

… **Used in conjunction with**
the annual budget process



Value of Integrated Planning & Forecasting Tools:

Where are we going?
(Multi-Year Planning)

How do we get there?
(Detailed Budgeting)

Are we on track?
(Rolling Forecasts)

Using Rolling Forecasting in Conjunction with Budget

The most common reasons organizations report using rolling forecasting alongside their annual budget, include:

- **Requirements** - The organizational Board of Directors or debt covenants require an annual budget
- **Level of detail** - Senior management requires monthly budget-to-actual variance reporting at a department and account level
- **Time-based targets** - The organization is very target focused on a monthly, quarterly, and annual basis
- **Capital spend** - Rolling forecasting is used to assist with future capital spend and days-cash-on-hand projections
- **Short- and long-term perspective** - Allowing organizations to look at their current performance against short-term targets, as well as setting long-term targets that can be used in the budgeting cycle and that feed the long-range financial plan
- **Wanting both** - National organizations want the best of both worlds—preparing a forecast at an entity level, but still requiring budgeting at the regional level

Using Rolling Forecasting as a Budget Replacement

The most common reasons why organizations have replaced their annual budget process with rolling forecasting, include:

- **Efficiency** - The budget process is often more time-consuming than rolling forecasting—utilizing significant staff hours to create multiple iterations
- **Accuracy** - An annual budget is typically stale by the time it is complete and assumptions may have drastically changed, rendering it inaccurate
- **Longer range visibility** - Annual budgets set a forecast/ target for the next 12 months, so people wishing to look beyond the remaining months in the budget must simply wait until the next year's budget is complete
- **Rigor** - Rolling forecasting eliminates "gaming the budget," which often is played between the department leaders and senior management (i.e. adding extra dollars onto known expenses as a cushion for other unknown expenses)
- **New perspective** - Rolling forecasting changes the organization's mindset from "use it or lose it" to "spend what you need"
- **Agility** - Rolling forecasting allows finance teams to be more nimble and efficient in their planning and improves response times in an ever-changing environment. Changes can be made throughout the year as warranted, and new targets can be developed based on those changes. This improves accuracy of the projections as targets are updated more frequently with current assumptions

Rolling Forecasting Considerations and Success Factors

- Is there executive support for rolling forecasting?
  - If the executive leadership team decides to replace budgeting with rolling forecasting, do leaders across the organization understand what it means to operate using a planning philosophy rather than the detail of an operating budget?
  - Is the C-suite open to changes in financial reporting and thought through the metrics they need to manage the business?
  - What is the organization's discipline around the use of KPIs?
- Is there a culture of accountability?
  - What is the current process for addressing budget variances? Are leaders held accountable for missing targets?
  - Are department managers and directors required to support variance explanations, and are they held to corporate targets or benchmarks?

Rolling Forecasting Considerations and Success Factors

- How is the budget currently used?
  - Does the organization have an extremely detailed budget process, and if so, is the organization prepared to report without a detailed monthly budget?
  - Will moving away from budgeting require a change to performance-based compensation packages?
- Will industry benchmarks replace budget targets?
  - What targets will be used for productivity metrics?
  - What key organizational statistics will be used to drive the organization's forecast? (admissions, discharges, patient days, procedures)
- Has the organization embarked upon a process improvement journey?
  - Organizations that utilize techniques such as Lean Accounting, Total Quality Management, Kaizen, or the Deming approach have been most successful with using rolling forecasting.

Rolling Forecasting Considerations and Success Factors

- What is the forecast horizon?
  - Is the organization interested in a monthly forecast to the end of the current fiscal year, or a quarterly forecast over 6-12 quarters?
  - Has the organization considered starting with a current-year forecasting process which projects the remaining months of the current fiscal year?

Design Considerations

COMMON QUESTIONS	CONFIGURABLE DESIGN OPTIONS
What is the desired time horizon? Projections performed monthly/quarterly?	• Configure as a quarterly forecast • Option to configure by month & quarter • Project out 36 periods
What level of detail is appropriate? How do I roll-up my financial data for planning purposes?	• Map Departments into defined 'Groups' • Map Accounts into summary 'Groups'
Who will be my planning contributors? All Managers? Senior Level Executive? Finance Staff?	• Work flow helps structure participation • E-mail notifications guide users into system

Questions?

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