

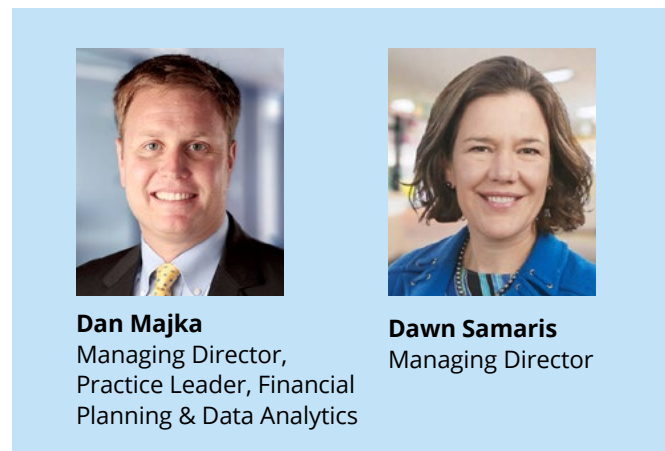
April 2024

Embracing Financial Planning After a Pause: Key Considerations

In recent years, many healthcare organizations have invested less effort in long-range financial planning to confront more immediate challenges to their margins and balance sheets. The unprecedented operating environment of the pandemic and its inflationary aftermath gave way to tight capital markets and limited capital investment in the non-profit healthcare sector. Healthcare leaders focused their attention on the immediate needs of their organizations, given continued uncertainty and a less favorable funding outlook.

In early 2024, signs are emerging of an improving outlook. Median U.S. hospital margins were at 2.3% at the end of 2023, according to Kaufman Hall's National Hospital Flash Report, and there is the possibility the Federal Reserve Board might begin to lower interest rates later in 2024. As a result, many healthcare organizations are beginning to plan for significant capital expenditures for the first time in several years.

However, pursuing reinvestment and growth strategies after extended turbulence is easier said than done. The operating environment for hospitals in 2024—which includes persistent volatility and a weakened financial



position for most providers—is materially harder to navigate than the pre-pandemic era. Not-for-profit, mission-based healthcare organizations also have evolving needs and expanding demands in areas including workforce, technology, and progress toward value-based capabilities. In addition, many organizations have deferred brick-and-mortar investments in their facilities to consider.

In light of that landscape, leaders must carefully vet traditional planning metrics and targets to ensure they still provide accurate insight into the requirements for long-



term sustainability. Organizations will have to carefully distribute their resources to high-priority needs—first carefully defining their investment capabilities given financial and sustainability goals. In turn, managing organizational resources within those guardrails requires a focus on long-term planning over short-term forecasting.

Organizations that are not positioned to sufficiently invest in their operations will face hard decisions about their future direction—including significant cost adjustments, limiting or terminating certain services, or seeking broader partnerships to ensure continued, appropriate investment in key community assets.

A Reinvigorated Approach to Financial Planning

The [core principles of integrated strategic financial planning](#) can help not-for-profit healthcare leaders guide their organizations through the current highly dynamic and constrained environment. Given limited overall growth, organizations must be able to reinvigorate their process, analytics, and evaluative criteria to ensure an appropriate return on constrained resources.

A decade ago, many healthcare organizations relied on the traditional “heads in beds” approach to quantify the financial impact of a potential capital expenditure. Today, healthcare leaders might take the opposite path: for instance, determining how an investment in physician capacity might keep patients out of the hospital and cared for at home or in their community. A planned investment in an ambulatory surgery center might lead to evaluations of its impact across a broader variety of interconnected dimensions: existing operating rooms, reimbursement, cost structure, and physician alignment, just to name a few.

This shift in approach may require organizations to use more sophisticated planning resources—including staff, planning tools, and enhanced data. Ideally, the planning process is integrated with the organization’s strategic decision-making,

is transparent and understandable for stakeholders, and is designed with accountability for execution.

Organizational financial performance must be sufficient to meet the cash flow requirements of the strategic plan and maintain or improve the financial integrity of the organization, within an appropriate credit-and-risk context.

Key strategic needs for consideration will include:

- Supporting growth in clinical, academic, and/or research endeavors
- Maintaining a competitive market/facility presence
- Retaining or enhancing credit strength
- Creating capacity for additional investment
- Enhancing access to strategic capital

Key elements of a well-organized financial plan will include:

- Sensitivity analyses to identify key drivers of organizational success and areas of risk
- Scenario analyses and simulations to identify how specific actions and investments might shift in different operating environments
- Capital prioritization and funding requirements for strategic initiatives
- Decision-making frameworks for the operational expectations of the enterprise
- Comprehensive service line planning
- Appropriate credit targets to maintain optimal access to credit markets
- Applying data science techniques to define sustainability

Getting Started: Asking the Right Questions

Healthcare leaders must be able to both identify the resources their organization needs to sustain its enterprise and mission in the future—and evaluate whether they are positioned to deliver those resources.

Key questions for consideration include:

- Can our organization meet the long-term financial requirements necessary for a sustainable operating path?
- If we cannot meet these requirements, what are the implications for our strategy?
- How do we stress-test our organization's future strategic and financial trajectory in light of changing market conditions?
- What are the financial and operational implications of our potential capital investments across our entire enterprise?
- How do these investment decisions compare to other demands on our resources?
- Are we moving toward building up the resources in workforce, technology, data, and other critical needs that will position our organization for resiliency and long-term success?

Closing thoughts

After a sustained pause in capital investment, most not-for-profit, mission-based hospitals and health systems have a long, growing list of capital needs and constrained resources to devote to them. And the capital planning metrics and processes that many organizations relied on before the pandemic are no longer sufficient, given the increasingly challenged operating environment.

An integrated strategic financial planning process can help healthcare leaders assess the long-term impact of potential capital investments on their mission and enterprise, quantify whether or not they currently have the wherewithal to pursue them, and guide their organizations accordingly.

Questions? Contact

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