HOW TO USE A VARIABLE LABOR BUDGET TO QUICKLY ADJUST STAFFING TO MATCH VOLUME

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For many healthcare organizations, the annual budgeting process can often be one part science and two parts art. This alchemy requires hospital leadership teams to reflect upon prior year volumes, make best guesses on volumes for the next 365 days, and then anticipate the resource and personnel costs required to help deliver that projected volume. The challenge with this approach to budgeting is managing expenses in the face of ever-changing volumes over the course of the year.

Not surprisingly, the largest expense category for healthcare organizations is labor and staffing costs. Knowing that volumes may not match projected and budgeted levels, healthcare organizations that follow best practices pair the annual budget forecast with a Variable Labor Budget. This Variable Labor Budget allows leadership teams, in partnership with front-line managers, to quickly adjust staffing as volumes fluctuate over the course of each pay period.

In Stroudwater's experience, developing and implementing a Variable Labor Budget is a critical first step in helping an organization adopt a demand-based approach to labor staffing and productivity.

The Annual Budget and Fixed Labor Cost Estimates

Before a year even begins, projections of anticipated FTEs are established so they can be used in the Budget Year to compare paid FTEs versus Budgeted FTEs for any given month. These required staffing projections may or may not be influenced by anticipated workload volumes in each of the cost centers. This causes a discrepancy between projected work and needed workers.

Some volumes statistics that are used as a basis for these budgets include:

- Observations – Observations to number of Admits, Discharges, or Patient Days
- Total Admissions – Medical, Surgical, ICU, PEDS, Swing
- Total Patient Days – Medical, Surgical, ICU, etc.
- Operating Room Cases or OR minutes – Inpatient, Amb/Surg, Procedure Room
- Physical Therapy Treatments – Inpatient, Outpatient, SNF, etc.

In many cases, FTE budget allocations are developed based on applying a growth or diminishing factor to historical information (i.e., projected 10% increase in one cost center or an anticipated 5% decrease in another cost center compared to the prior year's budget). This current-state budget process is an attempt to match expenses at the cost center level to revenue at the organizational level, since many cost centers are not revenue generators. However, this budgeting and resource planning approach quickly loses its power as an effective management planning device when volumes (and therefore, revenues) deviate from the forecasted figures or significantly fluctuate from week to week. Absent a formal monitoring tool or process for matching the workload to the necessary number of workers, healthcare organizations will quickly find that their budgeted staffing levels do little to address current-state labor need.

While a “Fixed Budget” is an important first step in effective organizational management and planning, this tool does not provide healthcare organizations with insightful information around making necessary adjustments to staffing levels in the face of volumes that depart from budgeted levels.

Demand-Based or Variable Labor Budget

To address the limitations of an annual budget and its fixed cost approach to staffing expenses, hospital leadership teams should complement their annual budgeting process with the necessary tools that shift labor expenses from a fixed to variable cost. Healthcare organizations that have successfully made this transition in labor expenses from fixed to variable have done so through utilization of performance tracking reports.

Performance tracking reports provide hospital leadership and front-line managers with cost-center-level specific data that tracks worked or productive hours across each cost center relative to associated units of service. Armed with this information, hospital leadership have clear and actionable information on the prior pay period and year-to-date productivity across specific cost centers and can quickly engage front-line managers in making necessary adjustments to staffing levels to better match workers to anticipated demand for services over the next pay period.

To develop this performance tracker, hospital leadership begins by selecting a unit of service specific to each cost center. Volumes of each units of services are then measured in the same time period in which the worked hours are reported. Examples of cost center volume statistics that are found in demand-based variable staffing budgets are:

- Inpatient Nursing Units – Midnight census
- Operating Rooms – Operating Room Minutes
- Therapies – CPT4 Codes or Billed Procedures (RVUs)
- Radiology – Billed Procedures
- ER – Visits in a 24-hour Period
- Support Departments – Adjusted Discharges
- Pharmacy – CMI Weighted Department Adjusted Discharges
- Lab – 100 Billed Test (total billed tests divided by 100)

During the annual budget development process, the workload unit of service is forecasted for each pay period for each cost center. Historic volume trends should be referenced to inform the ratio of worked hours to relative units of services across each cost center; however, organizations often consider paid hours of labor but not worked or productive hours. This process of reviewing the prior year’s worked hours relative to corresponding units of service in each cost center allows organizations to identify what

Stroudwater terms the “Worked Hour Per Unit of Service” or “WHPUOS.” Identifying an agreed-to efficient WHPUOS from the prior year in each cost center then allows hospital leadership to develop the new year’s annual budget – across specific cost centers – with this efficient WHPUOS target in mind.

As volumes fluctuate over the course of the next fiscal year, this agreed-to WHPUOS efficiency metric provides hospital leadership and front-line managers with a means of flexing staffing levels as volumes depart from budgeted levels. Importantly, the productivity tracker allows hospital leadership and front-line managers to frequently and transparently review and make necessary adjustments to staffing levels in the face of these fluctuating volumes. This transparency and frequency in sharing information with front-line managers empowers departments to proactively make adjustments to staffing levels in light of the experienced and anticipated volume or demand levels.

Moving Labor from a Fixed to Variable Cost in Your Organization

The development of a demand-based staffing system in a healthcare organization represents, on average, an opportunity to reduce labor expenses between 10% and 15%. Realizing these savings must start with a variable staffing budget that incorporates the organization’s own staffing productivity information from the prior year in identifying the correct WHPUOS efficiency metric across specific cost centers. This WHPUOS identification and variable staffing budget development must then be followed by management planning, control tools and systems implementation that equips leadership team members with actionable information and empowers front-line mangers to quickly make necessary adjustments to staffing levels in light of fluctuating volumes.

In addition to the WHPUOS, this system will provide front-line managers with daily Shift Management Tools that aid them in making necessary shift-by-shift adjustments in staffing levels. Additionally, leadership team members should have bi-weekly performance trackers that provide cost center-specific detail on staffing levels relative to experience volume tracked against budgeted and agreed-to WHPUOS targets. Finally, and key to realizing and sustaining enhanced levels of staffing productivity, are Performance Improvement Teams. These teams are formed for the specific purpose of aiding departments in meeting their WHPUOS targets and addressing the barriers or limiting conditions preventing them from experiencing previous levels of productivity. Details of these systems are explained more fully here in previous articles about Stroudwater’s Demand-Based Staffing team.

To discuss in further detail how your organization can shift its labor expenses from a fixed to variable cost, contact Ryan Sprinkle (rsprinkle@stroudwater.com), a Practice Leader in Stroudwater’s Performance Improvement service line; Lan Nguyen, Consultant (lnguyen@stroudwater.com); or Ron Hughes, Senior Advisor (rhughes@stroudwater.com).