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Managing Your Finances

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Agenda

1. Budgeting
2. Income Generation
3. Managing Expenses
4. Practice Management Tools

Budgeting

Top-Down

Bottom-Up

Zero-Based

Top-Down Approach

Management sets specific objectives for income / margins / expenses. Looks at the ‘overall’ plan.

Top-Down Approach

Advantages

- Sets the ‘tone’ for the organisation.
- Signals expected sales and production activity.
- Centralised approach is appropriate when in ‘crisis’
- Ensures spending is aligned with priorities.
- Efficient in time and effort.

Disadvantages

- Potential resentment among staff.
- Lack of practical departmental knowledge.

Bottom-Up Approach

Budgets are firstly identified for each department.

Departmental budgets are then ‘rolled up’ to create an overall budget.

Bottom-Up Approach

Advantages

- No tasks are forgotten.
- Involves all members of staff – good for morale.
- Fosters a ‘team-based’ management philosophy.

Disadvantages

- Difficult to control aggregate spending.
- Sectoral allocations may not be optimal.
- Inefficient in time and effort.

Zero-Based Approach

Starts from scratch. Is not based on an increase or decrease on previous years' results.

Zero-Based Approach

Advantages

- Based on needs and benefits.
- Drives cost efficiencies and improved operations.
- Detects inflated budgets.
- In these times, it can be more accurate <u>not</u> to base budgets on previous results.

Disadvantages

- Can be time consuming and exhaustive.
- Budgeting training may be necessary.

Summary on budgeting approach

Take the best of each approach

Top down

•Sit down with stakeholders and key management and identify external/internal factors that could impact the performance and therefore the budget:

- PHC strategy - funding and fee changes, workforce and resourcing changes
- Discuss any expected material changes to practice population - age/gender/demographics etc.
- Practice performance indicator programme (PPP)
- Practice and process changes/improvements
- Resource changes - configuration, recruitment, retirement, sabbaticals
- Capital expenditure programme and/or maintenance
- Training and development
- What are the expectations or goals for stakeholder returns

Summary on approach cont’d

Take the best of each approach

Bottom Up

•Include staff where possible/appropriate to assist in pulling together aspects of the budget to get buy in and a positive approach to achieving parts of the budget they will have an influence over:

- Ask for input, inform, discuss
- Get them to ‘own’ certain cost centres, process improvements, capital purchases

Summary on approach cont'd

Take the best of each approach

Zero Based

•Start from scratch, a good time to do it in light of the recession and the recent budget reforms. Use historical budget and actual data as reference material only, challenge what has happened in the past, look for new opportunities and a fresh perspective

•Compare to shareholder expectations once completed

Tips for Budgeting

Tips: Deriving the budget

- Zero based approach to determining revenue streams and costs
- Segment revenue where possible, so you can better track performance and understand your practice metrics
- Phase the budget accurately, timing of when revenue and costs come in
  - Revenue – understand the difference between patient intake profile and recognition of revenue and timing differences of payments (e.g., capitation payments). Use historical trends to phase patient care to determine expected monthly revenue.
  - Costs – 4 versus 5 week pay cycles, overtime, locum costs, when do conferences occur etc., what are other 'lumpy' or 'one off ' type costs and when do they oocurr
- Understand what your plant and equipment (or other capital items) purchases will be and how they will affect the budget – depreciation calculation, fixed asset register, non-cash item in the financial performance statement, but can have a big cash impact. Finance versus operating leases.
- Determining allocation of shared costs where multiple practitioners – costs drivers

Tips cont'd: Benchmarking

- Check your budget is in line with industry standards (refer handout)
- All shown as a percentage of turnover – Q8511 General Practice Medical Services

	25^{th} %-ile	Median	75th %-ile
Turnover	351k	550k	741k
Occupancy expenses	9.33%	6.29%	3.96%
Wages	33.55%	25.03%	19.52%
Medical Supplies	12.8%	4.08%	1.93%
Operating profit	33.45%	48.80%	58.57%
Operating profit	143k	243k	324k
David Strack (9/10 FTE)	150k	250k	400k

Tips cont'd: Cash flow budgeting

- Cash is always king in any business
- Prepare cash flow budget to understand the difference between business performance and cash flow performance
- Some things to think about; sweeping accounts for surplus funds, capital purchases, GST payment planning, company tax payments planning, recruitment costs, wages payments, principal versus interest payment, debtor profile

Tips cont'd: Tracking/monitoring the budget

- Coding consistency – make sure you have the right level of revenue and cost segmentation and ensure coding is accurate to enable budget comparison
- Track the budget! – monthly reporting budget versus actual
- Put controls in place – petty cash, delegated authorities of spending levels etc

Income Generation

Income Generation

- Maintaining a healthy client register to get your correct level of funding, quarterly reviews
- Understanding your demographics to optimise your price setting e.g., Co-payment/capitation revenue split, consider:
  - Very low cost access (VLCA) – in view of bad debt potential
  - Under 6's
  - Short term use of funds from capitation funds (higher interest bearing accounts as a minimum)
- Opportunities around:
  - Aged care provider (pro's and con's to this)
  - Immunisation programs (extra data capture is rewarded for future applications)
  - Diabetes annual reviews (good follow up processes to get them in and receive payment)
  - Cardio vascular reviews (as above)
  - PPP's, achieving your indicators to get the extra funding $6 per patient
  - Involving practice nurses where appropriate rather than the GP

Cost Management

- Three key costs for a practice:
  - Rent (fixed cost – refer bench marks)
  - Wages (make sure there is 'no fat' in staffing levels– check benchmarks re FTE's)
  - Medical Supplies (appears you already make use of group purchasing programs)
- Otherwise, have delegated authorities to ensure there is rigour around what is being spent (where appropriate)
- Ensure budget is communicated and people are spending within the prescribed budgeted costs

Online Accounting

What is Software as a Service (SaaS)?

- Video from Salesforce

3rd Generation of Technology

1990 2000 2010

DOS

Windows

LAN: Connect Staff

Cloud Internet: Connect Clients

Accounting Software – The New Generation

Traditional Accounting Software

- Installed on a PC
- Master file
- Data always out of date

Online Accounting Software

- Access to the clients' accounting systems
- Ability to collaborate in real time
- Anytime, anywhere, any device
- Unlimited concurrent users with different user roles

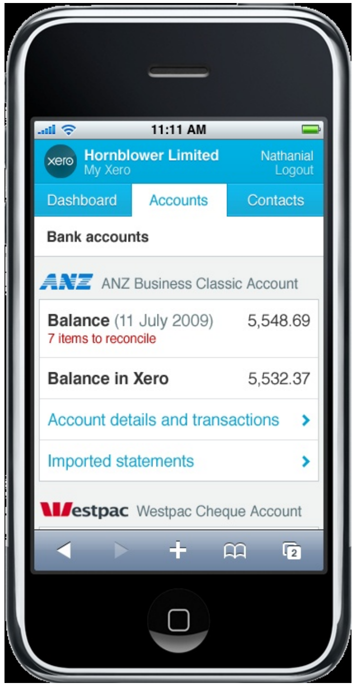
Low Risk Software Purchase Model

Traditional Accounting Software

- Buy the required hardware/software, pay a monthly support fee and an annual upgrade fee

Online Accounting Software

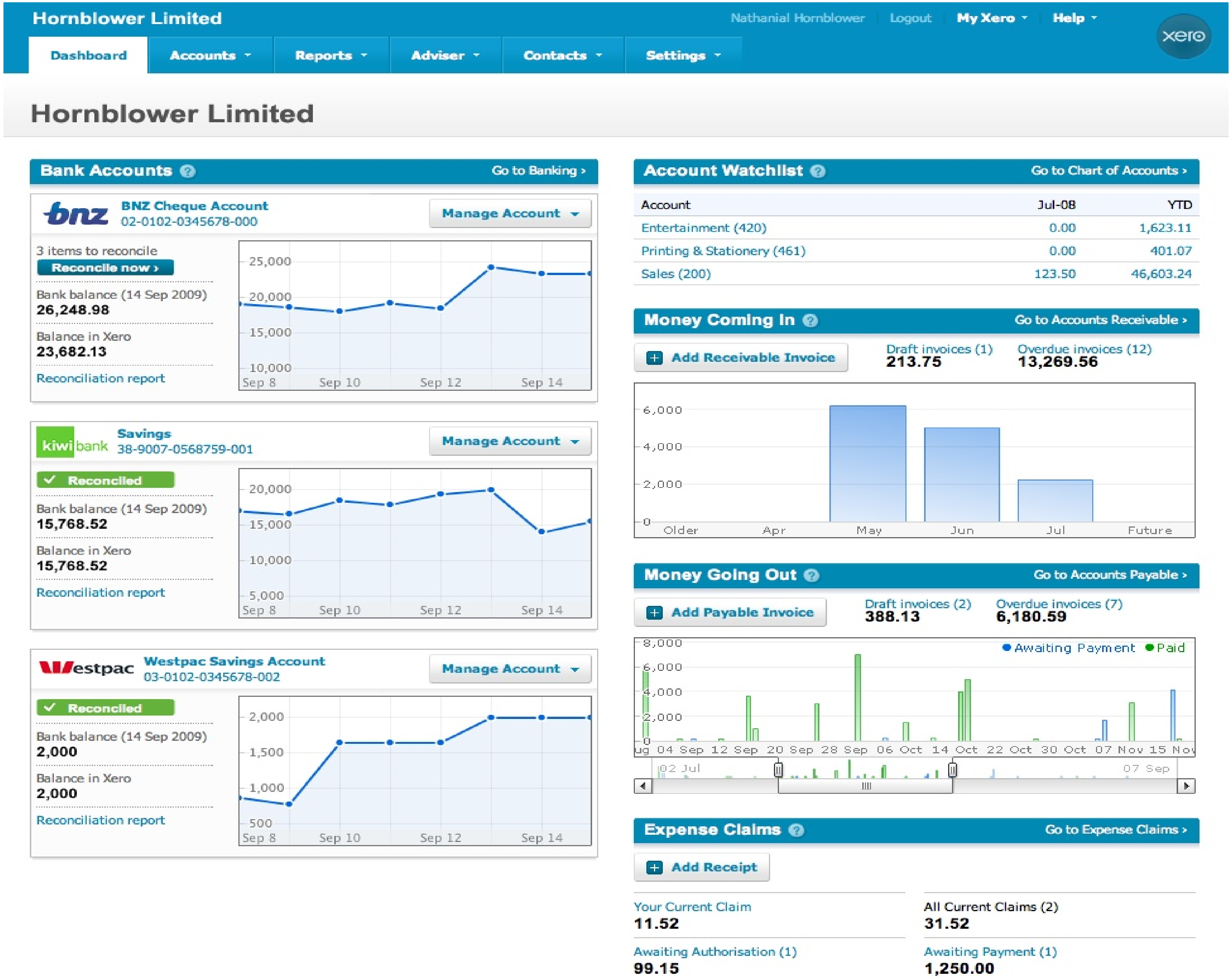
- Pay monthly
- No upfront cost
- No contracts
- Includes support, upgrades, backups, unlimited users
- Potentially reduced hardware requirements and costs



Why Xero application built?

- Problems transferring data between the business and the Accountant
- Servers / hardware are expensive
- Installation / Upgrades are hard to understand
- Backups sometimes forgotten about
- Reconciliations are not automated / import of data

What does online accounting look like?



Key advantages of on line accounting software from an operational perspective

- Bank data automatically transferred to accounting package which can be coded on transfer, coding intuitive once ‘rules’ have been described – bank reconciliations are SIMPLE!!

- Bank or cash balance is ‘real time’ in the accounting software and provides a cash view after debtors and creditors have been allowed for

- Delegated authorities can be set up to approve batch payments or to approval expense claims

- Expense claims can be entered on line

Key advantages of on line accounting software from an operational perspective

- Multiple entities can be operated on the same software all viewable to authorised users and will allow central costs to be easily transferred between business units (automatically in fact).

- Hierarchical views can be set up for different user groups (internal/external) to view and review information e.g., management monthly accounts, budgets, client information, management reports for banks, accountants can operate directly in the system as required for year end, periodic purposes or as system queries arise.

- They will more easily integrate to other business tools e.g., practice/client management software.

Questions?