

TITLE: Adopting Activity Based Management utilising monthly Activity Based Costing and an Activity Based Budget.

[Include your abstract according to the headings below. Abstract body in Arial, font 12. Limit to 500 words, including text in tables and figures.]

Introduction

Traditional financial variance analysis against a budget often leads to variance commentaries that identify what the amount is but don't explain why the variance occurred. The problem with a traditional budget is that often there is no activity budget connected to the financial budget. By building an Activity Based Budget we then have a benchmark to compare to for both Activity and Cost and we are better able to hold management and clinicians accountable to the agreed budget.

Methods

A pilot project in Australia was launched to build an Activity Budget for the coming year based on Activity Based Costing (ABC) data from the previous year. Utilisation rates and costs were used along with inflation assumptions. The budget year's patient volumes were modelled using growth rates expected of the health service population and intervention rates. Phasing of the budget activity was made by utilising historic summer / winter trends.

The Activity Based Budget calculated budgeted costs and activities by month for each direct patient care department and for each major patient episode grouping (Specialty, DRG, Outpatient Specialist Attendance) to provide the organisation with one budget for measuring both Costs and Activity performance for each cost centre and specialty.

Results

The CostPro Scenario Modelling Tool was used to compare actual costs against the budget and to produce a complete variance analysis by automating the calculations of the variances associated with ABM (price, volume and mix). Visualisation of department and specialty performance and then working with senior management is underway to gauge whether the system can be used to replace general ledger budget v actual reporting and/or complement it. The system was able to quantify the variance to budget and categorise the overall variance into 5 variances:

- New Activity not planned for in the budget,
- Increases / decreases in the volume of episodes,
- Changes to the patient casemix that was planned for in the budget,
- Increases / decreases to the required inputs associated with each episode, and
- Increases / decreases to the cost per unit of input costs (eg wards, radiology, path)

Discussion

Activity Based Management (ABM) used with Activity Based Costing (ABC) is a means to identifying and reducing cost drivers through better use of resources. Whilst traditional

budget variance reporting is now 30+ years old, the health sector needs an innovation to move the monthly reporting cycle towards ABM and to use technology to handle the complex calculations of the variances at every Specialty / DRG combination. The CostPro Scenario Modelling Tool was able to handle the calculations and produce meaningful reports that has helped management and clinicians to understand why cost variances have occurred to the budget.