

## **Chapter 8: Business Planning and Budgeting Process**

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The Vermont Legislature is seeking budget predictability to the greatest extent possible for programs overseen by various departments within the Agency of Human Services (primarily the Department of Aging and Independent Living and the Department of Health) and provided through the Designated Agency system. As part of this evaluation, opportunities were examined for implementing a more transparent/rational planning process, while reinforcing greater budgetary and financial discipline within the Department. The following is a discussion of the recommended approach.

### **Develop a Vision Statement**

Vision statements are often used as tools to focus organizations on core goals, and to reinforce those goals across the organization. A vision statement for the Designated Agency System of Care should reflect the best thinking of key stakeholders – including joint Departmental, legislative, provider and consumer representatives – working together to define the two Departments' mission with respect to mental health, substance abuse and developmental services. Once established, a vision statement supports a more rational operational and financial plan by facilitating the evaluation and re-evaluation of the Departments' programmatic, operational and funding priorities. Such prioritization will guide the Departments in the development of a five year business plan for the operation and financing of these programs.

### **Establish an Ongoing Process for Operational/Financial Planning**

Development of a proactive joint business planning process led by the Department of Aging and Independent Living (DAIL) and the Department of Health (DOH) should enable each to better evaluate the Designated Agencies' ability to achieve operational goals within available funding. The business planning process should be used as a tool to facilitate coordination and collaboration between DAIL and DOH and between those departments and the DA system. A cooperative joint planning process is needed to ensure that the publicly funded mental health, substance abuse and developmental services provided through the DAs achieve the vision and goals established for these programs.

The business planning process should include the following components:

- ✓ An evaluation and prioritization of programs based on the core mission and goals specified in the vision statement for the DA system
- ✓ Development of agreed-upon, objective criteria by which programmatic success and contribution to goals will be measured (e.g., patient volume, treatment outcomes, recidivism, etc)
- ✓ Preparation of caseload projections by program, based upon the agreed upon growth rates and service priorities

- ✓ Projection of resources required by program (internal and external personnel, funding, providers, etc) based on caseload projections, as well as general overhead (e.g., DAIL, DOH, or other resources required to administer the programs)
- ✓ Enumeration of key factors that could affect programmatic success, as well as operational/financial “flags” or signals of potential cost overruns/operational failure that mandate evaluation and/or corrective action by DAIL and/or DOH
- ✓ Development of operational and financial reporting tools that allow evaluation of programmatic, as well as Designated Agency and/or DAIL/DOH performance. Such reports should reflect monthly, quarterly and annual performance, including agreed-upon performance criteria.

### **Create an Inter-Departmental Planning Committee**

To support the business planning process, a joint Planning Committee should be established and serve in an advisory/oversight capacity. The joint Planning Committee should include staff from both DAIL and DOH, as well as a representative from each of the three existing State Planning Services Committees. The Committee would be responsible for assisting in the:

- ✓ Development of the vision statement and business plan
- ✓ Evaluation of actual versus projected performance
- ✓ Ongoing renewal of the plan, including re-evaluation of program prioritization in light of environmental changes and/or performance
- ✓ Evaluation of variances in financial and operational performance, and approval of recommended corrective action plans

To ensure that all key stakeholders are represented and ultimately committed to the success of this process, the Planning Committee should collaborate with legislative, Designated Agency, provider and consumer representatives.

### **Develop Additional Management Tools**

The following are specific management tools that may be useful to DAIL/DOH in support of its planning and budgeting processes.

1. Use the System of Care Plans developed for each major category of service to create a consolidated set of funding priorities. Based on the Department’s vision statement, a team comprised of managers from the major program areas would be charged with developing a combined set of funding priorities and projections of demand statewide.

The System of Care Plans Team would use the five-year projections and methodology presented in this report to implement and maintain a rolling series of projections of caseload growth that are modified based on actual experience in the current and previous two years. When actual experience varies by more than five percent from the Planning Committee’s projections, an explanation of the changes that caused the variance, as well as anticipated responses to negative variances must be provided.

Negative variances over ten percent would require the Planning Committee's review and sign-off on recommended corrective actions to be taken by the Department.

Upon completion of the System of Care Plan Team's work, the associated projections would be presented to the Planning Committee for review and approval. Upon receipt of the Planning Committee's approval, the consolidated projections will be used to support the development of the annual budgets for DAIL and DOH.

2. Based on the System of Care Plans' projections, detailed budgets by program, as well as a consolidated Departmental budget, will be developed. Those budgets will enumerate the current appropriation, detailed projected expenditures by natural class, and caseloads for the next year.

Human resource costs within the DA system will be projected using the step and cost-of-living wage adjustments for state employees. This will allow DAIL and DOH to jointly identify the shortfall between the projected human resource component of the budget for the next fiscal year and the current year component of the appropriation.

3. Any shortfall between current year appropriation and projected expenditures will be examined for inflationary effects, changes in human resources costs, additions or deletions of services, and shifts in demand. Staff involved in developing the budget will be required to examine each fiscal effect separately.
4. Upon receipt by the Departments of an approved budget, Designated Agencies will receive their respective budgets from the Departments, including key budget metrics such as projected caseloads, service volumes and expenditures by natural class. The Designated Agencies will be required to provide monthly, quarterly and annual financial and operational reports (to be developed by the Departments) comparing actual to budgeted performance. Aggregate variances (actual vs. budget) above some level (to be determined) should be accompanied by explanations of the variance, as well as the Designated Agency's corrective action plan.

Through the establishment of a more rigorous planning and budgeting process, the Department should be able to monitor its operational budget, proactively address shortfalls in performance, and effectively communicate impending budgetary issues and potential alternatives for the legislature's consideration.

Concurrent with implementing a more effective planning process and a multi-year approach to budgeting, AHS and the DAs need to agree on a process for how and to what degree new funding for the system (increases in excess of inflationary levels) will be prioritized (e.g. caseload growth, new services, addressing human resource or infrastructure issues, etc.). To establish those priorities AHS needs more uniform fiscal and operational data from the agencies so that meaningful comparisons of results can be used to inform the process.

Ultimately, to ensure appropriate and effective fiscal and service planning, a more collaborative process is needed. AHS, along with legislative representatives and the provider and consumer communities, need to work cooperatively in planning for the

future. The expectations of all parties need to be outwardly expressed in a constructive manner. Decisions should be reflected in the state's strategic plan for mental health, and developmental services. Vermonters deserve no less.