

Budgeting

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Objectives: After the discussion of the topic, the students will be able to:

1. Gain insights on the concept of budgeting as among the competencies of a nurse manager.
2. Utilize the steps in the Budget Process when given a situation to conduct budgeting.
3. Analyze different types of budget according to its usability in a given
4. Compute for the staffing requirement when given a situation.

Definition:

A budget (Marquis & Huston, 2015)- is a financial plan that includes estimated expenses as well as income for a period of time.

Accuracy dictates the worth of a budget. The more accurate the blue print of an organization's budget, an efficient use of resources can be instituted.

Steps in the Budget Process (Marquis & Huston, 2015):

1. **Doing Assessment**. To assess the needs to be covered in the budget. Basically, this is derived from the input of all levels in an organization's hierarchy. Budgeting is most effective when all the personnel using the resources are involved.
2. **Diagnosis**. In budget planning, the diagnosis served as the goal of what needs to be accomplished, which is to create a cost-effective budget that maximizes the use of available resources.
3. **Developing a Plan**. There are many ways to develop **a Budget Plan**.
 - a. Fiscal-year budget - a budgeting cycle that is set for 12 months. This may or may not coincide with the calendar year.
 - b. Perpetual budget - may be done on a continual basis each month so that 12 months of future budget data are always available.

(Cont. 3rd Step) Developing a Budget Plan:

- Selecting the optimal time frame for budgeting is important. If the budget is projected too far in advance, there is greater possibility for error. If the budget is shortsighted, compensating for unexpected major expenses or purchasing capital equipment may be difficult.

4. Implementation. Ongoing monitoring and analysis is done to avoid inadequate or excess fund at the end of the fiscal year. Some managers artificially inflate their department budget as a cushion for budget cuts. If many departments are doing, the entire institutional budget may be ineffective.

5. Evaluation. The budget should be reviewed periodically and modified as needed, i.e. conducting an annual Program Performance Review and Assessment (PPRA). Managers need to be accountable and may expect some change with deviations.

TYPES OF BUDGET (Marquis & Huston, 2015):

1. Personnel (workforce) Budget -- is the largest because health care is labor intensive. For short term and long term personnel/staffing needs, managers use historical data of patient (fluctuating) census and acuity. Managers need to closely monitor the budget to prevent understaffing or overstaffing.

Factors to be considered in staffing: staffing (skill) mix; Licensed and unlicensed staff ratio (professional and non-professional) i.e. RNs, & NAs; patient acuity. Most staffing is based on pre-determined standard.

Standard Formula (calculating nursing care hours per patient per day(NCH/PPD):

$$\text{NCH/PPD} = \frac{\text{Nursing hours worked in 24 hours}}{\text{Patient Census}}$$

The staffing standard may be addressed in hours per patient per day (HPPD)

Cont. calculating NCH/PPD... Based on a Duty Shift

Step 1: Compute for: Total Nursing Hours in 24 H (by 8 hours per shift)

11 (Jan 30) to 7 shift (Jan 31) – 2 RNS, 1LVN, 1CNA (4 at 8hrs.)

7AM to 3 PM shift – 3 RNs, 2LVNs, 1CNA, 1 Ward clerk (7 at 8hrs.)

3PM to 11PM shift – 2 RNs, 2LVNs, 1CNA, 1 Ward clerk (6 at 8hrs.)

Total no. of personnel = 17 X 8hrs = 136 hours (Total Nursing Care Hours in 24 Hours)

Step 2: Compute for: Number of Nursing Care Hours for each patient in 24 H **(25 pts.)**
(136/25 = 5.44 hours) which is lower than the target = 6 hours

However, number of care hours depend on the standard being practiced (as in the case of Flexible time utilizing 12 hours per shift)

TYPES OF BUDGET (cont.) 1. Personnel Budget ...

Computation of Personnel Budget includes:

1. Actual worktime – also called productive time or salary expense
2. Non-productive or benefit time – employee is not working
also includes: cost benefits, sick and holiday time

Administrative Requirements (Philippine Context)

15 days sick leave

15 days vacation leave

3 days special privilege leave

3 days education team 10 holidays

46 days Total non-working days /year

104 days Total number of OFF days /year

215 days Total number of working days /year

1720 Total working hours/year

TYPES OF BUDGET (Marquis & Huston, 2015):

2. The Operating Budget

- second area of expenditure that involves all the managers
- reflects the expenses that change in response to the volume of service, such as the **cost of electricity, repairs and maintenance**, and **supplies**.
- shows the relationship between supply use and patient mix, occupancy rate, technology requirements, and types of procedures performed in the unit
- saving unused supplies from packs/trays, reducing obsolete and slow-moving inventory, eliminating pilferage, and monitoring uncontrolled usage of supplies, and giveaways may promote cost savings

Maintenance and other Expenses (MOOE) in the Phil. context - refer to **expenditures to support the operations of government agencies** such as expenses for supplies and materials; transportation and travel; utilities (water, power, etc.) and the repairs, etc.

TYPES OF BUDGET (Marquis & Huston, 2015):

3. The Capital Budget - . third type of budget

- composed of long term planning or a major acquisition
- plan for the purchase of buildings or major equipment with long life (usually more than 5-7 years). Not used in daily operations
- acquisition cost of capital assets, such as equipment, or expenditures to make improvements to capital assets that materially increase their value or useful life (i. e. renovation)
- this may include short-term component, purchases within the annual budget cycle (i.e. hospital beds)
- *in government-owned and controlled corporations (GOCC)(Philippine context)* – called "capital outlays" or "capital expenditures" - refers to the purchase of goods and services of a longer life-expectancy extending beyond the fiscal year and which add to the assets of the Government, except furniture and equipment usually used in the conduct of normal government operations.

BUDGETING METHODS (Marquis & Huston, 2015):

Budgeting is classified according to how often it occurs and the base on which budgeting takes place.

1. Incremental Budgeting or flat percentage increased method

- simplest method for budgeting
- obtained by multiplying current year expenses by a certain figure like inflation rate or consumer price index
- requires little budgeting expertise, hence generally inefficient
- there's no motivation to contain cost and need to prioritize programs and services.

BUDGETING METHODS (cont.):

2. Zero-Based budgeting –managers need to rejustify programs or needs every budgeting cycle.

- does not automatically assumes that a program funded in the past has to be continuously funded
- labor intensive for nurse-managers
- requires the use of decision package (a key feature of zero-based budgeting) to set funding priorities

Key Components of Decision packages:

- Lists of all current and proposed objectives /activities
- Alternative plans for carrying out these activities
- Costs for each alternative
- Advantages and disadvantages of continuing or discontinuing an activity

BUDGETING METHODS (cont.):

3. Flexible Budgeting

Flexible budgets – are budgets that flexed up and down over the year depending on volume

- Automatically calculates what the expenses should be, given the volume that is occurring
- Works well with many health care organizations as a result of changing census and manpower needs that are difficult to predict despite historical forecasting tools

4. Performance Budgeting – emphasizes outcomes and results instead of activities and outputs

Example: a home health agency would set and then measure a specific outcomes in a group, such as diabetic patients as a means of establishing and justifying a budget.

CRITICAL PATHWAYS

(also called *clinical pathways and care pathways*)

- are a strategy for assessing, implementing and evaluating the cost-effectiveness of patient care.
- reflect relatively standardized predictions of patients' progress for a specific diagnosis or procedure

For example: a critical pathway for a specific diagnosis might suggest an average length of stay of 4 days with certain intervention completed by certain points on the pathway.

HEALTH-CARE REIMBURSEMENT

- Nurse managers use incremental budgeting or pay less attention to budgeting due to insurance carriers reimbursement (US-based practice)

The Philippine Health Insurance Corporation (PHIC)

The PHIC or PhilHealth was created in 1995 to implement universal health coverage in the Philippines. It is a tax-exempt, government-owned and controlled corporation of the Philippines, and is attached to the Department of Health

In recent years, the coverage rate of PhilHealth has primarily reported or the entitlement of members is based on premium payments. But with the signing of the UHC Act (RA11223), all Filipinos are already automatically included under the National Health Insurance Program (NHIP) – making PhilHealth's coverage rate at 100%.

References:

Marquis, B. and Huston, C. (2015). Leadership Roles and Management Functions in Nursing Theory and Application. PA: Wolters Kluwer Health.

Phil Health Benefits. <https://www.philhealth.gov.ph>