Fiscal Planning (Budgeting)

Fiscal Planning

- Fiscal planning is not intuitive; it is a learned skill that improves with practice.
- Fiscal planning requires vision, creativity, and a through knowledge of the political, social, and economic forces that shape health care.

Balancing Costs and Quality

- **Cost containment**: effective and efficient delivery of services while generating needed revenues for continued organizational productivity.
- **Cost-effectiveness**: incorporates the concept of being of economical in terms of the goods or services received for the money spent, meaning that the product is worth the price.
- Cost does not always equate to quality in terms of health care.

Responsibility Accounting and Forecasting

- **Responsibility accounting**: each of an organization’s revenues, expenses, assets, and liabilities is someone’s responsibility.
- **Forecasting** involves making an educated budget estimate using historical data

Basics of Budgets

- **Budget**: a financial plan that estimates expenditures and revenues by an agent for a stated future period.
- Fiscal planning requires flexibility, ongoing evaluation, and revision.

Expenses Classifications

- ***Fixed expenses*** do not vary with volume, whereas ***variable expenses*** do. e.g.
  - fixed expenses: manager's salary
  - variable expenses: cost of supplies
- ***Controllable expenses*** can be controlled or varied by the manager, whereas ***noncontrollable expenses*** cannot. e.g.
  - *Controllable:* the number of personnel working on a certain shift
  - *Noncontrollable:* overtime that occurs in response to an emergency.

Steps in the Budgetary Process

- The nursing process provides a model for the steps in budget planning:

1. **Assess** what needs to be covered in the budget.
   - Input from all levels of the organizational hierarchy.
   - A composite of unit needs in terms of manpower, equipment, and operating expenses can then be compiled to determine the organizational budget.
2. Develop a **plan.**
   - Fiscal-year budget can be broken down into monthly, quarterly, or semiannual periods.
   - budget is predicted too far in advance → ↑error.
   - budget is shortsighted, compensating for unexpected major expenses or purchasing capital equipment may be difficult.

Steps in the Budgetary Process

3. Implementation.

- Ongoing monitoring and analysis.
- Top-level managers must watch for and correct unrealistic budget.

4. Evaluation.

- The budget must be reviewed periodically and modified as needed throughout the fiscal year

Types of Budgets

The Personnel Budget

- The largest of the budget expenditures is the workforce or *personnel budget* because health care is *labor intensive*.
- A manager must monitor the personnel budget closely to prevent understaffing or overstaffing.
- **Staffing mix**: the mix (percentages) of licensed and unlicensed staff working at a given time.
- The manager must be aware of the patient acuity.

Types of Budgets

- The personnel budget includes actual worked time (*productive time* or *salary expense*) and time the organization pays the employee for not working (*nonproductive* or benefit time).

Types of Budgets

The Operating Budget

- The operating budget reflects expenses that change in response to the volume of service, such as daily expenses as the cost of electricity, repairs and maintenance, and supplies.
- Supplies are the second most significant component in the hospital budget next to personnel costs.

Types of Budgets

The Capital Budget

- Capital budgets plan for the purchase of buildings or major equipment, which include
  - A long life equipment (> 5-7)
  - Is not used in daily operations
  - Is more expensive than operating supplies.
- In addition to the original price cost, examine the costs of implementation, installation, upkeep, and technological updates.

Budgeting Methods

Incremental Budgeting

- multiplying current year expenses by a certain figure, usually the inflation rate or consumer price index, this method arrives at the budget for the coming year.
  - simple and quick
  - requires little budgeting expertise
  - no motivation to contain costs
  - no need to prioritize programs and services

Budgeting Methods

Flexible Budgeting

- Are budgets that adjust automatically over the course of the year depending on variables such as volume, labor costs, and capital expenditures.
- Costs can be allocated on a volume basis.

New Performance Budgeting

- Emphasizing outcomes and results instead of activities or outputs.
- The manager would budget as needed to achieve specific outcomes and would evaluate budgetary success accordingly.

Critical Pathways

- Are predetermined courses of progress that patients should be making after admission for a specific diagnosis or after a specific surgery.
- They do provide some means of standardizing medical care.
- Difficulties in accounting for and accepting what are often justifiable differentiations between unique patients.
- Pathway documentation challenge.

Health Care Reimbursement

Fee for Service (FFS)

- Reimbursement was based on costs incurred to provide the service plus profit.
- FFS reimbursement → clients' overtreament → ↑ gross domestic product (GDP).

The prospective payment system

- **Diagnosis related groups (DRGs)** were predetermined payment schedules that reflected historical costs for treatment of specific patient conditions (approx. 550 DRGs).
- As a result of the PPS and the need to contain costs, the length of stay for most hospital admissions has decreased greatly.
- Effects on quality of care

- Capitation: providers receive a fixed monthly payment regardless of services used by that patient during the month.
  - The provider may profit or suffer a loss.
  - May lead to patients’ undertreatment.