

BUDGET/FINANCE CONCEPTS

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LEARNING OUTCOME

1. Understand the basic terminology of budgeting in health care

BUDGETS

Financial plan for the allocation of the organization's resources and a control for ensuring that results comply with the plan

Detailed financial plans for meeting in organizations planned output/outcomes

Includes both expenditures and income



FISCAL YEAR

12-month period used for calculating annual (yearly) financial report

Does not usually equal the calendar year



BUDGET ASSUMPTIONS

Statements that reflect issues affecting the future performance of the organization

Used as the framework for developing budgets

Address questions such as the following:

- Is the cost of supplies likely to increase or decrease?
- What will salaries be after accounting for cost of living and changes in union contracts?
- Will patient census and acuity increase or decrease over the next year?

TYPES OF EXPENDITURES

Expense:

- Occurrence or item that requires the outlay of money for purchase or the incurrance of a liability for future payment
- Major expenses for health care organizations include salaries, medical supplies and equipment, and facility maintenance



Salaries and benefits:

- Typically includes direct payment for hours worked, vacation, health benefits, employer portion of payroll taxes, and workers' compensation.

Supplies:

- Materials and less expensive equipment used in operating the unit/department
- Typically includes clinical disposables, pharmaceuticals, and office supplies.

Capital expenditures:

- Monies spent on items that will have long-term value to an organization
- Often more than 1 year and more than \$1000

CAPITAL AND OPERATING BUDGETS

Operating Budget

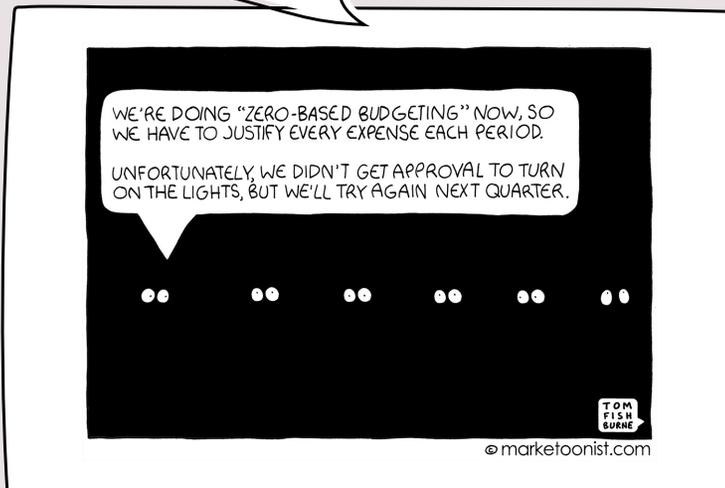
- this is comprised of the day-to-day expenditures of the unit as well as its revenues
- Could represent a unit in a hospital, a clinic, home care service provision unit etc
- The financial plan for the day-to-day activities of a unit or organization

Capital budget

- Comprised of the equipment including replacement equipment needed by the unit
- Could include such things as IV pumps, patient beds, testing equipment etc.
- Usually separate from the Operating budget and items usually have minimum cost



INCREMENTAL VS ZERO-BASED BUDGETING



Incremental:

- New budget extrapolated from the prior period's budget
- Adjusted for future growth or decline in revenues or expenses

Zero-based:

- Begins as though the budget were being prepared for the first time

COST CENTRES

A nurse leader may be responsible for one or more cost centres

These are centres that accumulate costs and generate revenue

A unit might have one or multiple cost centres

Table 3
Average cost per discharge

Cost center	2500 discharges (100 beds)	5000 discharges (136 beds)	7500 discharges (200 beds)	10,000 discharges (270 beds)	15,000 discharges (310 beds)	20,000 discharges (440 beds)
Hospital administration	1.64	1.24	1.08	1.0	0.93	0.90
Public relations	1.12	0.98	0.97	1.0	1.03	1.07
General accounting	1.68	1.24	1.08	1.0	0.91	0.90
Communications	1.64	1.22	1.07	1.0	0.94	0.94
Purchasing	1.32	1.08	1.0	1.0	1.01	1.04
Patient accounts	1.24	1.08	1.01	1.0	1.0	1.02
Data processing	1.0	0.92	0.93	1.0	1.10	1.21
Credit and collection	1.24	1.06	1.0	1.0	1.0	1.04
Medical records	1.32	1.10	1.03	1.0	0.97	0.96
Printing and duplication	1.04	1.02	1.01	1.0	0.98	0.97
Personnel	1.32	1.06	1.0	1.0	1.02	1.06
Cafeteria	1.48	1.20	1.07	1.0	0.93	0.90
Laundry	1.32	1.12	1.03	1.0	0.97	0.96
Housekeeping	1.40	1.14	1.04	1.0	0.96	0.89
All cost centers	1.36	1.10	1.03	1.0	0.99	0.99

Dranove D. 1998. Economies of scale in non-revenue producing cost centers: Implications for hospital mergers. *Journal of health economics*. 17(1): 69.

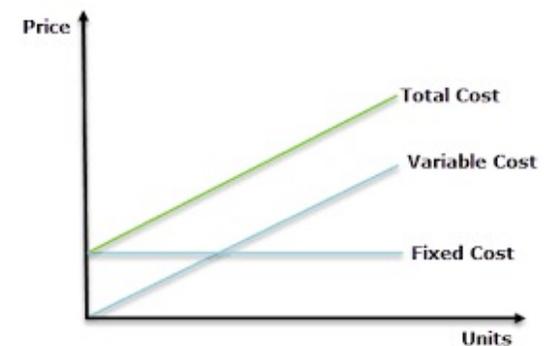
FIXED VERSUS VARIABLE COSTS

Fixed costs

- Costs that do not change as a result volume change
- Examples: space costs, minimal staffing required (i.e. charge nurse)

Variable costs

- Change in direct proportion to the patient or work volume
- Examples: staffing, pharmacy, supply costs



UNIT OF SERVICE

Units depend on the type of work that a unit or organization is doing

- For example: patient days clinic or home visits, hours of service, number of admissions or treatments etc

Units of service along with patient acuity mix are needed to calculate workload

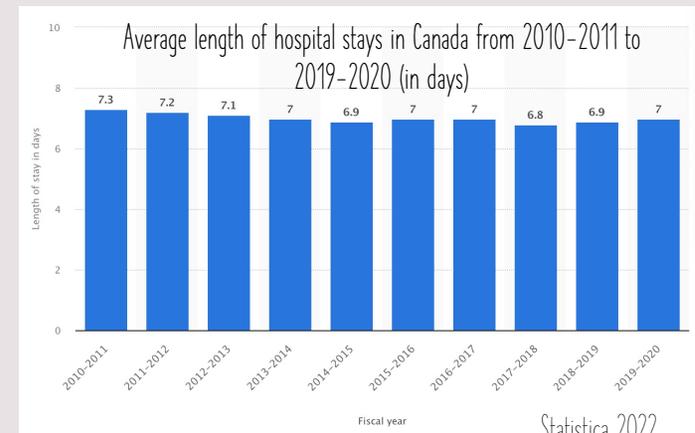


LENGTH OF STAY (LOS)

Number of days a patient spends in hospital from time of admission to time of discharge (CIHI)

Average length of stay

- mean number of days of care for inpatient hospitalizations
- Divide total number of hospital days by total number of inpatient hospital separations during the same period



Statistica 2022

FULL TIME EQUIVALENTS

Number of hours worked or paid that is equal to that expected of a full-time employee

One FTE position may be occupied by one employee working full time or shared by two or more employees working part time

Example: Annual work hours for 1 FTE (40-hour/wk) = 2080 hour



VARIANCE & VARIANCE ANALYSIS

Variance:

- Difference between the planned budget and the actual results
- In budget monitoring this may be reviewed monthly, quarterly, annual

Variance analysis:

- Process of analyzing the differences in the planned budget results and the actual results

revenue term accounting
finance value rate exp cost
cash **Budget** gross
income debit balance sheet
interest payment credit net
classify profit asset funds