Health care system budgeting procedures

Economics, Budget

Larry Scanlan, in his article about hospital budgeting, presents seven keys to a successful budget. These " reality keys", as he calls them, are designed to help insure that the CFO and CEO are able to navigate through a difficult process.

The first of these isaccountability. He recommends communicating about the status of financial performance in all areas, and instituting a compliance plan that monitors and responds quickly to problems. Teamwork and a high sense of management integrity are essential. The budget is everyone'sresponsibility, not just management.

The second key is to know your market. The budget process should mesh seamlessly with the strategic plan. Management should have a clear enough understanding of their market, so that they can respond to changes quickly and accurately.

The third key is to know how the institution's revenue is generated. Physicians are the key to revenue, and management should be actively involved in physician service, retention, and recruitment. This will allow management to accurately predict volume from admissions and subsequent revenue.

The fourth key is to base the budgets on reasonable objectives. Scanlan discusses basing budget numbers on realistic achievements, rather than " what the boss wants." The budget should have specific action steps, responsibility, and timelines and milestones so that progress can be monitored and corrective action taken when needed.

The fifth key deals with keeping the operating margin healthy. The margin must be realistic and as accurate as possible. " Without a rigorous approach to establishing a realistic operating margin, the CEO, CFO, and management team may face a daunting shortfall of budgeted margin to meet cash requirements." 1

The sixth key is to monitor the process. Actual results must be captured and variances generated when there is a difference between the budget and the actual results. It makes absolutely no sense to create a budget if the institution is not going to monitor results against it. The variances can point out corrective action that is required.

Finally, the last key is to have a contingency plan in effect to cover adverse occurrences. While it is impossible to plan for every contingency, some occurrences can be foreseen. Labor costs and equipment expenses can be estimated with some accuracy.

Scanlan argues that it is important for the CEO and CFO to set the tone and direction for the planning and execution of the budget process. It is their responsibility to keep the budget grounded in reality. " By using the keys to budget reality, you can monitor performance, identify trends, and make course adjustments in a timely manner." 2