

# Budget management analysis

[Business](#), [Management](#)



Cost variances may be either positive or negative figures. Negative figures happen if you spend more on a project than you allowed in your budget. Positive figures result if you spend less on a project than the budget predicted. Negative cost variance figures are almost always a bad thing for a business, as companies cannot always guarantee they can come up with the funds to cover the excess cost. However, positive cost variances are not always good for a company, either. For instance, if customer service or good quality parts are sacrificed for a positive variance, a business may not sell SSE clients.

Cost variance figures must be examined in the context of the business to determine the true impact those numbers will have. Managers use budget management analysis as a device to make sure that all resources available are being used efficiently. The budgets are determined yearly and are based upon the previous years budget and variances. Benchmarking gathers information of the performances and processes from similar organizations and compares the data to help with making improvements.

Various strategies are used to control budgets; managers and the chief financial officer of most healthcare organizations have the tools needed to manage the budget. By managing the budget the organization will be better prepared for the financial forecasts, which are the company's future expenses. Some strategies and tools that will assist with managing the budget are zero based, activity based, performance based, cost variances and benchmarking. Zero based budgeting analyzes every expense within an organization and justifies the need and cost of each.

Activity based costing is the gathering of the operating cost data, which is assigned to specific activities such as engineering. The performance dashboard uses the metrics of performance and analyzes the root cause of financial problems. Cost variance analysis looks at the differences of the actual cost and expected cost of an expense. Motivating the staff and informing them of the budget goals is another strategy that may be used to help the organization succeed (Nab, 2011). Expense Results The expense reports show the difference between the budget and the actual amount spent and the result is called the variance.

Variances may be within the budget which is favorable, or over the budget which is unfavorable. The variance is used to predict the budget for upcoming years, help with spending during the current year, and help with evaluating the managers and their departments. To determine the cause of variances the managers must investigate and justify to upper management why the variance occurred. There are a variety of reasons for variances, which must be identified and controlled if possible. While analyzing the nursing expense results from various units for a pay period, there were some favorable and unfavorable variances.

While reviewing the expense record the paid productive hour's variance was within the budget and the paid nonproductive hour's variance was 60 hours over the budgeted hours. The unfavorable variance of paid nonproductive hours may have occurred due to some staff being on modified duty, sick leave, meeting time, or education time, which means they are getting paid with no patient care involved. The overtime percentage of hour's variance

was 7.5% over the budget and the registry percentage of hour's variance was 8.0% over the budget, both are unfavorable.

The overtime may have been caused by badtime management, late arrival of the next shift, or working past shift hours due to not enough staff. The increase in the registry hours may have been due to not enough regular staff due to hiring freeze or staff being off for personal or illness reasons. The hours per patient day (HOPED) licensed productive hours was .13 over budget, the direct product hours was within budget, and the total productive hours was within budget. The hours per patient day over budget may have been caused by the unit being over staffed or also due to the overtime and registry hours.

The average daily census (ADS) per unit varied from being within budget to 7.50 over the budget. The daily census is very unpredictable ND depends on the time of year, the admissions from ERR or the clinic, and transfers from other hospitals or facilities. Strategies to keep the results aligned with expectations may be done by performance budgeting, which will analyze key areas such as staffing, cost control, increased productivity, and indirect and direct patient care. The activities affected by analyzing these performance areas would be daily time management, patient care planning, and time spent on patient charting.

Offering incentives could also be a good way to involve the staff by informing them of the budget goals. Benchmarking Benchmarking helps to identify performance gaps and identify where improvement is needed. "

Benchmarking is used by largehealthsystems and smaller practices alike as a

tool to identify targets and set goals enabling staff to compare the operation's service, process, and outcomes with those already attaining "best practice" goals" (Burglar, 2008). There are many benchmarking techniques; for the purpose of this paper three will be discussed, financial, performance, and operational. Financial benchmarking is performing a financial analysis and comparing the results in an effort to assess your overall competitiveness and productivity' (Caimans, 2006). "[Financial benchmarking is among the more effective techniques for extracting information from a health care enterprise's historical operating performance and presenting it in a form that facilitates informed judgments that help predict the subject entity's future operating performance and financial condition]" (Caimans, 2006). Performance benchmarking involves comparing the performance levels of organizations for a specific process, this information can then be used for identifying opportunities for improvement and/or setting performance targets" (Business Performance Improvement Resources, 2011). " Performance levels of other organizations are normally called benchmarks and the ideal benchmark is one that originates from an organization recognized as being a leader in the related area" (Business Performance Improvement Resources, 2011). [Performance benchmarking may involve the comparison of financial measures (such as expenditure, cost of labor, cost of buildings/equipment, cost of energy, adherence to budget, cash flow, revenue collected) or non-financial measures (such as absenteeism, staff turnover, the percentage of administrative staff to front-line staff, budget processing time, complaints, environmental impact or call center performance)]" (Business Performance Improvement Resources,

2011). Operational benchmarking embraces everything from staffing and productivity to office flow and analysis of procedures performed, this technique performs a comprehensive assessment considering different aspects of operational and business performance" (cognitive, 2011). "Consequently, this model will help companies to improve from decision-making at the strategic level to implementations at the operational level" (cognitive, 2011). These benchmarking choices were made based on the fact that all three techniques together will focus on the organization as a whole and not just one area, and might improve budget accuracy in future forecast.

Covering finances, operation, and performance will incorporate every aspect of the budgets involved in the organization and give managers the appropriate tools needed to justify and correct variances throughout the year and future years. Conclusion Strategies to manage budgets are used to maintain the actual cost predicted for budgets and to correct variances in cost. Variances may occur at any time, may be internal or external, and in most cases are correctable once investigated by the managers.

Benchmarking is used in strategic management and compares processes and performance to help improve organizations. "The use of financial ratios and and to the forecasting function of valuation analysis" (Caimans, 2006). This paper has discussed specific strategies to manage budgets within forecast, compared five to seven expense results with budget expectations, described possible reasons for variances, gave strategies to keep results aligned with expectations, recommended here benchmarking techniques,

and identified what might improve budget accuracy, and Justified the choices made.