

Hospital budget

[Health & Medicine](#), [Hospital](#)



Over the years financial management has been a concept that is flourishing in the world of healthcare. “ Until the 1960s, financial management in all industries was generally viewed as descriptive in nature, with its primary role being to secure the financing needed to meet a business’s operating objectives” (Gapenski, 2008, pg. 26). However, today, financial management holds a more significant role in the management of businesses overall. Now, the primary role of financial management is to plan for, acquire, and utilize funds (capital) to maximize the efficiency and value of the enterprise” (Gapenski, 2008, pg. 26). Similar to many happenings in health care, the specific goals of a business’s management financially is highly dependent on the nature of each particular business. Overall, financial management is a practice that will provide the theories, tools, and concepts needed in order for a company to make better decisions.

The Patton-Fuller Community Hospital is one of these companies that take advantage of the financial management practices in order to make better decisions. Recently, a 2010 budget was developed using the 2009 projections, assumptions, and figures. The purpose of this paper is to analyze that budget and discuss which financial management practices will be most effective for this organization as well as which practices will be the least effective.

The 2010 budget developed for the Patton-Fuller Community hospital projects that there will be a slight increase in total revenue, total expenses, and net income that will allow the organization to continue to make its turnaround in the following year. There are several financial management practices that will be helpful for the Patton-Fuller Community Hospital. The

first financial management practice that will be effective for this hospital is evaluating and planning. This involves evaluating current operations of the organization and evaluating their financial effectiveness in order to plan for the future.

This can be anything from the organizations requirements in areas of managing cash to budgeting and reporting financial results. Continuing to produce projected budgets and assumptions for following years will ensure that Patton-Fuller Community Hospital is evaluating their financial situation often, and producing and expectant budgets for analyses. These projections will also allow them to plan for future increases or decreases in areas such as patient volume, utilities, supplies, salaries or ash on hand, so they do not come as a surprise. Giving the hospital an opportunity to plan for future events and accommodate for situations and operations that are either working for or against them, will help to keep the hospital from experiencing unexpected negative effects. The next financial management practice that will be most effective is long-term investment decisions. These decisions will focus on acquiring new facilities and equipment, as well as the implementation of new strategic plans in the future of this organization.

As far as equipment is concerned, the new budget specifies that new high-cost equipment has been installed within the last year. Air conditioning, telephone systems, all patient beds, and headwalls were replaced in 2009. It also states that depreciation rose sharply, however it is going to remain the same in 2010. Knowing that these improvements will not cost this organization money this year will allow them to plan ahead for capital

investments, and possible expansion of the facility that will bring in more money for following years.

Financial decision practices are going to be effective as well. “ All organizations must raise funds to support operations. Such decisions involve the choice between internal and external funds, the use of debt versus equity capital, and the use of long-term versus short-term debt” (Gapenski, 2008, pg. 27). Applying this practice to the Patton-Fuller organization will help them to decide if the number of fundraisers needs to be increased, or whether more short-term or long-term investments will prove to be more useful.

Despite only a slight increase in revenue, the Patton-Fuller Community Hospital must still support facility upgrades as well as maintenance and costly health information technology. The income that investments provide is typically viewed as an extra source of funding that this organization cannot go without. This type of practice will also be useful for the marketing department who projected in the 2010 budget that donations will be increased by 15%, which will also add to the hospitals expenditures in a capital budget.

A financial management practice that may prove less effective for this hospital is contract management. “ In today’s healthcare environment, health services organizations must negotiate, sign, and monitor contracts with managed care organizations and third-party payers” (Gapenski, 2008, pg. 28). The complexities that come with third-party repayment means that a large amount of time and resources are being spent on burdensome accounts, bills, and collection processes, instead of focusing on activities that

will bring revenue into the company. Historically, the practice of finance had been driven by the Medicare program, which demanded that providers (primarily hospitals) churn out a multitude of reports both to comply with regulations and to maximize Medicare revenues” (Health Care Finance, 2012, para. 6). In order for a company to be financially functional, they must support cost containment efforts as well as be able to lead their company into the future, not just record what is happening and may be in the past. Spending less time negotiating with third-party payers will open up more time and resources that can be focused on increasing hospital revenue.

When an organization is in a time of high profitability and is experiencing an abundance of financial resources, the function of financial management tends to decline in importance. In an effort to control this decline, “ Providers have been redesigning their finance functions to recognize the changes that have been occurring in the health services industry” (Health Care Finance, 2012, para. 9). That way they do not experience a time of fall because of their disregarding of these practice. Recently, a 2010 budget was developed using the 2009 projections, assumptions, and figures for the Patton-Fuller Community Hospital.

The purpose of this paper was to analyze that budget and discuss which financial management practices were most effective for this organization as well as which practices were the least effective. Having strong financial management practices is vital to any organization as well as the economic well-being of the health care industry as a whole.

References

1. Gapenski, L. (2008). Understanding Healthcare Financial Management (5th ed.).
2. Chicago, IL: Bookcomp. Health Care Finance. (2012). Hospitals move to cash investments. Retrieved from <http://www.healthcarefinancenews.com/news/hospitals-move-cash-investments-short-term-pressures-mount>