

Strategic role of budgeting in health context



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Purpose/ rationale of budgeting in hospital

The traditional purpose of budget have a diagnostic role in measuring and monitoring accounting and hospital performance. Budget also has an interactive role as learning and innovative model to drive strategic changes (Abernethy & Brownell 1999). Hospital create budgets to monitor it's actual performance compare to the estimated performance incorporates the revenue, health expenditures include operation cost, medications cost, administration cost, cash flows and other associated factors include funding adjustments and growth factors (Bragg 2014).

Financial budget transform the activities of individual units into a number value within the health care system. From the value of previous activities, financial budgeting will enable management to forecast and put activities into a plan (Abernethy & Brownell 1999). Government will allocated the money as funding to the hospitals, where hospitals will generate activities as a return on the funding begin given and train the capitals (Department of Health 2016). Administration and hospital employees will contribution to spend the funding and to achieve the goals and plans. Every unit within the hospital will require resource in order to operate and deliver services. The purpose of budgeting in the hospital is to ensure its performance and goals and objectives are achieved at the district and state levels.

The strategic plan is the basis of the budgeting, the strategic role of budgeting in health care include driving strategic changes to make suitable with the budget set in order to generate high performance (Abernethy & Brownell 1999).

In Department of Health (2016) Budget 2016-17 stated that the strategic role for the budget is to ensure the health care is both accessible, affordable and the level of health care quality is also sustainable into the future. IHPA (2011) suggested that hospital funding and budgeting is based on the calculation of weighted population and on activity volume performed in an expression of National weighted activity unit (NWAU). Budgeting in the hospital context taken account the activity volume, the budget and funding received is pre-determined fee that reimbursed per activity based on the diagnosis related group (DRGs) (IHPA 2011).

Commonalities between Activity Based Funding (ABF) principles and Strategic role of budgeting is the revenue and funding generate is link to patient activity. ABF principles help to create the strategic plan that reflects the hospital's development by volume of service (Eagar 2011).

Activity based funding is a patient evidence based budgeting tool to understand the health care cost by episode of care or performance processes (AIHW 2014). It promotes price harmonisation and has the strategic role in supporting decision included costing and measurement potential health care delivery improvement initiatives (Eagar 2011). Where when the current resources allocation is not sufficient within the budgets, a strategic plan will need to be create and modify the budget and resources allocation to achieve the target and goals.

Advantages of budgeting in ABF

ABF provide efficiencies of the performance in hospital care and improve sustainability of hospital service provision (AIHW 2014). ABF promote best

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practice and have the advantage to put unmeasurable activities into number values, provide a more accurate picture of profitability and efficiency measure (Eagar 2011). ABF have the advantage to cover and measure value with a different characteristic and in a multi-product environment. The funding methodology create a clear picture include the complexity of the activity that attracts costs to support management in making decisions (Cohen et al. 2012). ABF in budgeting help to address services agreement objectives such as patient care base costing help reduce wait list, activities against peers will encourage competitions to enhance hospital quality and cost efficiency (Sutherland, Repin & Crump 2012)

Disadvantages of budgeting in ABF

Cohen et al. (2012) suggested some disadvantage adopting ABF in budgeting include the high cost associated with the implementation of this budgeting structure. The requirement to ensure accurate budget forecast in ABF involve the large amount of comprehensive data and information to be reported. The disadvantage adopting ABF involve the data not readily available to the cost require to implement this method in data collection. Another disadvantage involves the use of DRGs in calculating the cost of activity may not be fully reliable (Mihailovic, Kocic & Jakovljevic 2016). This suggested that adopting ABF in budgeting may incurred financial incentive of provision in unnecessary care due to increase in activity volume (Cohen et al. 2012).

The complexities in budgeting to enhance forecast accuracy

Hospitals have very complex revenue and funding structure from grants received from commonwealth, revenue generated from medical invoicing; donations receive from individual parties and other budgetary allocations (Department of Health 2016). The goals must be in measurable units, direct and attainable to enhance forecast accuracy (Eagar 2011). It is important to allow appropriated participation level in the budgeting to ensure an accurate and timely in the forecasting process in budgeting. Authoritarian prepare budget from the top down level as an overhead. The budgeting will include the use of capital and other fix asset to enhance the accuracy in forecasting (Mitton, Dionne & Donaldson 2014). Participatory measure will allow cost centre managers to identify specific activity and resources such as full time employee to enhance forecast accuracy (Tanaka 2007). Cost centre managers will have the ability to identify difference expense related to their unit where upper management may not have the ability to. The complexity in budgeting exercise will consider the inclusion of large and small volume of activity cost that include utility cost, human resources cost, clinical cost and other related operational cost (Mitton, Dionne & Donaldson 2014). The level of detail will need to be achieving at the right level to facilitate timeline-ness and accurate allocation of resources.

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The forecasting of 5percent growth in cost and 10 percent growth in the activity from previous year is not suitable for the organisation. Reversing the forecasting method will be more suitable with the cost on a 10 percent growth and activity on 5 percent growth to ensure the hospital will achieve the target. This forecasting model has adopted the incremental budgeting <https://assignbuster.com/strategic-role-of-budgeting-in-health-context/>

method (Bragg 2014). It is a simplified budget method to perform a forecast base on the previous year's budget and applied the percentage difference to the following year (Bragg 2014). This method is not efficient as it does not examine the hospital's expenditure and activity to achieve the forecasting result.

Where the zero base budgeting will allow the hospital to determine expenses according to the activities and associated cost by clinical streams (Rosin 2015). This approach to budget required hospital manager to start from zero and force managers to justify the reason of expenditure and assess benefit of the spending every year (Bragg 2014) . Adopting the zero base budgeting will support the funds allocation in a more cost efficiency approach. Hospitals face multiple challenges on health care cost such as the changing funding structure and the population growth that triggers inpatient volume. The zero bases budgeting approach will support hospital to redesign allocation of funds and resources distribution, to enhance accurate financial budget forecast and maximise benefit and strengthen capabilities (Rosin 2015).

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YTD	YTD	
2015/	2015/	Varian
2016	2016	ce
Actual	Budg	et
Total	2800	30000 -
Activit		

y

volum 0 2000

e

Total \$124

\$124 M –

Cost M

The table above is under performance, it is not achieving the target. The cost in the above does not attract enough revenue from the volume of activity. There is a variance of -2000 in the actual activity volume against budget.

Implication of performance organisational financial in revenue and cash flow

Analysis of variance from the budgeted figures from different perspective, rate, price, cost (Zelman et al. 2013).

The above table provide information to support analysis of variance and the hospital's performance. The reason to analysis the variance so performance can be enhance by identify financial trends and threats, as well as identify any opportunities to achieve hospital objectives (Zelman et al. 2013).

Variances between budget and actual cost will lead to adjusting business strategies to achieve goals. Variance and cost of unit per activity volume will help hospital maintain the control over the hospital's expense by monitoring the actual verse budget (Singh & Wheller 2012).

Assuming the funding model is ABF in a hospital, because organisation has lower activity than the budget and funding allocation is base on the activity level. In this instance, hospital will receive less revenue as its target (IHPA 2011). Funding received will have shortfall against the budget from various

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sources include government, state and insurance companies (NSW Health 2016). Reduction of the revenue is going to impact the current financial statement result in a lower cash flow. The actual minus budget is unfavourable as the cost of service per activity unit is with a higher cost. Reason of the variance may include changes in admission level, cost of medical equipment or medicine or changes in labour cost (Zelman et al. 2013). Implication of underperformance will reflect in the financial statement as deficits for the year. The income such as health services funding, user charges, grants and other capital gain minus the expenses such as employee expenses, supplies and services and loss of investment will give the total cost (Zelman et al. 2013).. Hospital managers will use financial statements to make changes in financial forecast and prompt to reallocate resources to ensure a stronger control of revenue and maintain health care cost.

Implication of performance in hospital acute patient services

The underperformance in activity volume in this scenario indicated the service cost per activity unit are higher than budget (IHPA 2015). The scenario suggested the treatment provided was more expensive than forecast. The activity volume is also lower than forecast. This may suggest the activity volume in this year had used more input (IHPA 2015). Sometimes the underperformance of activity may due to unpredictable events such as natural disasters that result in increase of sudden increase of emergency admission that result in expensive health care cost. Other reason mat take into consideration may included, the hospital have complete more complicated cases (Dong 2015). The cost of treatment is more expensive and used more resources than usual. In addition, beds were occupied for

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longer days due to increase of length of stay and cannot accept additional patients hence reduce hospital activity. When health care cost could not generate enough activity, the implication in acute patient's services may include decrease in quality of health care service activity (Damian Everhart et al. 2013). The increase of cost will suggest the less generation in funding and with a tighter budget next round. Hospitals with a tighter budget may not be able to purchase new equipment, do any new renovations and unable to recruit more staff (Dong 2015). All these are derive from the performance in hospital patient services. The reduction in revenue will result in nursing staff patient ratio to be increase to reduce cost of activity (Damian Everhart et al. 2013). There will be a potential in significate decrease in the quality of health care delivery.

Strategic issue on service agreement

It is important to ensure KPI are performance according to the services agreement. Currently the SLHD services agreement has two tiers of KPIs require hospital to perform on (NSW Health 2016). Tier 2 are less important as Tier 1 performance indicators are link very closely to funding and have financial impact in hospital operations (NSW Health 2016). Tier 1 indicators are the main driver and determine the funding hospitals will receive in the next year (IHPA 2015). It is very important to ensure financial sufficient and be sustainable to ensure efficient hospital operation. In a financial point of view, hospitals will generate more funds because the resources are fully utilise and being cost efficient (Zelman et al. 2013). Tier 1 KPI have a strong strategies focus in better patient care include achieving zero waitlist measure, achieving surgery admission within urgency categories timeframe

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and increase focus on quick emergency admission base on triage categories (NSW Health 2016). Tier 1 KPI also include financial performance measures such as 100 percent on creditors paid within 30 days, expenditures matches budget and activities are performing against target. Tier 1 indicators help hospital monitor closely the indicators that directly impact on funding. The achievement of zero waitlist measure suggested hospital have use the resources effectively and efficiently activity (Dong 2015). This suggests the hospital is fully utilising of resources from staff to pharmacy and equipments activity (Damian Everhart et al. 2013). The analysis of performance indicators will suggest the area of failing in making satisfactory progress. In this scenario, the activity is not cost efficient and hospital will need to review the underlying cost for higher cost in service.

Management intervention to improve scenario

To improve the scenario, hospital may train personnel to understand the financial information in health care setting (Britt, Adams & Snow 2015). Health informatics may create reports that include balance score cards and key performance indicators (KPI). The report should include more information and create better understanding in a bigger picture. A monthly and quarterly reporting frequently increase will also health managers a better comparison (Zelman et al. 2013). Report will provide more informative and real time information to monitor outcome and take actions to respond to negative variance. Educations to staff on the impact to the hospital from the performance are also important to strength and gain support from staff to changes implemented. Each department may provide data to represent their workload intensity and resources such as patient days, weighted activity and <https://assignbuster.com/strategic-role-of-budgeting-in-health-context/>

cost. Manager will have a better view by streams to better manager, monitor, utilise better resources and achieve accurate forecast.

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Implication on organisation's financials on liquidity and cash flow

Small business creditors paid within 30 days refers to 30 days from receipt of correctly rendered invoice (Zelman et al. 2013). Currently in the scenario with a performance of 60% against the target is not performance and not acceptable. The positive side of paying creditors longer than 30 days will increase the cashflow and more buffers on liquidity. The less invoices to be finalise, the more flexibility the cash flow will be.

Negative impact will be the cashflow is not reflective to the real situation.

Where the actual amount of money the hospital has is not reflective as there are still many debts to be paid.

On top of that, losing credit is a huge intangible cost. You may have more flexibility of the cash flow but you create a deficit position to the debtor (Zelman et al. 2013). Firstly, the debt may incur interest on the amount hospital own to other creditors. The interest will create financial burden on the next round of financial statement which increase unnecessary cost and accumulate onto the total health care cost. Secondly, losing credit can lead to losing hospital market and interrupted normal business practices. For example, pharmaceutical company will no longer accept accrual basic method of payment and require hospital to pay upfront for all the medicine provided. This will increase financial and cash flow burden, as well as

decrease the ability to better forecast expenditures, with a tighter budget and less flexibility in allocating resources.

Management intervention to improve scenario

Hospital will need to review the current practice and identify issue why the payment cannot be paid within 30 days (State Government of Victoria 2017). Hospital will need to contact the small business creditor, discuss the problem and dealing with any disputes (State Government of Victoria 2017). If the hospital has difficulties in cash flow for the payment, hospital will need to communicate and negotiate the payment days and terms. Extend any invoice day or revise the invoice day to when product receive instead or order receive days to allow more flexibility in cashflow in order to achieve the target.

There are always linkage in activity performance and financial budget. It is always important to regularly monitor financial performance and hospital activity performance to ensure hospital is achieving target within budget (NSW Health 2016). Perform regular monitor of activity will support hospital to identify any error and issue associated with lost, that enable to fix the problem and achieve hospital objective and goals.

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