

The days of service,
by specialties,
number of



The budget process needs to be very well-understood by the hospital administrator, even though a lot of it will fall in the domain of the finance officer. However, all departments must get actively involved in the preparation of the budget. 1.

The first step in the budget process is for the hospital administrator to prepare assumptions, in statistical terms, about the kinds of services (outputs) the hospital expects to provide (produce), i. e. prepare a quantitative expression of the plans of the hospital, e. g. patient days of service, by specialties, number of procedures by departments like pathology, radiology, physiotherapy, etc. number of outpatient visits, and so on. The purpose of budget assumptions is to share as much information as possible with all departments.

The entire hospital will then be planning on the same track. Assumptions can include projected patient statistics, additional services, proposed salary revisions, economic factors, expense policies, etc. 2. The second step is for the hospital administrator to prepare the economic forecasts in respect of new developments, or other factors, that can affect the hospital's income or expenditure during the budget period, such as new services by neighbouring hospitals, specialists and super specialists likely to join or leave the hospitals, inflation factors on materials and supplies, and any new government regulations. 3.

The third step is for the hospital administration to outline the budget goals and policies as per the directives of the governing board or board of trustees and in consultation with the finance officer, which will constitute a tentative

outline of the financial plan. These may include a financial strategy, targeted gain (or loss), and similar factors that may have a bearing on hospital finances. 4. The fourth step is for the Finance Officer to prepare a budget package incorporating written instructions regarding the framework for the budgeting process, procedures to be followed, accompanied by illustrative forms and calculations, also containing the goals and policies, assumptions, schedules and past data applicable to the department. He passes on the budget package to all department heads to enable them to prepare preliminary draft of their budget. The budget package should be collectively explained to the department heads in a specially convened meeting.

The hospital administrator and finance officer can take advantage of these meetings in instructing the department heads in accounting techniques. 5. The fifth step is for each department head to analyse financial and statistical data generated by his department as well as provided to him by the administration or finance department, to critically assess the department's operations and performance, and develop indices for planning and control. He reviews the budget plan, develops departmental goals and objectives, and prepares the departmental expense budget. 6.

A budget hearing is organised by the Finance Officer at the departmental level where the department head presents his or her draft budget. After a joint analysis and review by the hospital administrator and the finance officer, a summary of the departmental budget is prepared. In the sixth step, the summary of each department's budget hearing records the commitments and statements made between the administration and the department head, and also includes observation of the Finance Officer. 7.

The seventh step is for the Finance Officer to develop the department's revenue budget, summarise departmental expense budget, and forward the department's budget hearing summary to the concerned department head.

8. The eighth step is for the Finance Officer to prepare a preliminary operating revenue budget for the whole hospital, by summarising and collating the individual department's budgets. Finance officer also prepares a cash budget at this stage. If the expected revenue does not cover the budget expense, price increases may become necessary. If price increases are not acceptable, the finance officer may propose areas, functions or categories of budgeted expenses that can be cut. In addition to the departmental budgets, the finance officer will budget for other items that affect the entire hospital such as depreciation, contributions to employee's provident fund and benefits, interest expense and other administrative expenses. 9.

The ninth step is for the Finance Officer to summarise the total budget (including capital budget and cash budget) into a proper budget format including statistical summaries. 10. In the final step, the budget is presented by the Finance Officer to the governing board or board of trustees or to the finance committee for their approval. The budget is then adopted by the board or the committee with revisions if necessary. It is later communicated to all department heads and other concerned persons.

The time taken to prepare a hospital budget can vary from some weeks to some months. Therefore, it is prudent to set up a budget timetable listing the time schedule of each part of the budget process, persons responsible for each part, and providing guidelines and explanation for the purpose of each

part. The budget timetable then becomes a plan for the completion of the budget in time and to set deadlines.