

Nursing Division Budgeting

Key concepts and Definitions:

- **Financial management:** is defined as "a series of activities designed to allocate resources and plan for the efficient operation of the organization".

The overall **goal** of financial management is to meet the total financial needs of the organization.

- **Budgeting:** is the planning function of financial management.

The budget translates operational plans into monetary terms.

- **Budget:** is defined as "a written financial plan aimed at controlling the allocation of resources"
 - Or "a statement of expected expenses and revenues over a specific period of time".
- **Expenses:** are defined as "the costs or prices of activities undertaken in the organization's operations".
- **Revenues:** are defined as "income or amounts owed for purchased services or goods".

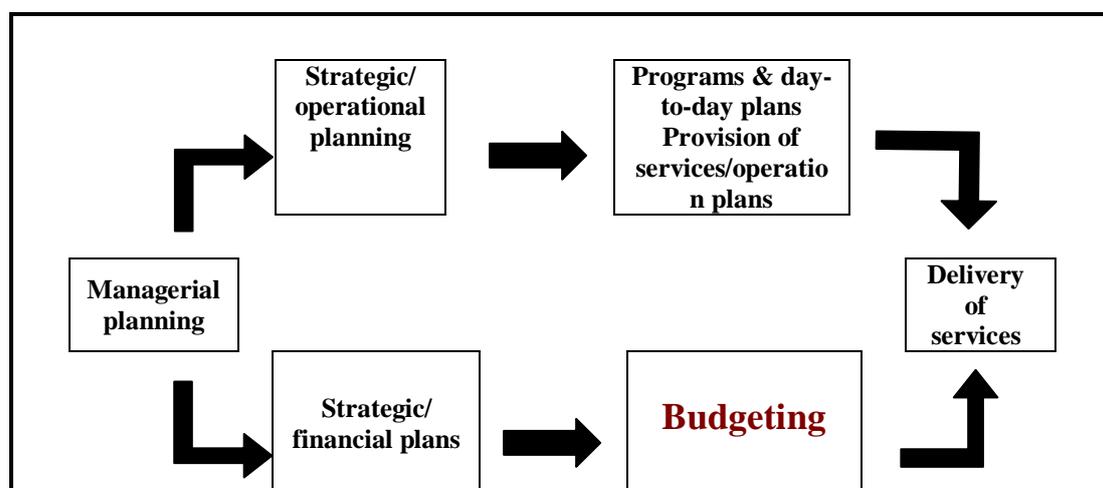


Figure: Position of budgeting in the managerial and strategic planning

Importance of budget:

It is important to be used to:

- a. Manage the organizational programs.
- b. Plan for goal accomplishment.
- c. Control costs.

Factors influencing Budget planning:

Any alteration in one or more from the following factors requires reviewing, modifying or even changing the budget. These factors are:

- Internal and external economic environment, as well as financial means.
- Changing demands of the clients and/or providers.
- availability of human resources.
- Capacity of the organization (as opening a new, or closing a working unit).
- Service costs/market price.
- Organizational goals and strategic directions.
- Plans and objectives of one or more department(s).

Preparation of the Nursing Budget: (Budgeting Process)

Generating and controlling a divisional budget is a major responsibility of the *nurse executive*. The budget is a major operating document of the nursing division. The following steps illustrate how the nurse executive can prepare the nursing division budget:

▪ Step one: Review past performance:

1. As a starting point, the nurse executive will require to review the following

- a. The *financial records from prior financial periods* as a basis for planning.
 - b. The *present activities* of the nursing division.
 - c. The activities that the division *plans to institute* during the projected financial period.
 - d. Those activities the division *plans to delete* during the projected period.
- ***Step two: Review the organization's goals and projections:***
 - The nurse executive has to study the organization's goals and financial projections thoroughly.
 - Items in the major budgetary report that affect the nursing department should be determined

Figure 3-3: Example of hospital goals and projections:

"This division is going to lose 4 beds from February to November and then gain 12 additional beds after that. A gerontologist and clinical specialist in gerontology have been added to the staff. This division will then admit older and sicker patients. If the shortage of nurses continues, nursing service will have to consider alternative staffing pattern to deal with this situation".

- ***Step three: Review of the variances with higher levels of management :***
 - Once the goal statement is finished, it, (together with the actual versus budget analysis done earlier), should be reviewed with higher level management.
 - The departmental goals proposed should be carefully considered; as well as the variances, their causes, and proposed corrective actions should be reviewed.
 - Once the final statement for the department is in place, the new budgeting process can begin in earnest.
- ***Step four: Actual preparation of the budget:***
 - The actual preparation of a new budget can be done based on a previous budgetary plan, or newly proposed plan (if a newly developed or modified service).

- To complete the budget, a budget worksheet is essential. Worksheet is "a tool used by managers to prepare their budget". It includes a number of columns including information about:
 - a) Historic information with old budget.
 - b) Actual numbers with comments explaining the variances.
 - c) Revenue and costs.

Types of budget:

There are three types of expenditures that the unit manager is directly involved in, those are personnel, operating, and capital budgets.

1. Personnel budget:

- The largest portion of the budget expenditures is personnel budget; because healthcare is *labor intensive* (not machines intensive).
- The personnel budget includes actual worked time (*Productive time*), and time the organization pays the employee for not-working time (*Non-productive time*).
- Non-productive time includes the cost of benefits, new employee orientation, employee turnover, sick and holiday time, and education time.

2. Operating budget:

- It includes such daily expenses as the cost of electricity, repairs and maintenance, and medical/surgical supplies (as syringes, catheters...etc).

3. Capital budget:

- Capital budgets plan for the purchase of buildings or major equipment (of long-life equal or greater than 5 to 7 years) which is not used in daily operations, and is more expensive than operating supplies.
- Examples of capital budget include: renovation of a major wing in the hospital, purchasing equipment as call-light system, hospital beds...etc.

