
UNIT 15 BUDGETING

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15.0 OBJECTIVES

After going through this unit you should be able to:

- explain the concept and role of budgeting in managing hospitals and health care institutions;
- describe the budgetary procedures and administration and apply them to the existing health care set-up; and
- explain various budgetary techniques and approaches.

15.1 INTRODUCTION

The process of managing any hospital or health care institution to achieve its objectives necessitates a systematic approach to financial planning. For financial planning reviewing the past information alone is not sufficient since as hospital and health care administrator's job involves not only predicting but also shaping the future of their organisation. This involves proper planning of all the activities of the hospital or the health care set-up. A budget is an important tool for financial planning and control. It is an integral part of management which seeks to regulate the flow of its funds to the desired ends, since inspite of a good financial plan, the desired

results may not be forthcoming if there is no effective control to ensure its implementation. The budget thus acts as a set of yardsticks or guidelines for use in controlling the internal operations of the hospital or a health care institution. The management through a budget can evaluate the performance of every department or level of utilisation of the hospital or health care set-up. The discrepancy between plan performance and actual performance can be highlighted through budgets. The organisation may also have to change the course of its operations in a particular area or revise its plans keeping in view of the changing conditions or environment. It, therefore, will be useful for you to understand the complete budgeting process and what actually a budget is?

15.2 WHAT IS A BUDGET

Historically the word “budget” referred to a leather pouch or the leather bag in which the chancellor of exchequer in Britain carried to parliament the statement of Government’s needs and its resources. Today, in Government, the budget refers to the statement of anticipated receipts and payments of the Government during a year and forms the basis of appropriations by the legislature. The budget of a commercial organisation has a wide connotation and we can generally equate budget with prompt planning in such organisations.

Hospital administrators are generally familiar with budgeting as an activity or exercise undertaken by their financial managers or accountants in the nature of a forecast of the income or expenses of their organisation for the ensuing financial year. In public sector or government owned hospitals, the primary purpose of the budget is to secure finances or grants from appropriate competent authorities. It is also used as an authorisation to incur expenditure on specified items or activities upto the amounts as indicated against each of them. After having understood what a budget is and what it means to different set ups we must now define a budget and identify its-main characteristics.

15.2.1 Budget Defined

Simply defined, a budget is a statement of plans expressed in quantitative, usually monetary terms, covering a specific period of time, usually one year. It can also be described as a financial and/or quantitative statement, prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining that objective.

15.2.2 Main Characteristics of a Budget

- a) It is prepared in advance and is derived from the long-term strategy of the hospital or health care organisation.
- b) It focuses on the future i.e., it is future oriented.
- c) It is expressed in quantitative forms, physical or monetary unit or both.

15.2.3 How Does a Budget Help Us?

A properly planned and prepared budget helps us in the following ways :

- a) It brings about the efficiency and improvement in the working of the health care organisations.

- b) It is a way of communicating the plans to various units or subunits of the health care organisation by establishing the divisional, departmental, unit or sectional budgets, exact responsibilities for incurring expenditures or generating revenue are assigned. It thus minimises the possibilities of buck passing if budget figures are not met.
- c) It is a way of motivating various heads of health care organization, the departmental or unit heads to achieve the various goals set heads for them
- d) It serves as a benchmark for controlling ongoing operations.
- e) It helps in developing team spirit where participation in budgeting is encouraged.
- f) It helps in reducing wastages and losses by revealing them in time for corrective actions.
- g) It serves as a basis for evaluating the performance of the managers.

15.3 CLASSIFICATION OF BUDGETS

Budgets can be classified in different categories on the basis of time, function or flexibility :

15.3.1 Time Based Budgets

These can be :

- a) Long-term budgets which contain financial estimates over a 3-5 years or even a longer period of time.
- b) Short-term budgets which have implication for one year or lesser duration of time depending over the management philosophy advance will always be there. Immediately after a month or a quarter passes, as the case may be, a new budget is prepared for a twelve month period. The figures for a month or a quarter which have rolled down are dropped and the figures for the next month or the quarter are added.

15.3.2 Function Based Budgets

These can be further sub classified as under :

a) Capital Based or Planned Budgets

These are directed towards proposed expenditures for new projects and often require special financing e.g., setting up a MRI unit or CT Scan centre in a hospital providing tertiary level care.

b) Operational Budgets or Non-Plan Budgets

These are directed towards achieving short-term operational goals of the organisation. Simply put it should plan operations for the forthcoming period i.e., the finances required for running a particular health care organisation during a defined period of time.

c) Cash Budget

This is a summary of health care organisation's expected cash inflows and outflows over a particular period of time. In other words cash budget involves a projection of future cash receipts and cash

disbursements over a period of time intervals. The overall objective of a cash budget is to enable the health care organisation to meet all its commitments in time and at the same time prevent the accumulation of large cash balances with it. A cash budget helps the management in:

- determining the future cash needs of the health care organisation.
- planning for financing for these needs.
- exercising control over cash and liquidity of health care organisation.

d) Sales or Revenue Budget

This generally forms the fundamental basis on which all other budgets are built especially in case of the corporate hospitals and private nursing homes/hospitals. The budget is based upon projected revenues or sales that are to be achieved in a budget period. It is desirable to break up the entire sales budget on the basis of different departmental or services and time periods.

e) Expenditure or Production Cost Budget

These can be further subdivided into :

- i) Materials requirement budget
- ii) Materials procurement or purchase budget
- iii) Labour or personnel budget
- iv) Overhead including distribution overhead budget
- v) Research budget

All the budgets refer to the expenditure that is likely to be incurred under these various heads for providing health care service facilities to the designated or targeted community by a health care organisation.

f) Master or Final Budget

This is a summary budget which incorporates all financial budgets in a capsule form. It sets out plan of operations for all departments in considerable details for the budget period. The budget may take the form of a profit or loss account, fund flow statement and balance sheet at the end of the budget period. The master budget requires the approval of the Budget Committee, about which you will read a little later in this unit, before it is put into operation.

It may happen sometime that a number of master budgets have to be prepared before the final one is agreed upon.

15.3.3 Flexibility Based Budgets

a) Fixed Budget

A fixed budget is required to remain unchanged irrespective of the level of activity actually attained. In other words a budget prepared based on a standard or a fixed level of activity is called a fixed budget. In relation to a health care organisation which projects that it will be capable of providing appropriate services to say one lakh clientele

Thus you can see that in a system of flexible budgets adjustments are provided for varied activity levels. Infact flexible budget is nothing but a series of fixed budgets catering to the estimates of revenues and costs at different activity levels. Based upon the flexible budgets the performance budgets can be prepared indicating revenues and costs for the actual level of activity.

Check your progress-1

- i. Define budget.
- ii. Describe the importance of budget.
- iii. How we can classify budget?

15.4 BUDGET PROCEDURE AND ADMINISTRATION

Before we discuss the budget administration and procedure, we must be aware that if any benefits are to accrue out of budgeting, certain prerequisites are mandatory.

15.4.1 Prerequisites for Budgeting

They are :

- Clear identification of financial and service goals.
- A well designed organisation structure that eliminates overlapping responsibility and clearly defines all accountability.
- Participation of the staff members in the formulation of the budget.
- An accurate accounting system capable of accumulating and appropriately assigning all financial data.
- A chart of accounts that corresponds to the organisation structure and allows for the accumulation of actual cost data by cost and responsibility centre.
- A management information system capable of collecting non-financial data relative to total volume of services demanded and per cost centre workload.
- Management determination to make the budgeting process work.

It is critical to recognise that while organisation structures, data and procedures are all necessary, they are all of secondary importance when compared to capable management. Budgeting is fundamentally a people moving as opposed to a paper moving process. If budgeting is to be successful all levels of management must understand its value and limitations, how the budget is to be developed and used and their own specific roles and responsibilities in relation to the budgeted activity/output.

15.4.2 Budget Administration

The following steps are essential for administration :

a) Preparation of Budget Manual

Since a budget is formulated at the instance of top management, and details provided and compliance ensured by the subordinates, there has to be formal communication between the two. These could be

in the form of oral as well as written instructions. A budget manual is an orderly presentation of these instructions or directives. The work relating to budget manual preparation should be coordinated by the budget officer. The details should be provided by the heads of the operating departments and the final outcome approved by the management. Each subsequent change, thereafter, should be approved by the management.

A budget manual is tailored to fit the needs of each hospital or a group of hospitals or the health care organisations/unit where it is to be used. The contents of a typical budget are outlined below :

- General statement of hospital objectives and budget procedures
- Identification of persons involved in the budget exercise, and definition of their powers, duties, responsibilities and area of their operations
- Routine for departmental budget preparation, their review and approval
- Time schedule for budget preparation
- Procedure for budget revision
- Budget reports
- Performance reviews
- Feedback for future budget planning

b) Appointment of Budget Officer

He acts as a coordinator when the budget is being prepared. He reports monthly actual performance comparing it with the budget, analysing the variables between the two by responsibility and cost centre and organises follow up action. The budget officer works under the guidance of the budget committee.

c) Budget Committee

The budget committee comprises the heads of the various departments with the chief executive officer or the Director Administration or the Medical Superintendent or the Finance Manager as the chairman. The budget committee has the following responsibilities:

- Identify various opportunities and set goals.
- Set specific targets to be achieved during the course of the year.
- Provides the guidelines for the preparation of the budget.
- Set time table for the completion of the budget exercise.
- Approve the budget of the department and consolidates departmental budgets into a total master budget.
- Review actual performance.
- Establish long-term budgets.

d) Budget Calendar

This indicates specific dates for preparing individual parts of the budget, discussing them with the concerned department heads and getting them approved. This ensures that each of the department

receives adequate and appropriate attention and the whole exercise is completed by the due date.

e) Budget Period

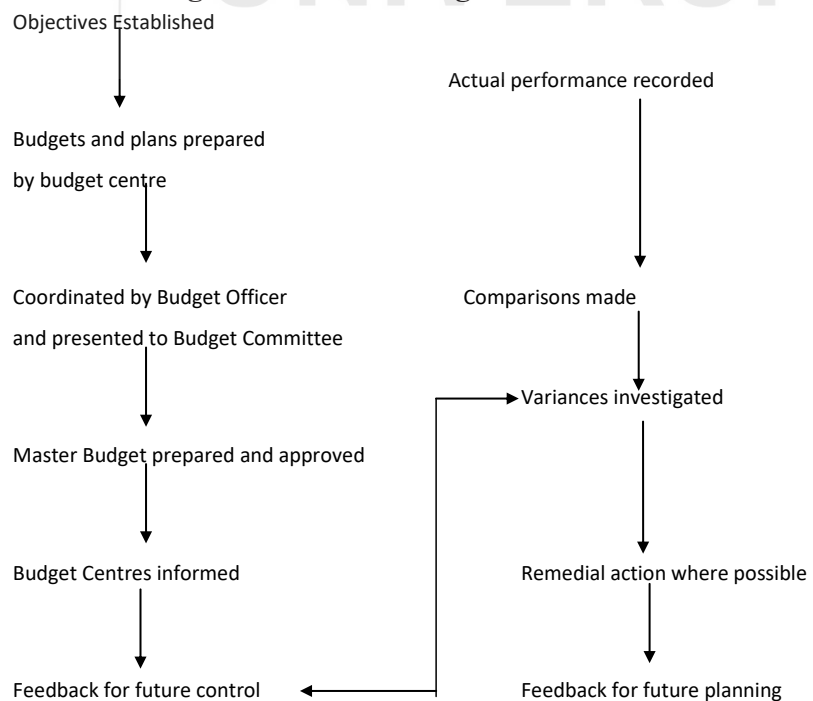
This means the period for which a budget is prepared and employed. Generally the budget period is taken to be a financial year, beginning on April 1st and ending on 31st March. The budget period can however be longer as well as shorter.

15.4.3 Budget Procedure

The budget manual lays down the guidelines as well as standard procedures and formats based upon which the departmental heads or budget centre heads prepare the departmental budgets keeping in view the departmental objectives which should be a part of or contribute towards the overall financial and the service objectives of the health care organisation or the hospital.

- The budget officer guides the departmental heads in budget preparation and acts as overall coordinator in the exercise.
- The budget committee receives, reviews and consolidates the departmental budgets into a total master budget, which also incorporates and is supported by important functional budgets viz. purchases, engineering etc.
- After approval of the Master Budget and on the availability of the funds the budget is allocated and appropriated to various departments.
- The performance is then compared with the budgeted allotment and wherever required a midyear review is undertaken and if there are major changes in basic parameters, suitable alterations are made and budgets are revised for the second half of the year.
- The deviations from the budget allocation are analysed and then these variations are kept in mind as a feedback for the future budget planning and control.

Fig.15.2: Exhibit-Budget Procedure



15.4.4 Benefits of Budget Procedure

The benefits that accrue from using the budget as a management tool are :

a) Orderliness in Planning Process

The main budget is supported by departmental/functional budgets expressed in monetary/quantitative terms based upon use of resources, income and costs. The plans are reduced to specifics to be achieved with provisions for continue review of performance. In the process a kind of orderliness is introduced. It guards against unplanned expenditure and undue optimism.

b) Decentralisation of Accountability

Since departmental heads/head of budget centres have been delegated the authority for preparing their budgets, buck passing is avoided.

c) Performance Appraisal

The budget provides a yardstick or norms for evaluation of performance.

d) Coordination

The key personnel are informed about the health care organisation goals, policies and procedures as well as about the environmental and organisational changes within which the budget is framed and what is expected from the individual manager. This budget exercise serves an important instrument for interpersonal and organisational communication as well.

e) Creation of a Database

The exercise results in ready availability of substantial data at one point. For example it could identify departments which need investments or the data provided in the budget detail sheets could be utilised to establish trends for future growths.

After becoming aware of budget administration and budget procedures to be followed we must now determine what are the prevailing techniques or approaches that are being practised or used for budgeting.

15.5 APPROACHES TO BUDGETING

Various organisations use different approaches to budgeting. A few of the approaches being utilised and briefly discussed and described in the subsequent paragraphs.

15.5.1 Incremental Approach

This approach is a commonly used approach by majority of the health care organisations especially by governmental and public health care systems. In this approach the previous years spending level is extrapolated to the next year and incremental estimates for salary and cost of material are made. This level is further incremented to new projects and programmes expected to be undertaken in the following year to arrive at the final requirement.

In the incremental approach only the incremental portion of the previous years allocation are justified, the assumptions made are that all old activities

are essential to achieve objectives, that these must be continued as they are more important than the new programme, that these are being performed in the most cost effective manner and would continue to be in future.

The drawbacks of the incremental budgeting approach are as under :

- a) It analyses only the financial aspects.
- b) Expenditures are not related to the intended or planned outputs (achievements).
- c) It is basically accounting oriented, does not link inputs and outputs and hence there is no information about the activities and their contribution to the objectives of the health care organisations.
- d) In the event of resource crunch, the acts are arbitrary.
- e) It assumes that the cost efficiency of past activities would continue to remain the same in future years.

The incremental budget is thus equated to “an elephant with muscles of a mouse and brains of an amoeba”. Consequently the surgeon does not know where to apply the scalpel to cut out the fat. Administrators feel frustrated as there is no relationship between expenditure and result and it does not provide adequate control over the inputs and outputs. Such a system of budgeting cannot be expected to promote operational efficiency. It may, on the other hand, create several problems for the management. Some of these are :

- Programmes and activities involving wasteful expenditure are not identified, resulting in avoidable financial and other costs.
- Inefficiencies of prior years are carried forward in determining subsequent years level of performance.
- Managers are not encouraged to identify and evaluate alternative means of achieving the same objectives.
- decision making is rendered irrational.
- Key problems and priorities are not established.
- Managers/Administrators tend to inflate their budget requests resulting in more demand for funds than their availability.

In order to correct the shortcomings of traditional or incremental approach to budgeting, performance budgeting was designed by emphasising and incorporating both financial and physical aspects.

15.5.2 Performance Budgeting Approach

The technique was developed and implemented by the US government.

The performance budget lays more stress on accomplishments and generates adequate information on costs and work accomplishments for decision making at appropriate levels.

Definition : Performance budgeting may be defined as the process of analysing, identifying, simplifying and crystallizing specific performance objectives of a job to be achieved over a period in the framework of the organisational objectives.

Main Objectives of Performance Budget

- To coordinate the physical and financial aspects of organisational performance.
- To improve the budget formulation, review and decision making at all levels of management.
- To facilitate better management and review by controlling authorities (Legislative, board of trustees, management boards etc.).
- To make more effective performance audit possible.;
- To measure performance in relation to long-term objectives.

Essentials of Performance Budgets

- Formulating objectives which should be clearly defined and financially possible.
- Programme/activity classification which should be meaningful and bring out the main purpose. It is required to accomplish and should be in line with the objectives sought to be achieved through the expenditure of budgeted funds.
- Norms and standards setting is essential for establishing correlation between the physical and financial aspects of a programme of activity. The setting of physical targets for accomplishment in respect of each programme activity is mandatory to enable working out of corresponding financial estimate for incorporation in the budget.
- Appropriate norms and standards supported by adequate, data reduce subjective element and increase objectivity in framing and scrutiny of budget estimates.
- Preparation of periodic performance report comparing budget and actual data and showing variance in order to take corrective measure to avoid future deviation from the budget.

Format for Performance Budget

- a) Introductory : It includes brief narration of the objectives and goals of the organisation in both qualitative and quantitative terms wherever possible.
- b) Financial Requirements :
 - Work programme /activity classification
 - Objective-wise classification of expenditures like salaries, materials etc.
 - Source of financing indicating demand for grants etc.
- c) Explanation of Financial Requirement : It attempts to correlate financial and physical aspects. It is to be prepared activity-wise and it should give to the extent possible workload factors, norms, standards and targets besides indicating the previous years performance and target requirements for input and detailed work plan and Schedule.

These aspects can be formatted as under :

- i) Name of activity Actual (last year) Revised Estimate (current year) Budget estimate (next year)
- ii) Name and purpose of activity
- iii) Physical works, input and outputs
 - Workload factors, norms, standards and yardsticks.
 - Progress during last and current year (Actual Vs Targets)
 - Explanation of variations
 - Targets for next year
 - Requirements for inputs including staff, training, materials and equipment
 - Detailed work plan and schedules.

15.5.3 Zero Based Budgeting Approach

The Zero based budgeting approach emerged as a consequence of the following :

- a) A keen desire to ensure that scarce resources are optimally utilised.
- b) Frustrations of the management as there was no relationship with expenditure and results obtained
- c) Adequate control over input was not forthcoming or available.

Definition of Zero Based Budgeting

It is a planning and budgeting process which requires each manager to justify the entire budget request in detail from scratch (hence zero base) and shifts the burden of proof to each manager to justify why he should spend any money at all.

In zero based budgeting all activities must be evaluated to see which of them should be eliminated, funded at reduced level or funded at similar or increased level.

Objectives of Zero Based Budgeting

- a) To evaluate claims on scarce resources in the light of hospital objectives.
- b) To make tradeoffs amongst current operations, developmental needs, profits and availability of resources.

Process of Zero Based Budgeting

The Zero based budget has four basic steps as under :

- a) **Identification of the decision content:** In the first step we have to identify the entities of the health care organisation where the managers would be responsible to take decision Budgeting on the expenditure and would prepare decision package.

A decision unit should not be at too low a level as it would increase the paper work nor it should be at too high a level as this will prevent easy access and meaningful review or dialogue. Generally it may be a unit or a department of the hospital or it may be a project or a programme or a special assignment.

Once the decision unit is identified the zero based system requires an explicit statement of the objective of the decision unit in terms of future mission and long-term goal.

- b) **Formulation of decision package:** Decision package is a document that identifies a specific activity in such a manner that management can evaluate it and rank it against other activities competing for the same or similar limited resources and decide whether to approve or disapprove it . There are two types of decision packages:
- i) *Mutually exclusive decision package:* These identify the alternative ways of performing the same function. The best alternative is chosen and other discarded. The next step is to develop incremental packages.
 - ii) *Incremental decision packages :* This analyses, identifies alternative levels of effort or spending that may be expended on performance of an activity or function. It would identify the minimum level of activity or cost levels of efforts as separate decision packages.

An example would clarify the concept better. Let us take the case of a community hospital where the following activity is identified.

“Provision of ultrasonography facility in the Radiology department for the clientele”. The mutually exclusive package or the alternative ways of achieving the same function could be:

Package I : Ultrasonography facility provided by a nearby diagnostic centre which will charge the hospital on the basis of services rendered or on retainer basis.

Package II : The hospital management provides an ultrasonography machine within the Radiodiagnosis department of the hospital itself.

Let us assume that management has done a cost-benefit analysis on the two packages and has opted for the second decision package.

The mutually exclusive decision package would require to be complemented by incremental decision package in terms of personnel, equipment and maintenance facilities. Therefore, different levels of efforts or operational efficiency would also have to be identified in terms of whether additional qualified manpower will be required or not and whether maintenance is to be done by operating staff or on the basis of an annual maintenance contract. The, financial implications, the result of financing and the consequences of non-financing at each level of effort will have to be worked out and included in the incremental decision package.

The decision package will generally contain the following items:

- i) General Information : Title or name, level of effort, department, location, manager’s name and to whom reporting.
- ii) Description of the function or the activity
 - Objective or function of the activity
 - Tangible or intangible benefits to be derived from funding
 - Consequences to result from non-funding

- Projected revenues and cost of decision packages
- Alternative approaches or packages.

Following subjects could be beneficially analysed and can be good issues for decision packages viz. cost or profit centres, people or programmes, services rendered or provided, capital expenditures, cost reduction or revenue enhancement.

c) **Ranking the Decision Packages** : This is achieved by :

- Listing all packages identified in order of decreasing benefit to the hospital or the health care organisation.
- Identifying benefit at each level of expenditure.
- Study consequences of not approving the decision package.
- Ranking of more than one decision package on the basis of perceived importance of priority for attaining the objectives.

The ranking is done at all the levels of decision units and continues till the top level, where decision package for the entire organisation are ranked in order of importance and a single consolidated list is produced.

d) **Allocation of Resources**

Once the final single consolidated ranking is done, the packages to be funded are separated from these not to be funded. The activities which are not amenable to zero base budgeting are added and the final budget prepared by allocating forecasted resources. Any increase in funding level can be done easily from the packages available which were discarded due to non-availability of funds. Reduction can be made by removing the low priority packages out of the packages in the event of resource scarcity.

Adequate feedback is also provided to the managers on the reasons for their decision packages being accepted or rejected.

Limitation of Zero Based Budgeting

- It is less applicable to those cost which have no direct cost benefit relationship.
- Greater amount of time and effort will be required in the initial stages.
- Identification and development of decision packages in case of non-quantifiable or intangible benefits would require a high degree of management expertise.
- There may be greater amount of paper work in zero based budget.

Advantages of Zero Based Budget

- a) Financial
- i) Better allocation of resources
 - ii) Improves productivity and cost effectiveness
 - iii) Helps in reducing costs

- b) Development of human skill and interpersonal relationship:
- i) Better communication between various heads and personnels of decision units.
 - ii) Higher level of commitment to approved activities since subordinates are involved in preparing decision packages.
 - iii) Improves interpersonal relationships and esprit de corps.
 - iv) Helps in sharpening of planning and control activities.
 - v) Assists in evaluating the results of activities.

Note: Flexible /fixed approach to budgeting has already been discussed in section 3.3.

Check your progress-2

- i. What are the prerequisites for budgeting?
- ii. List the steps for budget administration.
- iii. List the various approaches to budget.

15.6 LET US SUM UP

A budget is a quantitative statement of plan usually in financial terms covering a specific period of time. It is an important tool for financial planning and focuses on the future. It helps in uncovering inefficiencies in operations, in minimising wasteful expenditure and serves as a basis for education and evaluation of the managers.

The budget can be classified into different categories on the basis of time, or flexibility. The time based budget may be long-term, short-term or rolling budget. The based budget may be planned or unplanned budgets, cash budgets, revenue or expenditure budgets and master or final budget. The flexibility based budget may be fixed or flexible.

Certain pre-requisites are mandatory for process of budgeting. These are a well designed organisational structure, clear identification of financial and service goals, accurate accounting system, participation of staff members in budgetary formulation and commitment of top management.

The budgetary manual, which is tailored to fit the needs of each health care organisation or hospital, lays down the guidelines for budget preparation giving details of powers, duties, responsibilities and areas of operation of each executive or departmental heads in the organisation.

The departmental heads prepare the departmental budgets based upon the guidelines given in the budget manual and are assisted and guided by the budget officer. The budget committee receives, reviews and consolidates the departmental budget into a total master budget which is supported by important functional budgets viz. purchases, personnel, engineering etc.

The budget is prepared and employed for a particular period called the budget period and the budget calendar indicates the specific dates for the preparation and approval of individual parts of the budget. The actual performance against the budgetary outlays are recorded and variances are investigated to serve as future feedback devices for planning of subsequent budget. The budget procedure helps to bring about an orderliness in planning

process, decentralises accountability and assists in fostering communication, coordination, creation of a database as well as in performance appraisal.

There are various techniques available for budgeting. The incremental approach which takes the current level of operations as the basis of estimating the future level of operation suffers from several drawbacks and is gradually being replaced by more modern approach that are more focused on accomplishments or achievements made i.e., performance budgeting. Zero base budgeting is yet another technique that suggests that an organisation should not only make decisions about the proposed new programme but should also form from time to time review the appropriateness of the existing programme. Each programme whether new or existing has to be justified in its entirety each time a new budget is formulated. Zero base budget has the limitation of involving more time, effort and paperwork in the initial stages but its financial and managerial advantages far outweigh its limitations.

15.7 ANSWERS TO CHECK YOUR PROGRESS

Check your progress-1

i. Define budget.

Budget is a statement of plans expressed in quantitative, usually monetary terms, covering a specific period of time, usually one year.

It can also be described as a financial and/or quantitative statement, prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining that objective.

ii. Describe the importance of budget.

A properly planned and prepared budget helps us in the following ways :

- It brings about the efficiency and improvement in the working of the health care organisations.
- It is a way of communicating the plans to various units or subunits of the health care organisation by establishing the divisional, departmental, unit or sectional budgets, exact responsibilities for incurring expenditures or generating revenue are assigned. It thus minimises the possibilities of buck passing if budget figures are not met.
- It is a way of motivating various heads of health care organization, the departmental or unit heads to achieve the various goals set heads for them
- It serves as a benchmark for controlling ongoing operations.
- It helps in developing team spirit where participation in budgeting is encouraged.
- It helps in reducing wastages and losses by revealing them in time for corrective actions.
- It serves as a basis for evaluating the performance of the managers.

iii. How we can classify budget?

Budgets can be classified in different categories on the basis of time, function or flexibility :

Time Based Budgets

- Long-term budgets which contain financial estimates over a 3-5 years or even a longer period of time.
- Short-term budgets which have implication for one year or lesser duration of time depending over the management philosophy advance will always be there. Immediately after a month or a quarter passes, as the case may be, a new budget is prepared for a twelve month period.

Function Based Budgets

These can be further sub classified as under :

- *Capital Based or Planned Budgets*-These are directed towards proposed expenditures for new projects and often require special financing e.g., setting up a MRI unit or CT Scan centre in a hospital providing tertiary level care.
- *Operational Budgets or Non-Plan Budgets*-These are directed towards achieving short-term operational goals of the organisation. Simply put it should plan operations for the forthcoming period i.e., the finances required for running a particular health care organisation during a defined period of time.
- *Cash Budget*-This is a summary of health care organisation's expected cash inflows and outflows over a particular period of time. In other words cash budget involves a projection of future cash receipts and cash disbursements over a period of time intervals.
- *Sales or Revenue Budget*-This generally forms the fundamental basis on which all other budgets are built especially in case of the corporate hospitals and private nursing homes/hospitals. The budget is based upon projected revenues or sales that are to be achieved in a budget period.
- *Expenditure or Production Cost Budget*- the budgets refer to the expenditure that is likely to be incurred under various heads.
- *Master or Final Budget*- This is a summary budget which incorporates all financial budgets in a capsule form. It sets out plan of operations for all departments in considerable details for the budget period.

Flexibility Based Budgets

- *Fixed Budget*- A fixed budget is required to remain unchanged irrespective of the level of activity actually attained. In other words a budget prepared based on a standard or a fixed level of activity is called a fixed budget.

Flexible Budgets-This is a budget designed to change with the level of activity actually attained. The budget prepared catering to the budgeted costs for any level of activity is known as flexible budget.

Check your progress-2

i. What are the prerequisites for budgeting?

They are :

- Clear identification of financial and service goals.
- A well designed organisation structure that eliminates overlapping responsibility and clearly defines all accountability.
- Participation of the staff members in the formulation of the budget.
- An accurate accounting system capable of accumulating and appropriately assigning all financial data.
- A chart of accounts that corresponds to the organisation structure and allows for the accumulation of actual cost data by cost and responsibility centre.
- A management information system capable of collecting non-financial data relative to total volume of services demanded and per cost centre workload.
- Management determination to make the budgeting process work.

ii. List the steps for budget administration.

The following steps are essential for administration :

- *Preparation of Budget Manual*-Since a budget is formulated at the instance of top management, and details provided and compliance ensured by the subordinates, there has to be formal communication between the two. These could be in the form of oral as well as written instructions. A budget manual is an orderly presentation of these instructions or directives.
- *Appointment of Budget Officer*-He acts as a coordinator when the budget is being prepared. He reports monthly actual performance comparing it with the budget, analysing the variables between the two by responsibility and cost centre and organises follow up action. The budget officer works under the guidance of the budget committee.
- *Budget Committee*-The budget committee comprises the heads of the various departments with the chief executive officer or the Director Administration or the Medical Superintendent or the Finance Manager as the chairman.
- *Budget Calendar*-This indicates specific dates for preparing individual parts of the budget, discussing them with the concerned department heads and getting them approved.

- *Budget Period*-This means the period for which a budget is prepared and employed. Generally the budget period is taken to be a financial year, beginning on April 1st and ending on 31st March.
- iii. List the various approaches to budget.
- *Incremental Approach*- In this approach the previous years spending level is extrapolated to the next year and incremental estimates for salary and cost of material are made. This level is further incremented to new projects and programmes expected to be undertaken in the following year to arrive at the final requirement.
 - *Performance Budgeting Approach*- The performance budget lays more stress on accomplishments and generates adequate information on costs and work accomplishments for decision making at appropriate levels.
 - *Zero Based Budgeting*-It is a planning and budgeting process which requires each manager to justify the entire budget request in detail from scratch (hence zero base) and shifts the burden of proof to each manager to justify why he should spend any money at all.



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