

CREATING AND EVALUATING DEPARTMENT-LEVEL BUDGETS

ALSN Finance Committee

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Why Budget?

- Health care is rapidly changing and requires constant adaptation to patient needs, new services and technologies, and changes in reimbursement models.
- A budget is a tool for determining what resource (human, capital, and operational) allocations among various departments and projects.
- Budgeting allows an organization to strategically plan for the future around the organization's identified priorities.
- "Although nursing schools are charged with preparing the next generation of nurses for professional nursing practice...they are not generally taught the language of, and skills comprised in, business" (Welch & Smith, 2020).

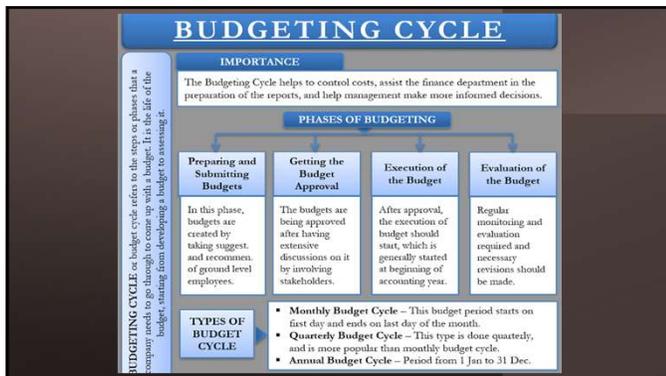
American Organization for Nursing Leadership (AONL)

- AONL has developed an inventory for assessing the nurse leaders' competencies.
- One of these includes financial management, which includes:
 - Creating a budget
 - Monitoring a budget
 - Analyzing a budget
 - Reporting a variance
 - Interpreting financial information



Approaches to Budgeting

- "Budgeting processes are not unique to nursing or health care - every business, every home, and every individual has a budget" (Welch & Smith, 2020).
- Each organization has its own approach to budgeting and its own "philosophies" regarding the budgeting process.
 - Highly centralized
 - Localized / Unit based
- Each organization needs to consider its:
 - Mission, vision, and values
 - Environment
 - Defined goals and objectives
 - Identified priorities
 - Defined specific, measurable outcomes



Types of Budgets

Day to Day	←-----→	Long Term
Operating Budget	Specific Budget	Capital Budget
Expenses	Special Purpose, program, or project budget	Equipment
Revenues	ProForma	New Construction
Profit or loss	Product-Line or service-line budget	Renovation

Operating Budget

- Reflects the "day to day" operations of a unit, department or organization, typically over one year.
- Involves:
 - Patient volumes
 - Patient Acuity
 - Staffing requirements / turnover / retention
 - Labor costs
 - Supply costs
- The operating budget may be made of other smaller, more specific budgets.
- Staffing is usually the largest cost in an operating budget.
 - Accounts for not only FIXED COSTS (like salary) but variable costs (like overtime and supplies).

Components of an Operating Budget

Revenue	Expenses
<ul style="list-style-type: none"> • Patient Care Services • Medicare • Medicaid • Private Insurance • Gift Shop • Donations • Research Grants 	<ul style="list-style-type: none"> • Professional Services • Nursing • Administration • Other Specialties • Supplies • Equipment • Pharmaceuticals • Food • Depreciation

Operating Budget

	FY2019 Results	FY2020 Projection (Pre-COVID)	FY2020 Projection (Post-COVID)	FY2021 Budget
Revenue:				
Net Revenue	738,007,078	755,119,472	696,973,873	749,668,707
Other Operating Revenue	11,477,276	11,666,144	9,980,585	10,660,164
Total Operating Revenue	\$ 749,484,354	\$ 766,785,616	\$ 706,954,458	\$ 760,328,871
Expense:				
Salaries, Wages, Registry, Benefits	417,529,146	420,675,159	406,439,149	424,841,015
Supplies	106,120,524	105,751,361	101,643,172	106,336,558
Depreciation	42,340,412	40,864,260	41,619,579	40,473,286
Other	166,408,813	177,422,991	173,114,315	173,523,622
Total Operating Expense	\$ 732,398,895	\$ 744,713,801	\$ 722,816,215	\$ 745,176,461
Operating Income	17,085,459	22,071,815	(15,861,756)	15,154,410
Non-Operating Income (Loss)	(1,275,601)	4,045,525	31,038,763	8,117,775
(Interest Expense)	(26,523,318)	(26,766,313)	(27,614,816)	(28,795,592)
Unrealized (gain) loss on interest rate swap	(6,569,730)	-	-	-
Property Tax Revenue	17,608,947	17,802,717	17,900,001	17,900,000
Income (Loss)	\$ 325,759	\$ 17,153,744	\$ 5,462,193	\$ 12,376,593
Foundation Support	16,569,000	18,232,012	18,232,012	21,988,000
Net Margin %	0.0%	2.2%	0.8%	1.6%
OEIDA Margin (Excl. Property Tax Rev)	7.9%	8.2%	3.6%	7.3%
OEIDA Margin (incl. Property Tax Rev)	10.3%	10.5%	6.2%	9.7%
EBIDA Margin	10.1%	11.3%	10.6%	10.7%
Total Uncompensated Care & Bad Debt	70,688,405	84,150,504	77,886,208	86,481,710
Total Uncompensated Care as % of Gross	1.71%	1.94%	1.94%	1.93%

Budget Variances

- Organizations exercise control over their operations through management control systems.
- Variance analysis is the aspect of budgeting where ACTUAL results are compared to BUDGETED expectations.
- Compares a standard of performance against actual results and investigates those differences that are felt to be the result of inefficient performance.
- Variance analysis helps to:
 - Controlling results throughout the current year.
 - Prepare the budget for the coming year.
 - Evaluate the performance of units or departments and their managers.
- The objective in doing variance analysis is to determine why the variance occurred.

Budget Variances

	Good Hope Hospital -- 6th Floor					
	This Month			Year to Date		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
Patient Care Revenue	\$ 165,000.00	\$ 192,000.00	\$ 27,000.00	\$ 2,150,000.00	\$ 2,345,000.00	\$ 195,000.00
Salaries - RNs	\$ 53,431.00	\$ 58,951.00	\$ 5,520.00	\$ 160,296.00	\$ 164,245.00	\$ 3,949.00
Salaries - LPNs	\$ 31,098.00	\$ 32,110.00	\$ 1,012.00	\$ 93,294.00	\$ 94,930.00	\$ 1,636.00
Salaries - CNAs	\$ 13,256.00	\$ 14,124.00	\$ 868.00	\$ 39,768.00	\$ 41,569.00	\$ 1,801.00
Patient Care Supplies	\$ 3,000.00	\$ 4,970.00	\$ 1,970.00	\$ 9,000.00	\$ 8,500.00	\$ (500.00)
Office Supplies and Forms	\$ 800.00	\$ 828.00	\$ 28.00	\$ 2,400.00	\$ 2,484.00	\$ 84.00
Seminars and Meeting	\$ 650.00	\$ 650.00	\$	\$ 1,950.00	\$ 1,950.00	
Noncapital Expenses	\$ 750.00	\$ 750.00		\$ 2,250.00	\$ 2,250.00	

Capital Budget

- Related to the hospital or health system's overall strategic vision for the organization.
- Process of allocating funds to purchase "durable goods" or future asset purchases.
 - Beds / Patient Care Systems
 - Equipment
 - Improvement to buildings
 - Infrastructure
 - New construction
- Budget typically project out 1 to 10 years.
- Includes depreciation of assets

Capital Budget

Three-Year Capital Budget Summary (\$5000s)				
	FY2021	FY2022	FY2023	Total Project Spend
Funded by Operations:				
Equipment	1,500	2,500	3,500	7,500
Facilities	3,500	3,500	5,000	12,000
IT	3,165	4,000	4,500	11,665
Strategic Service Line	1,000	2,000	7,500	10,500
Outpatient Strategy	3,000	9,000	-	12,000
Other	1,680	-	-	1,680
Subtotal	13,845	21,000	20,500	55,345
Capital from Restricted Funds:				
Escondido 9th Floor Build-out	5,000	9,000	6,000	20,000
Poway Renovation	3,550	-	-	3,550
NICU Expansion - Escondido	1,250	-	-	1,250
Other	3,900	-	-	3,900
Subtotal	13,700	9,000	6,000	28,700
Funded by Foundation:	2,500	1,000	-	3,500
Total	30,045	31,000	26,500	87,545

Program / Project Budget

- Fun Fact: Program budgeting was first introduced by US Secretary of Defense, Robert McNamara in 1949.
- Describes and give detailed costs of EVERY activity within a specific program that is to be carried out within a budget.
- A program budget defines objectives and relates the proposed level of expenditures to meet those objectives in the given fiscal year.
- Since program budgets cut across departments, they generally need to be developed with input from all involved.

Cost of an Early Ambulation Program

- There is strong support in the literature that early ambulation among orthopedic patients reduces length of hospital stay and certain complications.
- A nursing unit decides to implement an early ambulation program.
- What is the cost of the program?
 - Nurses' time
 - Average nurse makes \$45 per hour or \$0.75 per minute
 - Two nurses to ambulate patient every shift for 30 minutes
 - \$45 per patient per ambulation x 3 times a day = \$135.00
 - Supplies: socks (\$4.00)
 - TOTAL = \$139.00
- What are the benefits of the program?
 - One less hospital day
 - Prevention of a complication

Cost-Benefit Analysis

- Compares the cost and the benefits of an action or a program.
- Calculated by: Benefits / Costs > 1.0
- What is the cost-benefit of an early ambulation program?
 - Nurses' time
 - Average nurse makes \$45 per hour or \$0.75 per minute
 - Two nurses to ambulate patient every shift for 30 minutes
 - \$45 per patient per ambulation x 3 times a day = \$135.00
 - Supplies: socks (\$4.00)
 - TOTAL: \$139.00
- What are the benefits of the program?
 - Average cost of a hospital stay per day: \$2,607.00
- $\$2,607.00 / \$139.00 = 18.75$

Budget-related Challenges

- Unpredictable economic events (COVID-19) which can render static budgets outdated and inaccurate.
- Changes to reimbursement and payment models, including declines in Medicare and Medicaid reimbursement.
- Changes in patient volume / addition or deletion of services
- Development and adoption of new technologies such as telehealth and home-based medicines.
- Labor shortages and increasing costs
- Mergers, acquisitions, and increasing market competition from new care delivery models.
- Supply chain issues and interruptions
 - Personal protective equipment
 - Prescription drug shortage

Nurse Leader Role in Budgeting

- "Nurse managers and leaders are in a uniquely fortuitous position affording them an opportunity to bridge the communication gap between quality patient care and allocation of financial resources. The successful manager in today's health care environment must demonstrate fluency in the language of finance and possess the skills and knowledge to clearly communicate with nonclinical leaders and financial managers" (Welch & Smith, 2020).

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Questions?

Thank you for attending!
