BUDGETING

INTRODUCTION

Budget is defined as a statement of anticipated results during a stipulated period expressed in financial and nonfinancial terms. Three essential steps in the control prices include establishing standards, comparing results with standards and taking the required corrective action, In terms of these steps, the preparation of budgets is, in effect, the step of establishing clear and unambiguous standards of performance mostly in monetary terms. Budgets cover a stipulated time period-usually a year. The budgeting process starts when the top management sets the strategies and goals for the organization.

DEFINITIONS OF BUDGET

1. Taylor: Budget is a financial plan of the government for a definite period.
2. Anonymous: Budget can be defined as a numerical statement expressing the plans, policies and goals of an organization for a definite period in future.
3. Donovan: Budget is a concrete precise picture of the total operation of an enterprise in monetary terms.

PURPOSE OF A BUDGET

- To provide a quantitative expression of the plans of the hospital or the institution.
- To evaluate financial performance in accordance with the plans.
- To control costs.
- To supply a mechanism for translating (fiscal objectives into a projected (monthly spending pattern
- To enhance fiscal planning and decision making.
- To clearly recognize controllable and uncontrollable cost areas.
- To provide a useful format for communicating fiscal objectives.
- To allow feedback of utilization of moneys spent.
- To identify problem areas and facilitate effective solutions.
- To provide a means for measuring and recording financial success in accordance with the

Objectives of the organization.

TYPES OF BUDGETS

1. **cremental budget:** This is based on estimated changes in the present operation, allowing for a percentage increase for inflation, all of which is added to the previous year's budget.
2. **programme budget:** This is one where Costs are computed for entire programme) i.e. group total costs for each service programme, e.g. Maternal and Child Health Programme (MCH), Family Planning Programme (FPP), Universal Immunization Programme (UIP), etc.

3. **open-ended budget:** This is a financial plan in which each operating manager presents a single-cost estimate for the optimal activity level for each programme in the unit, without indicating how the budget should be brought down if appropriate funding is not available.
4. **Flexible budget:** This comprises several financial plans, each for a different level of programme activity. It is based on the fact that operating conditions rarely abide by expectations.
5. **Revenue and expense budget:** This is expressed in financial terms and takes the nature of a proforma income statement for the future. It may be prepared in a detailed form or abstract statement, reflecting the items of profit and loss under classified headings.
6. **Zero-based budgets:** This requires the nurse manager to examine and justify each cost of every programme, both old and new, in every annual budget preparation.
7. **Sales budget:** This is the starting point in a budgetary programme, since sales, activities give shape to all other activities. Sales budgets are compiled in terms of quality as well as of value.
8. Rollover budget: This one forecasts programmes, revenues and expenses for a period more than a year, to accommodate programmes that are larger than the annual budget cycle
9. Fixed-ceiling budget: This is a financial plan in which the uppermost spending limits are set by the top executive. The unit and divisional managers develop budget proposals for their respective areas.
10. Production budget: This is the budget that aims at securing the economical manufacturing of products and maximizing the utilization of production resources nursing care,
11. Performance budget: This is based on functions not divisions, e.g. direct in-service education, quality enhancement, nursing research.
12. Capital expenditure budget: This is prepared for assuring planned timely capital investment in the business to ensure the availability of capital at the right time over a longer
13. Cash budget: This is prepared by way of projecting the possible cash receipts and payments over the budget period. 14. Sunset budget: This is designed to 'self-destruct' within a prescribed time period to ensure the expenditure is stopped by a predetermined date.

PRINCIPLES OF BUDGETING

Budgeting needs to follow certain principles:

1. A budget should provide sound financial management by focusing on the requirement of the organization.

2 budget should focus on objectives and policies of the organization. It must flow from objectives and give realistic expression to the realization of such objectives.

3A budget should ensure the most effective use of the available financial and nonfinancial resources.

4. A budget should ensure that programme activities are planned in advance

5. This process requires consistent astigning of feed duties and responsibilities to managers different levels for planning/framing and executing the budget Do and getting should aim at ensuring coordination among the various departments, establishing a frame of reference for managerial decisions and providing criteria for evaluating at managerial performance
6. most care must be taken in foxing targets.
7. A budget should not adopt too high or too low estimates
8. The budget period must be appropriate to the nature of the business or service and to the type of budget
9. A budget is prepared under the leadership of the administrator or financial officer.
10. A budget should be prepared and interpreted in consistency with communicating the planning process in the organization
11. While working on the budget, a review of the performance of the previous year is necessary and an evaluation of its adequacy both in quantity and quality
12. While developing a budget, provision should be made for its flexibility.

IMPORTANCE OF BUDGET

Budget is a numerical description of expected income and planned expenditure for an organization for a specified period of time. It is a concrete and precise picture of the total operation of an enterprise/organization/institution in monetary term, e.g. finance. The following points highlight the importance of budget

1. Budget is needed for planning for future course of action and to have a control over all the activities in the organization.
2. Budget facilitates coordinating operations of various departments and sections for realizing
3. Budget serves as a guide for action in the organization.
4. Budget helps one to weigh the values and to take decision, when necessary, on whether one organizational objectives is of a greater value in the programme than the other, when given a choice.

ESSENTIAL REQUISITION FOR BUDGET

1. Forecasting: Sound forecasting may be related to taking decisions on purchases, expansion, advertising, services working capital needs, etc.
2. Accounting: Well-conceived accounting system is needed to compare the budget information with actual accomplishment. The cost information tells as to how much it will cost to produce or provide service.
3. Lines of authority: Budget preparation, operation and supervision need/require clearly de fined lines of authority.
4. Budget committee: The budget committee in an organization needs (1) to receive and ap prove all forecasts, departmental budgets and periodic reports showing comparison of actual and budgeted income and expenditure, and (2) to request for special studies of deviations from the budget and consider revision of budget to meet changed conditions.
5. Business policies: Clearly defined business policies serve as the basis for budget preparations.

6. Statistical information: Information in the form of figures, Le estimates regarding the budget terms that are essential for budget

7. Support: Top-level management support is essential to ensure the successful installation of the budget programme
8. Period of budget: Length of budget period (usually a year) should be specified
9.Assess goals of the institution or hospital identify activities of highest priority as they are most likely to receive funding
10.Assess objectives of the present, and proposed programmes, to ensure that achievement of these objectives will support the agency and achieve maximum goals
11.Assess all old and new programmes for computation of manpower, capital and operating expenses
12. Identify alternative methods for realizing the objectives (Determine the price of each alternative Compare alternatives to determine the most cost effective.
13.Develop a budget request that details a fiscal plan for the preferred programme, indicating alternative methods for meeting the same objective and explaining why the recommended programme has been preferred.

FUNCTIONS OF A BUDGET
1. Budget explains and documents unit needs to higher administrative levels.
2. It recognizes the importance of, and develops, short- and long-range fiscal plans that reflect unit needs.
3. It estimates the internal and external environment of the organization in predicting and identifying driving forces and barriers of fiscal planning.
4. It articulates unit-level fiscal planning towards organizational goals and objectives.
5. It ensures that documents required by the client are rendered clearly and completely in order to facilitate organizational reimbursement.
6. It coordinates and monitors the different aspects of budget control.
7. It provides opportunities for subordinates to participate in relevant fiscal planning
8. It precisely assesses personnel needs, using predetermined standards or an established patient classification system.
9. It underlines the use of appropriate techniques.

ADVANTAGES OF BUDGETING PROCESS
1. Budget helps plan for detailed programme activities.
2. It helps fix accountability.
3. It states goals for all units, offers a standard of performance and stresses the continuous
4. It encourages managers to make a careful analysis of operations and base decisions after careful nature of planning.
consideration. 88
5. Weaknesses in the organization can be revealed where there are no facilities available.

6. Staffing, equipment and supply needs can be projected and waste be minimized.
7. Financial matters can be handled in an orderly fashion.
8. Agency activities can be coordinated and balanced. within the organization towards a
9. Budgets help managers in integrating personnel efforts
10. Budget acts as controlling devices to correct any excessive expenditure of a given activity at common goal any point of time.
11. Budgeting helps the management learn from past experience The management can isolate errors and analyse their causes and establish steps to be taken to avoid repetition of such
12. The budgeting process induces the management to shift attention to future operations, to errors anticipate and forecast trends and changes in the external environment and control process.
13. Budget improves communication. It is the blueprint of a company's plan and can only be
14.Budget helps in just measurement of performance.
15.I coordinated through proper communication at all levels, especially among those who are assigned the responsibility to implement the budget and plans
16. Budget helps new staff and lower level managers to see where the organization is heading and where they fit in the organization.
17. The common causes of budget variance are as follows: receipt of bill differs from the actual purchase month,
1. Period/month of
2. Unexpected rise in price in supply or equipment.
3. Failure to calculate the price of disposable supplies needed for new equipment.
4. Inflation rate if higher than anticipated.
5. Professional practice charges that calls for additional purchase.
6. Reimbursement changes that alter the type and volume of service delivered.
7. Sudden demand by patients and doctors for technological enhancement.
8. Demand of new equipment and supplies by newly recruited staff members who want to adopt new or improved methods of treatment.
9. Frequent opening and closure of nursing units.
10. Improving standards of safety and injection control.
11. Not budgeting for free time.
12. Mishandling and thereby wastage of costly equipment by staff under training.

LIMITATIONS OF BUDGETING PROCESS
1. Budgets are often too rigid and restrictive. Supervisors are given little free hand in managing their resources. The budgets may either be changed too often or not at all, making it difficult for employees to meet performance levels.
2. Budgets are used to evaluate performance and results, but causes and successes are not thoroughly investigated. a device for
3. Budgets may be used punitively. The employees may regard budgets simply as catching their mistakes. This will lower their morale and dilute their sense of dedication.

4. Budget goals may be conceived as too high. In their efforts to keep within budget limits, managers may forget that budgets are only a means to achieving institutional goals.

DISADVANTAGES

1. A budget may become an end in itself instead of the means to achieve an end
2. Budgetary goals may curb
3. Over budgeting agency goals and gain autocratic control of the organization.
4. is a big danger which may render a budget meaningless and expensive
5. 4 Forecasting is required but is uncertain, as budgetary control is subject to human judgment.
6. interpretation and evaluation.
7. Skill and experience are essential for successful budgetary control.
8. Budgetary planning is expensive and time consuming.

COST-BENEFIT ANALYSIS

Cost-benefit analysis (CBA) is a procedure by which all costs incurred in installing and operating a system are assessed and converted to money, and the ratio calculated defines the relationship of cost and benefits

CBA is a tool for the decision maker as he/she recognizes the difficulty in determining the true costs and benefits of various alternatives. Use of this tool is purposeful while trying to decide between alternative expenditure of money.

Cost-benefit ratio (Z) is defined as the ratio of the value of benefits of an alternative to the value of the alternative cost.

Z present value of economic benefits/present value of economic costs.

CBA is designed to estimate the social costs and benefits attributable to the project.

Benefits are expressed in monetary terms to determine whether a given programme is economically sound, and to select the best of several programmes considered.

Techniques of Cost-Benefit Analysis

1. First, the cost of the programme is estimated.
2. Then the outcome (i.e. benefits) is estimated in terms of monetary units.
3. The course of action that gives highest monetary returns for the lowest investment is regarded as the best one.
4. In the health field, however, the benefits cannot be expressed in monetary terms.
5. An attempt can, nevertheless, be made to translate the outcome (benefits) such as morbidity and mortality prevented by considering the direct and indirect cost.
6. Direct costs saved are cost of drugs, hospitalization, investigations, etc. Indirect costs are saving of loss of wages, etc.

Limitations

1. At times, it is difficult to convert indirect benefits into monetary benefits.

2. Some interventions (like prevention and control of typhoid in the community by provision of protected water supply) have collateral benefits (Le. not only is typhoid prevented but also other water-borne diseases). This leads to confusion in calculation of monetary units. Such interventions are not considered in the analysis.

3. The 'lead time' (the interval between the application of the intervention and the benefits) is often too long. This leads to difficulties in converting the benefits into monetary units.

4. Sometimes during allocation of budget for two programmes, one being more important than the other, the availability of resources is limited. Under such circumstances, money may be allotted for one programme only. Here the loss of benefit due to rejecting the other prossgramme is not considered.