



# MISSION HOSPITAL BUDGETING - BASIC

Presenter: Elisa Blethen, DIS, MBA  
Fall 2020

# Agenda

Why do we need a budget?

Where to begin?

How do you use a budget?

Budgeting for a Hospital

- Revenue
- Labor
- Other Expenses

Further Considerations

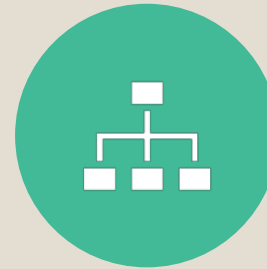
# Why do we need a budget?



STEWARDSHIP &  
RESPONSIBILITY



PLANNING & GOAL  
SETTING



MANAGEMENT OF  
RESOURCES



INCENTIVES &  
MEASURING  
SUCCESS

# Where to begin?

## Data Needed

- Number Scheme to identify Departments
- Gather revenue & expenses by department (if available)
- Gather statistics
  - Admissions/Discharges
  - Surgeries – In/Out (major/minor)
  - Lab Tests
  - Births
  - Outpatient/Clinic visits (track by location)
- Track statistics by Department and then in total

## Resources that may be needed

- Excel software and intermediate expertise
- Budgeting and General Ledger software
- Staff to focus on accurate tracking
- Budgeting Policy & Procedure adopted
- Established Chart of Accounts

See the Policy templates here:  
<https://ahiglobal.org/hospital-resources>

# Statistics Example

STATISTICS	January	February	March	April	May	June	July	August	September	October	November	December	Current Year To Date	Prior Year to Date
<b>Out Patient Visits:</b>	822	901	850	942	916	1,057	968	862	761				8,079	5,064
<b>Under 5 Visits:</b>	176	217	214	213	153	133	133	135	110				1,484	699
<b>Total Admissions:</b>	112	126	120	104	100	101	114	97	85				959	517
<b>Adult</b>	71	84	77	94	87	91	97	73	77				751	441
<b>Pediatrics</b>	7	8	11	10	13	8	17	24	8				106	76
<b>Maternity</b>	7	16	11	12	8	9	14	13	13				103	131
<b>ICU</b>													-	
<b>Other</b>													-	
<b>Total Births</b>	16	7	9	12	8	9	14	13	13				101	61
<b>Total Surgeries</b>	11	11	12	18	10	9	13	9	12				105	71
<b>Total # of Employees</b>	103	103	103	103	103	103	92	92	92				103	99
<b>Hired</b>	30	30	30	30	29	29	22	22	22				30	29
<b>Terminated</b>			1										1	
<b>Long Term Volunteers</b>													-	

- Use Excel
- Decide what you should track for your facility and gather statistics from at least the last 12 months to see a trend
- Incorporate a regular process of reporting and tracking stats on a monthly basis

# Methods of Setting a Budget

- % of Actual – use the current YTD actual expense and set the next year's budget at a percentage of that – EXAMPLE: 98% of Actual
- Historical expenses compared to statistics
- Budget by department or by expense/income category

Go to the Excel file to show the budgets and analysis

# Budgeting for a Hospital - Revenue

- Historical revenue
- Evaluate if you plan to increase prices for the new year
- Are you going to offer any new services that you need to include and what revenue do you anticipate from that?

**Note:**

Price lists should be reviewed at least annually. Any contracts with payors should also be reviewed and renegotiated if necessary.

# Budgeting for a Hospital - Labor

- Each department should have a plan for labor
  - Job Titles
  - Number of hours needed based on the schedule
  - Salary rate by position
- Start by listing all employees in every department by job title, wages, and hours worked per month
- TIP: Work in collaboration with Human Resources

## **Definitions:**

- “FTE” Full time equivalent = 2,080 worked hours
- Ratio of nurses and aids to patients? Census can inform your budgeted labor



# Budgeting for a Hospital – Other Exp

- Look at the historical trends
- Expense categories are generally are grouped by categories on right

## EBIDA Expenses

Salaries and Wages

Employee Benefits

Contract Labor

Professional Fees

Supplies

Purchased Services

Shared Services

Travel, Dues, and Subscriptions

Leases and Rentals

Utilities

Insurance

Other Expense

---

**Total EBIDA Expense †**

# How do you use a budget?

- On a monthly basis the actual income and expenses should be compared to the budget
- Department leaders should review their department's performance
- **Guide decisions for controlling expenses and increasing revenue**
- Business manager should present the report to the Hospital AdCom monthly and to the Hospital Operating Board at each meeting
- See the Policy and Procedure B-2 in the AHI Policy Handbook

# Further Considerations

- Suggest choosing a target for the year for Net Income or EBIDA
- Measure against your target on a monthly basis and **celebrate when you reach the targets**
- How can the department leaders feel incentivized to meet the goals for their department?
- **Planning for Capital Expenses** – large purchases that you anticipate will be “capital” (see policy B-6) may require planning for several years.
  - **Recommendation: Identify a percentage of your Net Income or EBIDA for capital purchases. In discussions with AdCom you may want to set aside 10-20% of the Net Income from each year for capital purchases.**

Why do we need a budget?

Where do we start?

- Prior year or last 12 months
- Gather statistics
- Prices and new services

Revenue, Labor & Other expense

Using a budget

More to discover...

# Review



# APPENDIX

# Policy Templates

- Download the entire policy template file but note the key finance related policies which are included.

<https://ahiglobal.org/hospital-resources>

B	FINANCE	Effective Date
B-1	Hospital Budget	
B-1.1	Budget Procedure	
B-2	Financial Reports and Controls	
B-2.1	Financial Report Review Procedure	
B-3	Expenditure of Funds	
B-4	Expense Reports / Travel	
B-5	Personal Use of Hospital Equipment & Vehicles	
B-6	Fixed Asset Capitalization Policy	
B-6.1	Fixed Asset Acquisition Procedure	
B-7	Borrowing and Lending of Funds	
B-8	Key Authorization	
B-9	Disposition of Surplus Assets	
B-10	Bank Reconciliation	
B-10.1	Bank Reconciliation Procedure	
B-11	Purchasing Policy	
B-11.1	Purchasing Process Procedure	
B-12	Procurement Committee	
B-13	Inventory Management Process	
B-14	Managing Bank Accounts	
B-15	Petty Cash	
B-15.1	Petty Cash Procedure	
B-16	Funds for Charitable Patient Care	
B-16.1	Charitable Care Procedure	
B-17	Payroll Management	
B-17.1	Payroll Preparation Procedure	

# Chart of Accounts

Department	Expense Class	SubAccount
0000	00000	0000
Example:	1100.55000	3300
Department:	Nursing Unit 1	1100
Expense Class	Supplies	55000
SubAccount	Office Supplies	3300

- Recommendation to establish a chart of accounts where income and expenses can be mapped to class and department of expenses and revenue
- An example format is shown here