Health Care Finance & Budgeting

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Conservative

Consistent
A BUDGET is a quantitative statement of the organization’s expressed operating intentions and it translates these intentions into numbers and dollar signs.
Budgeting

• Total Financial Requirements
  – Cost of Doing Business
  – Cost of Staying in Business
  – Cost of Changing the Business
  – Return to the Suppliers of Capital
Budgets

• **Planning Tool**
  – Expresses management's plans

• **Control Tool**
  – Benchmark to compare results
Strategic or Operational Planning

- **Strategic**
  - Long term
  - 5-10 years
  - Broad

- **Operational**
  - Short-term
  - 1-3 years
  - Objectives of Strategic Plan
Budgeting

- Operational Plan
- Operational Strategies
- Projections
- Calendar
- Targets
Budgeting

• Workloads & volumes
• Projects / Programs
• Equipment / Buildings
• Revenues
• Expense
• Cash flows
Budgets

• **Operating**
  – statistics, revenue and expense

• **Capital**
  – construction, equipment

• **Cash**
  – sources, uses and timing
Statistical Budget

• How do you estimate activity?
  – History
  – Trends
  – Known changes
  – Ask providers
  – Demographics
  – Optimism & Pessimism
Statistical Budget

- Begin with the global measures
- Then project pharmacy activity.
Revenue Budget

- Volumes
- Pricing
- Payments / Contractual Allowances
- Other
Expense Budget

• Attempts to account for costs of operations for each department individually and for the institution as a whole.
• Attempts to match costs with services and revenues generated.
• Fixed and Variable.
Expense Budgeting

- Labor - wages + benefits
- Supplies - Rx, OR, other
- Purchased services
- Interest
- Depreciation
Operating Budget

Volumes

+ Net Revenues
- Labor, supplies
- Other Costs
- Capital Costs
= Net Income or Profit or Bottom Line
Capital Budget

- Short and long term
- Requests exceed funds available
- Prioritization
- Ability to buy
- Capital budget is linked with the operating budget & LRFP.
Cash Budget

• Projects cash--in and out
• Timing & amounts are both critical
• Impacts capital budget & operating budget