



BUDGETING

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Meaning

- The word "Budget" derived from the old English word "Budgettee" means a sack or pouch which the chancellor of the exchequer used to take out his papers for laying before the Parliament, the Government, financial schemes for the ensuring year.



Definition

- Budget is an operational plan, for a definite period usually a year, expressed in financial terms & based on expected income & expenditure.
- Budget is a concrete precise picture of the total operation of an enterprise in monetary terms.



Purpose



- Budget supplies the mechanism for translating fiscal objective into projected monthly spending pattern.
- Budget enhances fiscal planning & decision making.
- Budget clearly recognizes controllable & uncontrollable cost areas.
- It offers a useful format for communicating fiscal objectives.
- It allows feedback for utilization of capital money.
- It helps to identify problem areas & facilitates effective solution.
- It provides means for measuring & recording financial success with the objective of the organization.

Importance



- Budget serves as a guide for action in the organization.
- Budget helps one to weigh the values and to make decision when necessary as to whether one is of a greater value in the program than the other.
- Budget is needed for planning for future course of action and to have a control over all activities in the organization.
- Budget facilitates co-ordination operation of various departments and selections for realizing organizational objectives.

Steps in budgeting process

- **Determine the requirements:** Inputs from all the levels of hierarchy must be obtained.
- **Develop plan :** Budget for 12 months is set. Zero –based budget.
- **Analyze and control the operations:** Continuous monitoring is essential.
- **Review the plan:** Periodic revision and modification.



Budget – a tool for effective administration

- **Executive programme:** Under direct supervision of chief executive.
- **Flexibility in timing:** Necessary changes in the light of changing economic situations.
- **Executive responsibility:** Fulfill the intent of the legislature and due economy .
- **Multiple procedure:** Method of budgeting may vary according to the nature of operation.
- **Executive direction:** Appropriation should be made for broadly defined function of the department.
- **Reporting:** Maintain full financial and operating reports coming from all levels of administration.

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- **Adequate tool:** Chief executive must have an adequately equipped budget office attached to him and authority to earmark monthly or quarterly allotment of appropriation.
- **Two – way budget organization:** Traffic between central office and the agency offices responsible for budgeting and programming should move in two –way rather than one – way street.

Features of Budget

Flexible

Synthesis of past, present & future

Product of joint venture or participation of executive at different levels

It should be clearly defined

Form of statistical standard laid down in specific numerical form

Represent expected revenue as compared with anticipated expense

Facilitate goal achievement



Principles of Budget

- Budget should provide sound financial management by focusing on requirement of the organization.
- Budget requires that a program activities planned in advance.
- Budget should focus on objectives and policies of the organizations.
- Setting budget target requires an adequate checks and balance against the adoption of too high or too low estimate.
- Budget period must be appropriate to the nature of business or service and to type of budget.
- Budget should ensure the most effective use of scarce financial and non financial resources.

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- Budgetary process requires consistent delegation for which fixed duties responsibilities are required to be allocated to managers at different level from framing and executing budget.
- Budgeting should include coordinating efforts of various departments establishing a frame of reference for managerial decisions and providing a criterion for evaluating managerial performance.



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- While developing a budget, the provision should be made for its flexibility.



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- While developing a budget, the provision should be made for its flexibility.
- Budget is prepared under the direction and supervision of the administrator of financial officer.
- Budget are to be prepared and interpreted consistently throughout the organization in the communication in the planning process.



Classification of Budget

1. The Manpower budget:- It includes wages & other benefits provided for regular & temporary workers.
2. The Capital expenditure budget:- It includes purchases of land, buildings, & major equipments of considerable expense & life long.
3. The Operational/Operating budget;- It includes the cost of supplies, major equipments, repairs & overhead expenses.

Types of Budget

1. Incremental Budget
2. Flexible Budget
3. Rollover Budget
4. Open ended Budget
5. Fixed – ceiling Budget
6. Performance Budget
7. Programme Budget
8. Production Budget

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9.Revenue and Expense Budget

10.Capital Expenditure Budget

11.Zero Based Budget

12.Sunset Budget

13.Sales Budget

14.Cash Budget

Increment Budget

- It is one based on estimated changes in present operation, plus a percentage increase for inflation, all of which is added to previous year budget.



Flexible Budget

- It consists of several financial plans, each for a different level of program activity.
- It is based on the fact that operating conditions rarely conform to expectations.



Rollover Budget

- Is one that forecasts program, revenues and expenses for a period greater than a year.
- To accommodate program that are larger than annual budget cycle.



Open Ended Budget

- Is a financial plan in which each operating manager presents a single cost estimate for each program in the unit, without indicating how the budget should be scaled down if less funding is available.



Fixed – Ceiling Budget

- It is a financial plan in which the uppermost spending limits is set by the top executive, the unit and divisional managers develop budget proposals for their areas of responsibility.

Performance Budget

- It is one based on which allocate functions, not divisions.
- Eg. Direct - Nursing care, in service education, quality improvement, nursing research.



Programme Budget

- Is one where costs are computed for a total programme, i.e, grouping total costs for each services programme eg. MCH, FP and UIP etc.
- These base budgets requires the nurse manager to examine, justify each cost of every programme both old and new in every annual budget preparation.



Production Budget

- It is the budget that aims at securing the economical manufacture of products and maximizing the utilization of production



Revenue and Expense Budget

- It is expressed in financial terms and takes the nature of a proforma income statement for the future.
- It may be prepared in a detail form or in an abstract statement showing the items of profit and loss under classified headings.



Capital Expenditure Budget

- It is prepared for assuring planned timely capital investment in the business to ensure the availability of capital at the right time over longer period.



Zero Based Budget

- It requires the nurse manager to examine ,justify each cost of every program both in old and new ,in every annual budget preparation.



Sunset Budget

- It is designed to —Self Destruct within a prescribed time period to ensure the cessation of spend in by a predetermined date.



Sales Budget

- It is the starting point in a budgetary program, since sales are activities which give shape to all other activities. Sales budget are compiled in terms of quantity as well as of values.



Cash Budget

- It is prepared by way of projecting the possible cash receipts and payments over the budget period.



Budgeting Process



Assess

- Check what needs to be covered in the budget.
- Input from all levels of the organizational hierarchy, since budgeting is most effective when all personnel using the resources are involved in the process.
- A composite of unit needs in terms of labour, equipment and operating expenses can be compiled to determine the organizational budget.

Develop a plan

- A budgeting cycle that is set for 12 months (fiscal year) is broken down into quarter or subdivided into monthly or semiannual periods.
- Selecting time frame for budgeting is important.
- Errors are most likely is the budget is projected too far in advance.

Implimentation

- Ongoing monitoring and analysis occur to avoid inadequate or excess funds at the end of fiscal year.
- In most health care institutions, monthly statement outline of each department are made.
- Most units can expect some change from the anticipated budget, but large deviation must be examined for possible cause and remedial action must be taken if necessary.

Evaluation

- The budget must be reviewed periodically and modified as needed throughout the fiscal year.
- With each successive year of budgeting, managers can accurately predict their unit's budgetary requirements

Essential requisition for budget preparation

1. Sound forecasting
2. An adequate and well-conceived accounting system
3. Clearly defined lines authority.
4. Establish budget committee in an organization.
5. Clearly defined business policy.
6. Statistical information
7. Period of budget



Steps in Budgeting for the nurse manager or administrator

- ✓ Review the goals of the hospital
- ✓ Review the objectives of the existing programs
- ✓ Prepare a budget proposal
- ✓ Revise the existing program with the revised proposal
- ✓ Compute the expense for each program.
- ✓ Identify the alternative methods for realizing designated objectives and price of each alternatives is determined.
- ✓ Compare the proposal to identify the effective one
- ✓ Prepare a budget request which details a fiscal plan for the preferred program.



Steps in Budgeting for Nursing in Hospital

- Request the assistant nursing officers and supervisors to present their needs for the coming year by a specified date and confer with those who have presented such need.
- Ascertain whether any changes are contemplated such as opening new facilities for patients or changes in other departments which affect the nursing services.
- Review the budget appropriation and actual expenditure for the current year in conjunction with statistical data as to the numbers and distribution of patients, nursing hours, per patient by services, operations and others.



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- Prepare the program which the new budget is to cover in terms of the nursing hours to be given to patients, the distribution of the hours among the various groups of personnel, the ratio of supervisors and head nurses to patient's care and the provision for the administration of nursing unit.



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- Estimate the requirements for the coming year from the information supplied as the expenditure for supplies, equipments and repairs to date.
- Determine the percentage of salaries of personnel who have both educational and nursing service function to be allocated to each function on the basis of time devoted to each.
- Prepare a summary of new needs, both personnel and material with data to support the request.
- The budget report submitted to the head of the nursing department after carefully reviewed by her/his associates.



