Question 1: How important is it that the projections used to develop an operations budget are accurate?

Answer 1: It is very important that the projections used to develop an operations budget are accurate. In the worst case, inaccurate projections could lead to higher than expected costs that would impact an organization’s ability to earn a profit and potentially result in a net loss.

Question 2: What are some examples of how budgeting shortfalls could impact an organization in the health care industry?

Answer 2: Examples of this include the following:

- An emergency room underestimating the cost of supplies (e.g., bandages)
- A member services department needing to hire more employees to handle the volume of calls coming in from a health plan’s participants
- A doctor’s office underestimating the cost of malpractice insurance

Question 3: How often is an operations budget developed within a health care organization?

Answer 3: Generally speaking, most health care organizations develop an operations budget once a year. In situations where it has been identified that the budget is significantly off from initial projections or there has been a significant event impacting a unit, then the budget should be amended to reflect the new costs.

Question 4: How often are operations budgets utilized after they have been finalized?

Answer 4: Ideally, an operations budget is used on a regular basis and as often as needed to ensure the unit is operating within the budget. Units that have anticipated fluctuations in costs will need to monitor actual costs to budgeted costs on a more frequent basis. On the contrary, units that have historically shown little variance in their costs need to review the budget much less frequently.
Question 5: What are some examples of operations budget utilization within a health care organization?

Answer 5: Examples of the frequency of using a finalized budget to monitor actual costs to budgeted costs include the following:

- Emergency rooms should be accessing actual costs to budgeted costs on a frequent basis, at least weekly.
- Assisted living facilities or nursing homes should be accessing actual costs to budgeted costs on a moderately frequent basis, at least monthly.
- A provider services unit within a health plan should be accessing actual costs to budgeted costs on a less frequent basis because the costs are generally static. If, however, the unit were to become suddenly responsible for management of more providers, this would cause a need for a new budget and more frequent monitoring for a period of time.

Question 6: What are some considerations when prioritizing an operations budget for a health care organization?

Answer 6: Some considerations when prioritizing an operations budget for a health care organization that delivers health care services include the following:

- Ensuring that patient safety is not compromised by allocating enough resources for essential operations (e.g., adequate staffing)
- Allocation of resources for technology that will enhance patient care or staff efficiencies

Question 7: What are some considerations when prioritizing an operations budget for a health care organization that operates as a health plan?

Answer 7: Some considerations when prioritizing an operations budget for a health care organization that operates as a health plan include the following:

- An operations budget must include projected costs for operating the following functions:
  - Marketing and sales
  - Network development and management
  - Claims/bill processing
• Member services
• Grievance and appeals
• Medical management
  • Allocating resources to these functions to obtain positive health outcomes while earning a profit

**Question 8:** What technologies are used for creating and monitoring operations budgets?

**Answer 8:** There are many technologies used for creating and monitoring operations budgets. Simple to elaborate spreadsheets can be created using common software like Excel. There is also software designed for financial management of an organization that can be purchased. An organization may even have software created specifically for managing the budgeting and accounting. What is eventually used by an organization depends on the unique needs of the organization, including the size and complexity of its operations.

**Question 9:** What are some of the political and relationship issues associated with developing operations budgets?

**Answer 9:** Although the operational needs of an organization will impact what an operations budget contains, one should never underestimate how political and relationship issues impact an operations budget. For example, a manager who has good relationships with decision makers is more likely to obtain support for his or her budget than a manager who has strained relationships with decision makers.

**Question 10:** What can a manager do to increase the likelihood that his or her proposed budget will be accepted by decision makers?

**Answer 10:** Some actions that a manager can take to increase the likelihood that his or her proposed budget will be accepted by decision makers includes the following:
  
  • Do enough homework to ensure that the manager is familiar with all the issues surrounding the unit’s operations, including any potential future opportunities or threats.
  • Ensure that the data and figures are accurate.
  • Demonstrate how the unit is viable for the short- and long-term success of the organization.
FAQ: Health Care Budgeting

- Develop and maintain relationships with the formal and informal decision makers.