

FINANCING HEALTH SERVICES – RESOURCE MOBILIZATION

Introduction

This chapter deals with management of resources especially – finances – Finance management is a very important aspect of hospital administration. The hospital administration is responsible for efficient management of resources. It is his duty to wisely utilize the funds available to the hospital to provide patient services – the should maintain a balance between the expenditures and income of the hospital. The main objective of the financing health services is to provide the best services to the patient at minimal cost.

Financial Resources of Hospitals

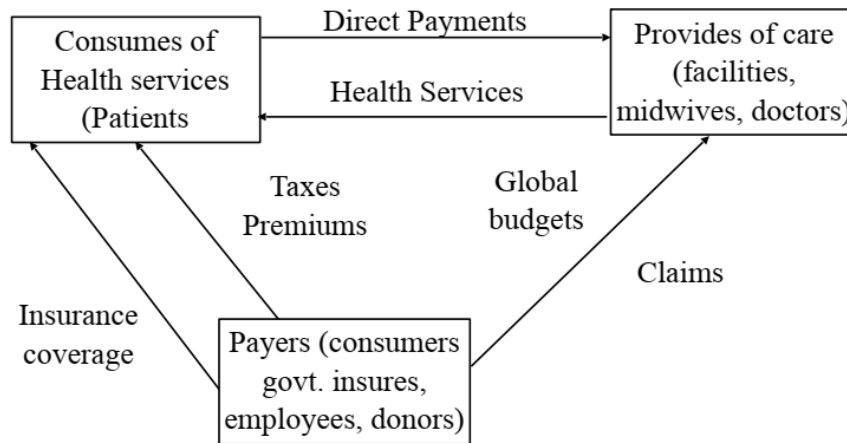
Method of financing depends on the type of ownership

- i) In hospitals run by government, municipalities and local bodies – funds generated by levying taxes – grants from govt. or non-govt. agencies (usually fees are services provided as very little)
- ii) In private hospitals – services provided for a fee. Non-profit voluntary org – fee collected will be less – corporate hospitals and nursing homes – run for profit, fee in higher – Other sources – donations fro philanthropic organizations.

Role of Department Head

- Department portion of the budget
- Analysis of the financial as well as statistical data generated by his department.
- Critical analysis of the operations and performance of the department.
- Review and assessment of departmental operations in relation to the overall plan of the hospital
- Monitoring the income and expenditure of his department.

Health Financing System



Financing flows in health system

Budgeting

- Financial plan
- It means operating within a time frame
- Serves as a guide and provides stability to the activities of the institution.

The budget provides for

- Quantitative expression of plans of the hospital
- Evaluation of financial performance in accordance with the plans
- Control of costs
- Budget should be prepared well in advance
- Participation and cooperation of all concerned departments is essential for preparation of a good budget.

Types of Budget

- Appropriation of budget
- Forecast type budget

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- Flexible budget

Appropriation budget

- Implemented in government hospitals
- Provides a certain level, cannot be exceeded.
- Extra expenditure – supplementary appropriation budget should be made available

Forecast and flexible budgets

- The degree of flexibility is maximum classified as (i) the operating budget (ii) the capital budget.

Operating budget

- Statistical data is essential.
- Depends on the volume of work
- Depends on charges levied for different services rendered
- Income generated by patient services

Operating expenditure forecast

This consists of different components like (a) salary and wages (b) supplies (c) utilities (d) maintenance expenditure – Salaries to be fixed depending on the qualification, experience and skills – Supplier – indicates different department requirements – utilities – they are of high expenditure so it should be known before hand – Maintenance expenditure – these are the expenses induced for equipments, buildings, vehicles, machinery which needs periodical maintenance.

Capital Budget

- Funds required for expenditure on capital or non-recurring items
- Provision of new facilities and growth
- Replacement of obsolete, worn out equipments, furniture and machinery

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- New facilities like new buildings, plant, machinery or equipment.

Cash Budget

- Cash planning is essential part of managing finances of the hospital
- There should be sufficient cash for meeting the requirements.

The hospitals also earns revenue from other sources like interest on investments (share) from different organizations.

Categories of Expenditure

1) Capital Vs Recurrent

- They are initial one-time investments to provide a particular service
- These expenses include cost of the buildings, equipment, instruments, fixtures and furnitures.
- Recurrent costs – expenses incurred on continuous or periodical basis. Eg water, electricity, chemicals, reagents.

2) Fixed vs Variable

- Fixed Costs – These are expenses incurred irrespective of the work load.
- If fixed costs are high then number of procedures or operations should be increased.

3) Direct vs Indirect

- Direct costs can be linked directly to a particular activity
- Indirect costs are those expenses incurred but not linked to a particular procedure.

Factors affecting the hospital expenditure

- **Size of the Hospital:** Expenses incurred in providing the patient care is proportional to the size, range and comprehensiveness of the services incurred. The larger the size, greater the range and services, the cost per patient day will be higher.

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- **Volume of activity:** If the patient no is more, mere staffs should be appointed and increase in the procedures that is to be carried out.
- **Competition:** The charges of the hospitals of the same area are compared, also the services, More the better services more income will there for the hospital.
- **Service Interesting:** Expenditure in the form of sophisticated and costly equipments, expensive procedures, requirements of more skilled staff.
- **Degree of Investment:** Higher capital and fixed costs results in higher operating costs.
- **Efficiency:** The materials should be used in an efficient and economic manner. Operations should be cost effective.
- **Hospital Design and Layout:** Architecture, location, layout, building material and type of facilities provided, number of staff employed, work flow govern the expenditure of the hospital.
- **Reimbursement pattern:** Health Insurance, companies is another factor responsible for rise in the cost of patient services.
- **Expenditure containment strategies:** i) Cost awareness, ii) Cost monitoring, iii) Cost management.

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- **i) Cost Awareness:** The hospital staff must be sensitized to the cost involved in providing the services and how to maintain them.
- **ii) Cost monitoring:** On going process, to identify, report and analyze actual expenditure in relation to budget projections. If variations occur, corrective steps should be initiated.
- **iii) Cost management:** It is essential to establish the accountability and responsibility system for communicating, controlling the plans and strategies (expenditure). Income should compromise the quality of patient care.