

Health Services Planning and Budgeting

Introduction to budgeting

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What is a Budget?

- An estimates of revenue and expenditure for a financial year
- All levels of society are involved in the planning and budgeting process
- The planning and budgeting process comprehensively covers all relevant sectors

Functions of a Budget

1. Planning
2. Coordination
3. Communication
4. Motivation
5. Control
6. Performance evaluation

Functions of a Budget

1. Planning

- Annual budget process help refine organizational plans
- Planning for future operations
- Poor decision making minimized

Functions of a Budget

2. Coordination

- Ensures all parts of the organization are in harmony
- Prevents managers to do as they wish
- Helps identify and resolve conflicts

Functions of a Budget

3. Communication

- All sectors of the organization should be fully informed of plans and procedures
- Appropriate individuals are accountable for the budget implementation
- Expectations are passed from top to down and vice versa through the budgetary process

Functions of a Budget

4. Motivation

- Budgets can be useful in influencing the behavior of managers and employees
- Assists managers in managing organizational resources
- Budgets can motivate efficiency

Functions of a Budget

5. Control

- A budgets can control and guide managers and organizations on which activities to focus on
- Managers can be aware of which costs are outside the organization priorities
- Budgets can guide on which expenditures to expand and the ones to scale down

Functions of a Budget

6. Performance evaluation

- Managers' performance can be evaluated by how they manage the organizational budget
- Promotion sometimes dependent on budget record
- Budgets reviews can help managers assess their performance and adjust accordingly

Types of Budgets

Types of Budgets

1. Balanced
2. Revenue
3. Performance, Program and Planning Budgeting
4. Zero-based
5. Capital expenditure budget

Types of Budgets

1. **Balanced**

- A budget with no deficit or surplus
- Estimated expenditure is equal to expected revenue
- Living within means

Types of Budgets

2. Revenue

- Details the revenue received from various sources
- A government revenue budget divided into tax and non-tax revenue
- It includes expenditure from the declared revenue
- Provides information on sources of revenue

Types of Budgets

3. Performance, Program and Planning Budgeting

- The budget takes into account end results or performance
- Ensures cost effective and efficient planning
- It requires the following;
 - Understanding the outcome
 - Strategizing on final outcomes
 - Specific activities required to achieve the outcomes

Types of Budgets

4. Zero-based budgeting

- Involves making a budget from scratch
- Does not require incremental budgeting
- All expenses are justified for each budgeting period
- Can help lower costs by avoiding blanket increases or decreases to previous budgets

Types of Budgets

5. Capital expenditure budget

- Plan that states the amounts and timing of fixed asset purchases by an organization
- The amount of cash a company will invest in projects and long-term assets
- A capital expenditure budget may span a longer period than the annual budget.

The Budgeting Process

Situation analysis

- Identifying ways to bridge the gap between the current and desired state
- Identifying activities to be prioritized for funding
- Which activities should receive additional or less funding?

Budget formulation

Top-down approach

- A clear definition of fiscal targets and a strategic framework
- Setting objectives and priorities
- Indication of available resources and budget ceilings

Budget formulation

Bottom-up approach

- Preparation of budgets within the set ceilings
- Specifying amount necessary to continue current activities
- Any proposals for new programs and cost
- Relevant performance indicators

Negotiation

- Modifications to the submitted budget may be made by higher level management
- Meetings to discuss and negotiate revisions to the budget
- Iterative process until both parties are happy
- Final budget submitted

Budget approval and implementation

- Budget approval after all relevant stakeholders are in agreement
- Approved budget passed to responsible implementers
- Activities are implemented as soon as funds are allocated for the various activities

Budget review

- Budgeting is a continuous and dynamic process
- Budget evaluated periodically to assess performance against targets
- Identification of items not going as planned and corrective action initiated if possible
- Budget plans can be adjusted accordingly