

**NURS-FPX6216 Assessment 2: Preparing and Managing Operating Budget**

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Program Name or Degree Name (e.g., Bachelor of Science in Psychology), University

COURSE XXX: Title of Course

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Month XX, 2024

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## **Operating Budget for a Hospital Unit**

Effective financial management is an essential factor in the success of any healthcare institution. It enhances the economic well-being of the institution. Nurse managers play a vital role in maintaining the profitability and financial success of the healthcare institution. Therefore, they should have critical financial management skills such as the preparation and management of budgets. They also ensure that the available resources are used for the objectives of the healthcare institution. An operating budget is the management's plan for revenue generation and incurring expenses over a period of time. Operating budgets are often prepared for one fiscal year. Despite the challenges nurse leaders encounter in financial management, they are responsible for making data-driven decisions for the institution's profitability and financial success. According to Welch and Smith (2020), preparing operating budgets requires evaluating nurse-patient ratios and understanding budgetary allocation concepts. This paper presents an operating budget, the creation and design of the operating budget, the strategic plan, and the ongoing management approach used for a 35-bed hospital psychiatric department unit.

### **Preparing an operating budget**

The budget informs organizations' expenses and revenues throughout a fiscal year. Hence, a budget in a healthcare institution is a tool used to direct the institution's expenses and revenues and prepare it effectively for market changes. Healthcare institutions' budgets also facilitate tighter financial control, informed decision-making, and staff motivation (Keeler, 2020). The operating budget will be a one-year plan divided into four quarters, three months each. It is a zero-based budget starting from a zero-budget level of the financial year. It will be developed from the previous year's budget, incrementally adding new costs. The significant sections of the operating budget will include the expected financial expenses and the revenue that

will be generated to cover the projected expenses. The operating budget to run a 35-bed psychiatric department of a ho will be as follows:

OPERATING BUDGET FOR THE PSYCHIATRIC UNIT FY2022							
	ITEM	ITEM QUANTITY	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	ANNUAL TOTAL
	Overhead/administrative costs	1	27375	34500	37000	25800	124675
	Nurse manager Salary	1	15000	15000	15000	15000	60000
	psychiatric doctors salaries	5	100000	100000	100000	100000	400000
	ward assistants salaries	5	25000	25000	25000	25000	100000
	Psychiatric Nurses Salaries	20	350000	350000	350000	350000	1400000
	non-medical supplies	1	10000	10000	10000	10000	40000
	Drugs	1	100000	100000	100000	100000	400000
	Furniture	1	5000	7500	3200	2800	18500
	Office Equipment	1	4000	4000	4000	4000	16000
			636375	646000	644200	632600	2559175
EXPENSES							
Total Expenses							
	Funds allocated by the Institution	1	500000	500000	500000	500000	2000000
	payment of services offered	1	175000	175000	175000	175000	700000
	grants	1	25000	25000	25000	25000	100000
	loans	1	50000				50000
	Insurance Reimbursements	1	175000	175000	175000	175000	700000
							3550000
REVENUE							
Total Revenue			925000	175000	1100000	175000	3550000

The recommended nurse-patient ratio in a psychiatric ward is 1:5. With a 35-bed unit, about 25 nurses are required, five of them being psychiatric/mental health nurse practitioners. The average salary of a nurse is \$70000, and that of a PMH-APRN is \$100000. One psychiatrist, one medical officer, and seven ward attendants are needed. The average pay of a psychiatrist is \$155,000, \$132000 for a medical doctor, and \$27,000 for a ward assistant.

### Budget Creation and Design

A hospital budget is a time- and resource-intensive activity that requires an open mind to ensure all areas have adequate resources to prevent halting activities due to financial constraints.

Budgets are designed to meet patient, organizational, and staff needs. A robust analysis of these

three stakeholders' needs is vital. The patients' number and characteristics help determine their specific needs. The population needs to determine the relevant staff-patient ratio. Nurses and other hospital staff determine the required doctors, specialists, and nurses. The population of interest is the mentally ill, and especially older patients. The relevant specialists include psychologists, psychiatrists, and psychiatric/mental health advanced practice registered nurses. Supporting equipment such as the electrocardiogram and rooms for milieu therapy are integral considerations.

The older population also has other needs that include assistance with activities of daily living such as walking, eating, and bathing because mental illnesses are more severe in the older populations. Thus, having additional ward assistants/ patient assistants/nurse assistants will be integral. Different hospital units have varying needs; hence, each department has an individualized budget. A needs assessment helps the nurse leader assess the organizational readiness through an internal readiness assessment to determine if the organizational resources will meet the needs or if additional resources will be needed from external institutions such as lending institutions.

Budgeting for individual departments helps break the budget down into smaller and manageable sections that are easy to follow. The budget includes the nursing unit expenses and the revenue used to meet the expenses. The expenses include direct costs, such as labor, and indirect costs, such as non-production activities. The expenses enhance the effective running of managerial roles, staffing, and budgeting within the nursing unit. Expenses for supplies will include costs to cover administration, education, and running other unit processes.

The expected revenue to cater for the expenses is also included in the operating budget. The nursing unit will also operationalize expenditures in the yearly budget. The primary source

of revenue is the money received from the services it offers. Other sources of revenue include grants from organizations such as the World Health Organization, loans from financial institutions, and reimbursements from insurance agencies such as Medicare and other private insurance.

During the budget preparation, one assumption was that the ward capacity would be maximum without overflow. Having less than the required number will thus save on costs.

During the budget preparation, a decision to ensure budget flexibility to meet ever-changing healthcare needs was necessary. The charge nurse of the ward will prepare a zero-based weekly budget to ensure accountability of the medical and non-medical supplies. The staff number and needs also depend on other leaders' perspectives, such as the medical Superintendent and external stakeholders. Thus, depending on resource availability, they will have the final say on the number of staff.

### **Strategic Plan**

A strategic plan establishes the direction of an organization. It is a document used to communicate the organization's goals, the actions needed to achieve them, the underlying contradictions encountered when achieving them, and other critical elements that develop from the planning process. A strategic plan in a healthcare institution helps the hospital managers assess their position, where they want to be, and the actions they can take to get there. A study on the strategic planning of healthcare workers during the pandemic by Ehrlich et al. (2020) established that strategic planning ensures healthcare institutions remain relevant even in the dynamic healthcare field. A strategic plan also outlines the organization's vision, mission, SWOT analysis, core values, objectives, and the action plan required to meet the goals and objectives. A

strategic plan, therefore, forms the foundation of planning for the profitability of the healthcare institution.

In this case, the strategic plan for the healthcare institution will be as follows.

**Institutional goal:** To be at the frontline in providing holistic care services to the community, serving all populations using preventive, promotive, and curative approaches.

**Objectives:** To improve patient satisfaction and provide patient-centered care, to provide access to cost-effective care for all populations in the community, and to reach all population needs through health promotion, prevention, and curative approaches.

**Action plan:** Provision of holistic care, health promotion, and prevention interventions in the community. Provide quality care for all populations in all departments.

**Vision statement:** Towards the leading care-providing institution in the community through quality, holistic, and patient-centered care provision.

**Mission statement:** To be the answer for all healthcare needs in the community and propagate towards a community of desirable well-being.

**Core values:** Quality, patient-centeredness, integrity, humanity, servanthood, and collaboration.

**SWOT analysis:**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Availability of resources</li> <li>• Availability of qualified care providers</li> <li>• A strong interprofessional collaboration</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• High nurse turnover rates</li> <li>• The heavy workload for the care providers</li> <li>• Limited space</li> </ul>
<p><b>Opportunities</b></p>	<p><b>Threats</b></p>

<ul style="list-style-type: none"> <li>• Availability of funding from organizations</li> <li>• Favorable healthcare policies</li> <li>• Conducive practice environment</li> </ul>	<ul style="list-style-type: none"> <li>• Competition from public and federal healthcare institutions</li> <li>• Expansion threats due to licensure requirements</li> <li>• Perceived unfavorable changes in healthcare policies in the future</li> </ul>
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The strategic plan ensures the unit mission of the psychiatry department is aligned with the organizational mission, thus contributing to the success of the healthcare institution. The outcomes of the above proposed strategic management plan will contribute to the achievement of both the unit and organizational mission (Willis, Cave & Kunc, 2018). Evaluation criteria will be used in the plan. The evaluation metrics that will be used include improving the institution's competitiveness in the healthcare field, striving to maintain desirable patient outcomes and meet patient needs, maintaining high quality in the care-providing services offered in the psychiatric department, and the ability to increase revenue and reduce costs.

Ensuring cost-effectiveness when staffing the units is also a nurse manager's role. It ensures the unit reduces costs, thus minimizing the budget outline. The nurse manager will also prepare a strategy for evaluating the staff at the psychiatric department unit. The strategy will also help increase staff efficiency. Therefore, the nurse leader projects the organization's long-term goals using the strategic plan developed. The nurse manager will record all the expenses of staffing, medical, and non-medical supplies used for care provision in a unit's fiscal year

statement report. Thereafter, the report will be evaluated using a comparison of the report, that is, the actual expenditure and revenue, against the budget, thus determining if it was effective.

Maintaining adequate staff levels is a significant challenge for the psychiatry unit. Since there is a shortage of nurses and physicians well versed in psychiatry, especially for trauma and trauma management, it will be essential to ensure staff turnover levels are low, thus ensuring there is enough staff throughout all shifts. After the management accepts the proposed budget, the nurse manager introduces a strategic implementation plan, led by the nurse in charge of the unit. The nurse manager is supposed to create a budget to help meet the goals outlined in the strategic plan of the healthcare institution.

According to Willis et al. (2018), a strategic plan is an influential management tool that helps the organization maintain a competitive advantage in the dynamic market. The strategic plan will inform the operating budget used in the psychiatric unit and ensure that the budget is aligned to meeting the goals outlined in the plan. Also, the strategic plan outlines the institution's mission, which the nurse manager uses when setting the unit's objectives. The unit's goals, such as ensuring care quality and improvement in patient outcomes, will be set in line with the vision and mission of the institution, and core values will be applied when working towards the goals.

#### **Ongoing budget management approach**

The best approach that will be applied in budget management is the benchmarking approach. Benchmarking compares the performance of an organization or a clinician to another healthcare organization. A recent study by Reponen et al. (2021) established that benchmarking in healthcare involves knowledge and experience identification, followed by a selection of the best approaches to improve patient outcomes. Benchmarking aims to improve efficiency, quality, and patient experience. Budgeting is an ongoing process that requires the attention of the nurse



manager throughout the fiscal year. Using the operating budget, the nurse leader will benchmark the performance of the psychiatric unit by comparing the actual expenses and revenue with the proposed budget.

Since most healthcare units spend extravagantly when there are plenty of resources and make expenses slash in times of inadequate finances, a nurse manager should be well-versed in financial management skills. A nurse manager should be able to effectively manage resources to cater to financial crisis periods and provide a solution to avoid such practices. Several practical interventions will be implemented to ensure effective budget management in the ongoing process. The interventions include setting up contingency funding to help the unit keep running in case of a financial crisis that would lead to shortages. Also, the nurse leader will ensure the same level of responsibility in managing the funds in times of plenty and in times of shortages.

The primary factor that may affect the budget is the high competition for funding from other units and some of the organizational objectives of the institution. For instance, the psychiatric department often receives less funding from the institution as compared to departments such as emergency departments. However, the expenses required to run the psychiatric department are relatively high. Also, an organizational objective such as using the curative approach compromises the psychiatric department. The management approach will try to limit staff overtime and minimize non-productive expenses, thus minimizing costs. The best approach for the psychiatric department is the preventive approach. The ongoing benchmarking budget management approach assumes that risks that would hinder the set financial year expenditure will be identified and managed on time to avoid compromising the running of the psychiatric department.

### **Conclusion**

Modeling the financial and economic factors of the psychiatric unit will enhance practice interventions that will help the facility meet the set objectives. Sound financial management of any hospital unit helps maintain its financial sustainability. The nurse manager plays an integral role in aligning the finances of the psychiatric unit with the set operating budget and comparing the actual expenses with the set expenditures in the budget. It is crucial to align the operating budget with the set strategic plan. An ongoing budget management approach should be identified for all hospital units to ensure that finances are used according to the budget.

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