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Budget - a perfect tool for performance evaluation health system?

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Abstract :

As in any field, and the health system, it is necessary to know the path to follow, step which involves developing a budget of income and expenditure and the subsequent budgetary control. Theoretically, content and methodology of developing a budget of income and expenses are based on the same principles universally applicable, but the complexity of the work undertaken leads to the distinction between two types of budgets or medical office budget and the budget of public hospitals.

Subjecting attention budgetary practice in connection with the work carried out funding sources in the health system, we note a reversal of principles, namely, not expenses are those that generate future benefits but rather predictable revenues allowed a certain level of expenditure which put questioned the role of budget performance evaluation in health care.

Keywords: budget, budgetary practice, functions, budget control

Jel classification : H61, I15, M410

1. Theoretical and methodological issues concerning the budget and budgetary practice

Budgeting is a traditional business management and control. According to most authors, budgeting constitutes the planning and coordinating the management entity through an instrument known as the budget.

T.Libby and R.M.Lindsay (2003)[1] raise a new vision claiming that budgeting is the goal, and the budget is the instrument which facilitates the sharing of responsibility and assess performance.

Although widely used, it shall be widely criticized lately S.C.Hansen, D.Otley and Van der Stede (2003)[2] by the statement that this is far from optimal tool control management system. Since the environment in which the firms known rapid changes, budget, say the authors of the above, it is slow in detecting problems and unforeseen circumstances that can not be included in the budget. Furthermore, the budget is accused of being time-consuming to establish a relationship between the purpose and the benefits they bring.

A disadvantage associated with the objectives of the annual budget is the budget that does not encourage the realization of cost savings and long-term objectives subordination strategies lead to information handling costs of the desire to achieve goals.

Widely criticized for firms operating budget in unpredictable environments, it remains a control tool for those working in stable environments.

J.Akesson and S.Siverbo (2009)[3] argue that although organizations managemnt adds new performance models tend to keep old models because even if the new models are based on new philosophy similtan they are used in the same context, where noted a similarity with the budget.

The budget can be defined as a short-term economic plan are provided the resources allocated and used, expressed in monetary terms. **In our opinion**, the budget must be a path to follow and not a hope or a forecast, but an intention authority within a certain period of time.

Budgeting is a very complex process, budgets must fulfill many functions, set the W.M.Harper since 1995 and having regard to:

- planning
- control
- coordination
- communication
- training
- authorization
- motivation
- measuring performance
- decision
- delegation of authority

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[1] Libby, T & Lindsay, R.M. - *Budgeting an unnecessary evil* ,CMA Management Vol. 77, Issue 1, 2003, p. 30- 34 (part 1)

[2] Hansen, S.C., Otley, D. & Van der Stede - *Practice Developments in Budgeting: An Overview and Research Perspective,* Journal of Management Accounting research Vol. 15, 2003, p. 95-116

[3] Akesson, J., Siverbo, S. - *Forskare varnar för överdos av styrning,* 2009, http://cio.idg.se/2.1782/1.236392/ forskare-varnar-for-overdos-av-styrning

- education
- management

Perform all functions of a single budget budgeting system is difficult due to conflicts that may arise between:

- planning and motivation given that the budget should be based on a realistic assessment of operational capabilities and management's ability to forecast. However, to avoid the risk of failing to achieve objectives budgets we face extremely optimistic about the use of resources, motivation is affected, as is the case of the health system;
- motivation and evaluation, conflict is generated widespread belief that budget targets must play the role of fixed standards against which performance is judged necessary and managers in the health system because they are judged in relation to their performance. On the other hand, motivating managers is affected by the rigid application of fixed standards do not consider the impact of uncontrollable or unpredictable events that lead inevitably to the deviation from the standards;
- planning and evaluation, conflict arising from the requirement planning role to provide a realistic assessment of future prospects.

Budget process generally involves an iterative cycle that moves between desired performance objectives and performance estimates possible until obtaining a feasible and acceptable.

If you look beyond the details and iterations of the ordinary budget process, we see that there is a simple budgeting process universally applicable and therefore does not make any health system milieu.

Given the funding system, as presented, vis-à-vis the budgetary practice, we observe that the health system find all three forms of approach to the budget, namely:

- top-down - a process that requires the involvement of senior management and less operational management organizational structures or departments within the health system. Basically, the operating units are placed in front of amounts to be appropriated, without being able to act on them during forecasting;
- bottom-up - the process by which the budget is established from the bottom up, by organizational structures specific areas of the health system. Basically, budgets are developed to operational structures, negotiate with the Home Health and ends after the contract for delivery of health services takes the form of finite budgets;
- top-down / bottom-up is a process that combines and balances the best of both approaches because the budget is a collaboration between the upper and lower management and budgetary process, in our opinion, is specific organizational structures peak (ministry and CNASS).

Subjecting attention in the health budget practice, we find that it can make a distinction between two types of budgets:

- medical office budget;
- public hospitals budget.

Medical office budget prepared by types of surgeries depending on their goals, is a tool managemnt short term or a year and is based on calculations to substantiate the estimated revenue sources and expenditure

on items of expenditure. For example, in Table nr.1. presents a medical family budget.

Table. 1. The budget of a medical

Chapter	Indicators	Provisions Year N
I.	REVENUES, of which:	45.500
	Revenue from medical services provided under contract with CNASS	44.889
	▪ Income from paid medical services directly from beneficiaries	236
	▪ Donations and sponsorships	125
	▪ Revenue counseling and advice in the medical field	150
	▪ Revenue contracted teaching and research units of the Ministry of Health	-
	▪ Other revenues	-
II.	Total EXPANDITURE, of which:	44.293
	▪ Staff costs	27.581
	- Expenditure on staff salaries	23.428
	- Social security contributions	2.306
	- Contributions to the unemployment fund	117
	- Health insurance contributions	1.218
	- Travel, secondments, transfers	512
	▪ Expenses materials and services	16.712
	- Expenditure on medicines and sanitary materials	6.446
	- Expenses for maintenance and management	600
	- Expenditure on service and functional nature	2.400
	- Expenditure on services functional character	3.866
	- Other consumables	900
	- Expenditure on the provision of mal-praxis	780
	- Expenditure inventory items into use	1.260
	- Investment expenditure (depreciation of fixed assets)	1.090
	- Expenditure on current repairs	774
	- Expenditure on the purchase of books and publications	428
	- Expenditure on medical education and research	328
III.	The outcome of activity	1.207
	▪ Profit (I – II)	1.207

Sursa: adaptation P.Şerban - *Budget management's practice or cabinet,* Family Doctors Association Conference, Bucharest, 2006

In relation to the income and expenditure of medical practices imposed following information:

- have budgeted revenues are uncertain even if the Framework Agreement signed with Home Health Insurance provides the number of insured persons at the minimum packet rate per capita basis and approved by the Minister of Health in collaboration with CNASS;
- to substantiate expenses are not taken into account the actual conditions of work but seeking employment within the estimated revenues;
- at medical offices from the work can only be of benefit in case of failure then it will be revenue neutral as no income to cover the work does not make sense. Therefore, if the income is not realized some of the expenses may be incurred.

Public hospitals budget is a complex instrument through which aim

activity results on a time horizon. For this reason, budget health units is considered a concrete business plan and balanced which is based on objectives that are measurable so that the relationship between costs involved amnieră to the establishment and revenues should be based on a balance based on profit.

Viewed from an accounting perspective, budget health units face some data ipedimente limited level of income compared to the need of making substantially higher costs. This imbalance that occurs between income and expenses has a negative effect on the health system in the following sense:

- budgeted expenditures can not keep pace with technological developments in the field of medical equipment, cutting-edge medical treatment, research in the field;
- can not achieve an optimal scheduling of expenditure for the two periods known as the warm season and cool season;
- can not act on the direct costs while operating according to the volume and quality of care, the relationship between market supply and demand of medical services, the evolution of prices and tariffs in other countries, health policies, etc .;
- adjacent costs of medical care, such as information costs, continuous medical training, specialization, image etc., whether they are nonexistent or that are insignificant and often require medical efforts of the individual materials.

Regardless of the level of spending, we must have in mind that sources of coverage shall be allocated sized without exceeding a certain level. Aces aspect derives from the fact that once the income and expenditure developed is negotiated with the Health and ends only after the Framework Contract Service can finalize the budget.

We note a reversal of principles conveyed in economic theory, neither expenses are those that generate future benefits but rather predictable revenues allowed a certain level of expenditure which questions the role of budget performance evaluation in health care.

Methodology budgeting income and expenditure is approved by Order of the Minister of Health[4] and budget covers two structures:

- the income and expenses of the hospital;
- income and expenditure budget sections / departments.

As medical offices, the income and expenditure of public hospitals should be developed under equilibrium conditions, the difference between revenues and expenditures are either surplus to be carried over to the next year or zero if revenues equal expenses.

Background of revenue and expenditure of the budget shall be in conformity with existing methodology given certain principles set out in the Order nr.1043 / 2010, as shown in Table 2.

[4] Ministry of Health - Order nr.1043 / 2010 approving the Methodological Norms for the development of revenue and expenditure of public hospital, as amended and supplemented by Order no.267 / 2014

Table no.2. Principles substantiation revenue and expenditure of hospitals

Income	Expenditure
▪ to substantiate revenue from contracts with insurance funds are envisaged conditions of the Framework Agreement, the number of services to be provided, payment method, through a comparison with the previous year; ▪ revenue related to services provided to substantiate the circle, are envisaged number of applications, the volume and nature of the services required and the average income per person by a comparison with the previous year; ▪ to substantiate income from contracting with local departments of public health or forensic institutes (for universities) is considering contracting conditions, conditions of execution and destination, payment; ▪ to substantiate other income are taken into account, or conditions of contract if it relates to joint investment or achievements of the previous year	▪ to substantiate expenses are taken into account aspects of timeliness, efficiency, opportunities for increasing internal control and reduce costs through outsourcing of services; ▪ to substantiate expenses are taken into consideration a number of physical indicators for assessing the economic effort (number of staff, number of cases discharged, number of beds, number of days of hospitalization, etc.) and developments in the last three Expenditures years, rules on the allocation of expenses (eg food allowances, salaries); ▪ substantiation of expenses is related to each income source from which it supports, grouped in debt expenses (staff costs, goods and services, capital expenditures, interest, non-financial assets, etc.) and can be grouped into expenses direct, indirect and general health services to achieve the purposes of analysis; ▪ the salary may not exceed 70% of the amounts reimbursed by the Ministry of Health CNASS

Source: The order processing after 1043/2010

We conclude that the structure of revenue and expenditure satisfies the principle of budgetary specialization whereby revenues are presented by sources and expenses of expenses, according to their nature and purpose, following the budget classification.

2.Controlul bugetar – mijloc de eficientizare a managemntului performanţei

Defined by CIMA, budgetary control is to establish a mechanism permitting responsibilities in relation to the policies adopted and regularly compared with data obtained presents search results in the budget and in this way the fulfillment of the objectives set and the ability to provide a basis for review thereof.

G.H.Hoftsede (1998)[5] defines the monetary and budgetary control states that if at first budget is a plan, it then becomes a device for measuring and controlling the activity. In fact, according to Slim's (1994) budgetary control aims at monitoring the progress of an organization as a whole and its parts in order to achieve budgeted.

[5] Hofstede, G.H. - *The game of Budget Control*, Tavistock Press, London, 1968, carte retipărită de Taylor and Francis la aceeaşi editură, 2001

The role of budgetary control is to predetermine estimated revenue and take corrective measures to be taken.

Researching the opinion of other authors, **we conclude** that the budget can be used as a monitor at the same time as a control method for complex problems facing the entity.

Since budgetary control can not be conceived outside budgeting can emphasize the idea that budgetary control process include:

- budgeting;
- continuous comparison of actual performance against budget performance;
- reviewing budgets depending on the circumstances.

Budgetary control can be achieved easily when:

- objectives are clear and unambiguous;
- results are measurable;
- effects of interventions are known;
- activities are repetitive.

C. Drury (2006)[6] believes that there are two main types of budgetary control, which refers to the ex-ante control and feedback control type.

Ex-ante control is performed before authorizing operations allocation and consumption of resources and aims to anticipate errors or differences before they occur by taking measures to minimize them.

Type feedback control system involves measuring the differences between planned and actual, so that further action can be modified to achieve the required results.

It should be noted that budgetary control systems are dependent both internal factors and external factors affecting the organization, and changes in these factors have an impact on the budget. Characteristic health system health, external changes, political, social and economic tend to have a slow effect on health units. Often, these changes are unpredictable and health care facilities tend to act rather reactive than proactive.

Budgetary control can be achieved in different ways, through the implementation of internal control in the form of:

a. internal audits;
b. internal checks in functions and activities;
c. administrative controls in ensuring effective policies for staff, operating rules, regulations, procedures and methods;
d. segregation of duties in the initiation, approval, authorization, execution and recording of transactions;
e. the chart of accounts showing the cost elements, cost centers, cost and level of expenditure limits;
f. the books;
g. compliance with accounting instructions on purchases, stocks, receipts, financial statement preparation and reporting regular loan repayments etc.
h. the adoption of accounting policies regarding their assets sold and depreciation.

Any forms of internal control is applied in one form or another,

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[6] Drury, C. - *Cost and Management Accounting*, 6th Edition, 2006, p. 422-471

budgetary control is related to resource management to track that does not manifest phenomenon of abuse or improper request for additional budgetary allocation.

Lack of internal control can lead to wastage, fraud, accounting is accurate and not misleading, completion of projects coupled with insufficient financial information production and management.

From a practical standpoint, budgetary control is different, depending on the complexity of the activity. Thus, if medical offices, open monthly activity statements and deducted the total revenue by source, destination and chapters are followed in terms of their classification limits. Actual data source is the single entry bookkeeping organized into distinct categories that are open to the income and expenditure.

In the case of hospitals, we find the model of Drury budgetary control, internal control and management mechanisms comprising part autorcontrol. Organization of internal control varies from hospital to hospital, the hospital is dependent on the organizational chart approved by the Local Council to which it reports, but also contains a common note that the measures aimed at increasing the effectiveness of risk assessment is based.

Concerns that manifest clinical governance line of hospitals, bring to the fore so-called "magic triangle" (nursing - quality - cost) that combines elements of an administrative nature with the clinical context where a decade ago appeared in Switzerland and more recently in Germany, the function of "medical controller" thus contributing to a new management structure, ie "medical controlling".

The efficiency of such a structure is closely related to the administrative combining medical data with the budgetary control or in traditional form or in the form of new tools such as performance managemnt dashboard, the cornerstone in decision making for increased performance we can find the cost-quality-productivity relationship.

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