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Background -Budget

- Managing healthcare delivery systems plays an important role for healthcare providers in order to have high quality service performances
- Inpatient pharmacy delivery systems are one of those that have a key role in hospital's service quality

Why Pharmacists?

- The American Society of Health-System Pharmacists has stated that, in developing an effective formulary system, pharmacists are essential members of the multidisciplinary committee, because they can provide suggestions for balancing pharmacoeconomic concerns with the evidence for a particular medication
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- This approach strategically positions pharmacists to better function as medication experts, leading the development, evaluation, and maintenance of hospital formularies, preprinted orders, and practice guidelines, and the initiation of cost-management strategies.
 - The pharmacy department offers expertise in negotiations with pharmaceutical companies, therapeutic recommendations, evidence-based clinical information, and collaborative practice
 - Pharmacists are the optimal health professionals to serve as unbiased, practical, evidence-based mediators, because they are able to select the most appropriate and most effective drug therapies, while being cognizant of drug costs.
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Budget: Definition

- Budget is defined as a financial or quantitative statement prepared for given the purpose of attaining the objective.
- It is an instrument through which hospital administration, management at departmental levels, and the governing board can review the hospital's services in relationship to a prepared plan in a comprehensive and integrated form expressed in financial terms.

Objectives of budget

- Development of standards
- Comparison of actual results with standards
- Identification of deviation or fluctuation
- Analysis of deviation effectively manage the financial aspects of the responsible person will use the budget
- Details to determine whether the proposal is economically feasible and realistic.
- To monitor the hospital financial activities
- Estimate the cost of completing objectives identified in the proposal.

Types of budget preparation:

Based on the duration of budget, it can be divided in to:

- Short term budget (2 years)
- Long term budget (5 - 10 years)

Based on the organizational structure of hospital budget, it can be divided in to:

- Centralized budget
- Decentralized budget

Centralized Budget Preparation

- The centralization of pharmacy drug budgets is supported by the 1993 medication safety guidelines of the American Society of Hospital Pharmacists (now the American Society of Health System Pharmacists), **which recommended that** “the pharmacy department must be responsible for the procurement, distribution, and control of all drugs used within the organization”.

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- The Pharmacist, in order to participate more effectively in the budgetary process, must be familiar with the certain aspects of the process such as:

1. Personal considerations
2. Development of confidence among other officials
3. Institutional policies
4. Demographical pressures

1. Personal considerations:

- Personal considerations such previous experience in the furnishing of budget with thorough support justification has a better chance of approval

2. Development of confidence among other officials:

- As most of pharmacy activities affect the other departments of a hospital it is important for the chief pharmacist to secure their collaborations and support.

3. Institutional policies:

- The Institutional policy considerations in the budgeting process consists of the aims and objectives of the hospital and its developments.

4. Demographical pressures:

- Patient's representatives with a knowledge of demographic epidemiological and attitudes are part of several boards of trustees and hence in these circumstances pharmacist are able to provide the type services needed by the people.

Decentralized Budget Preparation

- The responsibility for drug budgets lies with each individual department and not solely with the pharmacy department.
- This approach can lead to an improvement in evidence-based practice, better patient outcomes, lower overall costs, and less wastage of medications, all without compromising the high quality of service that institutional pharmacies provide.
- If drug budgets are allocated to individual departments, hospital pharmacy departments will continue to play a vital role in various drug-related services, including procurement, storage, dispensing, and clinical and support services.

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- With a decentralized system, it is still feasible to have a single formulary and a unified pharmacy and therapeutics committee.
 - Pharmacists can still be involved in the development and maintenance of a cost effective, evidence-based formulary.

Centralized Vs Decentralized Budget Preparation

- Giving departments the authority to manage their own drug budgets tends to increase physicians' awareness of evidence-based practice
- The physicians were made aware of the economic implications of their choices
- In addition to increasing compliance with evidence-based practice, decentralization of drug budgets allows for overall cost savings
- Decentralization of the drug budget to individual departments and education of primary caregivers would empower physicians to become more responsible stewards of drug use

- Reducing drug wastage through education of prescribers is another potential benefit of decentralized drug budgets
 - Increased awareness of costs may motivate providers to decrease their drug budgets, which can in turn lead to less drug wastage.
 - Incorporating drugs into an individual departmental budget promotes prescription stewardship by physicians, removing the perception of pharmacists as the “drug budget police”.
 - Enforcement of prescribing according to a formulary would instead be the responsibility of each department head.
 - Eliminating this “policing” role might allow for better interdisciplinary relation
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- Decentralization of drug budgets increases overall costs by fostering fragmentation and inefficiencies within the hospital's medication management process
 - The process of developing a drug budget is complex and time-intensive.
 - In decentralized systems, each department must perform this process separately, whereas the process is more efficient and comprehensive in a centralized system
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- Decisions related to drug budgets are associated with economic demands for the time of pharmacy personnel, including time required for retrieving and delivering medications, compounding IV admixtures, and managing drug packaging materials and technology.
 - Decentralized decision-making results in an uneven distribution of goods and services to different wards, a decrease in standardization and efficiency, and increases in the cost of service provision
 - In a decentralized system, stock must be segregated into several caches according to who “owns” the medications; this can lead to logistic challenges in storage and tracking.
 - Assigning drug costs to each department as patients are transferred from one service to another is time-consuming and requires an information system to track and provide timely statistics on usage, costs, and supplies
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- In contrast, a centralized system allows for procurement and stock-control processes that minimize acquisition costs and wastage.
- These processes include monitoring of expiry dates, recycling of dispensed but unused medication, and strategic allocation of high-demand, back-ordered, or expensive drugs to areas of urgent need
- In a decentralized system, each department has different formulary drug preferences and will argue for larger budgets based on its own baseline drug costs.
- In a centralized system, the pharmacy can effectively influence such costs by developing policies for therapeutic substitutions, automatic stop orders, and restricted drug use, tailoring them to departmental resources and hospital needs

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- Decentralized processes also compromise institutions' leverage on bulk buying contracts; in contrast, centralized tendering in a competitive bidding process yields the best price for the organization.
 - Increased drug stock in a decentralized system augments the risk of medication errors through the availability of multiple strengths or types of medications
 - Decentralization may precipitate conflicts of interest

Divisions of Budget

1. Income accounts or revenue accounts
2. Expenditure accounts
3. Capital Equipment and construction

Income accounts or revenue accounts

- Total income must be calculated for the implementation of the budget.
- A common method is, either the department of pharmacy or the accounting departments maintains a daily, weekly, monthly or annual total of the cost of the pharmaceuticals issued to the various patient services as well as to the special service department.

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- This above incomes obtained from the processing of patient prescription and requisitions, represents the true income of the department.
 - Other statistics that are of value in assisting management to accurately predict the volume of activity of the department of pharmacy are:
 1. Number of prescriptions according to subcategories.
 2. Number of prescriptions dispensed per pharmacist.
 3. Hours of service.
 4. Prescription volume per hour of service.
 5. Medication cost per patient day.
 6. Medication cost per clinic visit.
 7. Average drug cost per prescription.

- Generally, income in hospital pharmacy is limited to the sale of drugs to inpatients, ambulatory patients and departments of the hospital.
 - The sale of drugs to patients may be subdivided further based upon patient's ability to pay or to their employment status if they are employed by the hospital.
 - a) Full payment
 - b) Part payment
 - c) Non - payers
 - d) Physician (not paying)
 - e) General employee
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Expenditure accounts:

Expense account in general may be divided into following:

1. Administrative and general expenses.
2. Professional care of the patients.
3. Out-patients and emergency expenses.
4. Miscellaneous expenses.

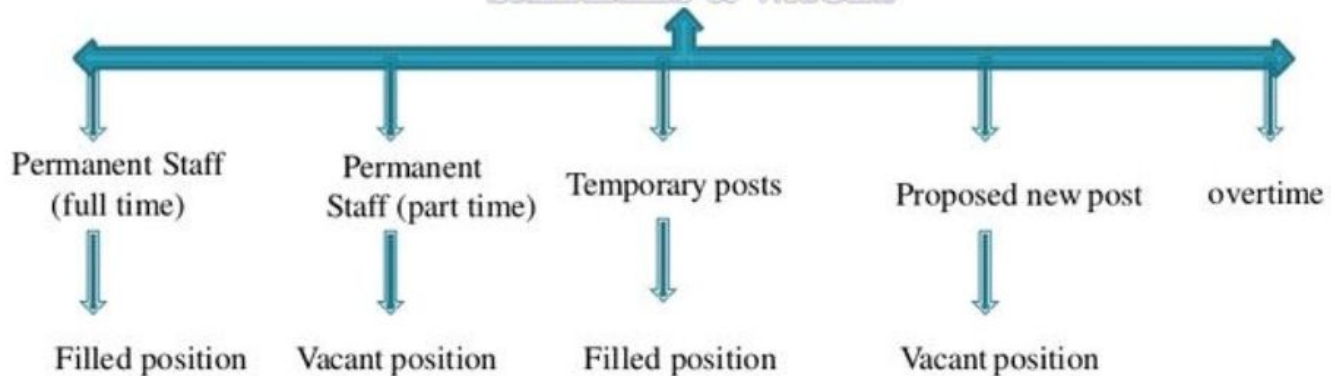
The **expenditure accounts** also includes the following categories

1. Salaries and wages
 2. Expenses of supplies & materials
 3. Drugs and pharmaceutical expenses
 4. Purchase expense
 5. Miscellaneous supplies and expenses.
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1. Salaries and Wages:

- Includes salaries and wages of (i) Pharmacists, (ii) Assistants, (iii) Clerks and (iv) Others
 - It is important that the pharmacist gives break up of all salaries and wages paid.
 - The chief pharmacist subdivides the posts into further three categories viz. administrative, professional and non-professional staff.
 - The charts separates the full time and part time staff in above mentioned categories.
 - The costs of new posts is added and lastly any overtime, which according to past experience may be necessary.
 - The total of all these items constitutes the total anticipated salary and wage expenditure for the next financial year.
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SALARIES & WAGES



2. EXPENSES OF SUPPLIES & MATERIALS:

1. **Chief pharmacist** or the responsible person should prepare the financial statement regarding the requirement of amount in rupees for supplies and materials with the help of the latest financial budget.
2. Necessary to show **the actual cost** of the materials.
3. If the **budgeted figure** and the **previous figure** was the same then the previously prepared budget was **well prepared**.

3. Drug and Pharmaceuticals:

- Those dispensed by prescriptions or otherwise from the hospital pharmacy department.
- Those used in the outpatient and emergency and other departments.

4. Purchase expense:

- This account should include the cost of prescription (excluding those intended for outpatient) purchased from outside pharmacy in case the hospital does not have its own Pharmacy.
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5. Miscellaneous Supply and Expenses:

- Bottles, labels, glass wares, narcotics and alcoholic permit fees, printed forms and stationary, pharmacist uniforms, reference books etc.
- Parts required to repair and maintain equipment used by this department and repairs made by outside concerns also should be charged to this account.
- All the things mentioned will provide an guideline for the preparation and is changed according to the need of the hospital

Capital Equipment and construction

- In hospitals where funding of the depreciation of physical plant and equipment is practiced, the actual cash for replacement or remodeling is usually readily available.
- In those hospital where funding is not a policy, then construction and purchase of equipment creates a major financial burden requiring the development of a comprehensive and detailed budget.
- However, irrespective of the policy with regard to funding, an equipment and construction budget must be prepared.

List of Life period in years of depreciable machinery and equipment

Professional Equipment		Administrative Equipment
Balances	Prescription case	Bookcases
Cabinets (Metal or Wood)	Pressure Pumps, Vacuum Pumps	Bulletin Boards
Capsule machine	Refrigerator	Calculators, computers
Chemical hoods	Sterilizers	Clocks
Distilling apparatus	Tanks	Lockers, metal safes
Metallic filters	computers	Worktables
Homogenizers	Tablet manufacturing Equipment	Filing cabinets
Autoclaves	pH meter, Polari meter	Ledgers and accounts books

Implementation of budget:

- It includes the following parameters
 1. Requirement of different departments
 2. Actual fund position
 3. Utility of particular item
 4. Cost of products
 5. Quantity of products
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Advantages of planned the budget:

1. Develop better financial planning.
2. Gives a better focus on decision making to the management.
3. Effectively manage the financial aspects of the hospital.
4. Exposes the reasons of over expenditure.
5. Helps to focus on hospital priorities
6. Enhance efficiency of staffs and others.