

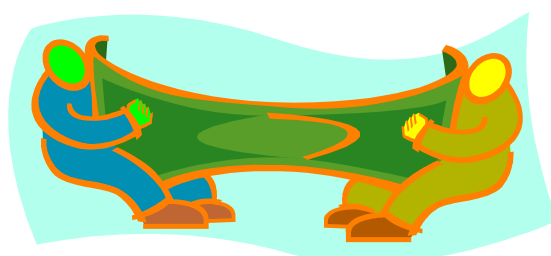
### HOW HEALTH SERVICES ARE FUNDED

Most complementary health practitioners work in private practice. Some services may attract health fund rebates, but by and large, fees are the only source of funding available.

Other health services attract a range of funding from various sources:

Organisation	Funding mechanism	Budgeting and spending
Public hospitals	State government funding Health fund rebates Proceeds of state lotteries and gaming taxes Charitable donations and community fundraising Research grants	Departmental delegated budgets Limited financial control below senior management Limited financial responsibilities below senior management Subject to government audits
Private hospitals	Health fund rebates Client fees Charitable donations and community fundraising Proceeds of Art Union lotteries and fundraising Research grants	Departmental delegated budgets Limited financial control below senior management Limited financial responsibilities below senior management Subject to government audits
Medical and surgical specialists	Health fund rebates Client fees	Normal business financial management and accounting practices. Generally no delegated financial responsibilities. Subject to ASIC and government audits
General practices	Health fund rebates Client fees	Normal business financial management and accounting practices. Generally no delegated financial responsibilities. Subject to ASIC and government audits

Organisation	Funding mechanism	Budgeting and spending
Health Services and Agencies (State and Federal)	Government funding	Departmental delegated budgets Limited financial control below senior management Limited financial responsibilities below senior management Subject to government audits
Community organisations	Membership fees Charitable donations Government and philanthropic grants Community fundraising	Financial control in hands of management committee. Subject to ASIC audit requirements for Incorporated Bodies May be subject to audit by external funding bodies
Complementary health practitioners	Client fees Limited health fund rebates	Normal business financial management and accounting practices. Budgetary control entirely in hands of principles. Audit requirements dependent upon business structure.
Residential care facilities: nursing homes and disability care facilities have funding structures similar to private or public hospitals	Client fees <u>and/or</u> government grants Donations and bequests Community fundraising	Departmental delegated budgets or normal business financial control (depending on funding source) Limited financial control below senior management Limited financial responsibilities below senior management Subject to government audits/accreditation



## HEALTH BENEFITS AND THE COMPLEMENTARY HEALTH PRACTITIONER

It is difficult to get a consensus of comparable benefits and the availability of provider numbers across all health funds, since these vary from fund to fund and from time to time.

Most professional associations keep a watching brief on this situation and will keep their members informed, either through newsletters or in direct contact. They also set a minimum set of education standards that the therapist must achieve in order to be eligible for a provider number.

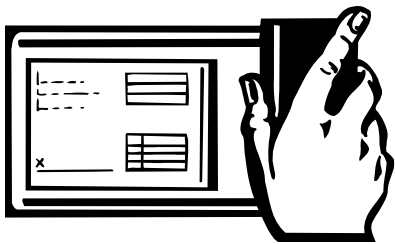
Mainly, the requirements are generally:

The practitioner must have graduated from a nationally recognised course or an industry accredited course which meets the minimum standards specified by the health fund (usually expressed in terms of hours)

The practitioner must be a member of a professional association and provide proof of being a bona fide therapist of good standing

The therapy must be one listed by the health fund as eligible for member benefits

Once you have been accepted by a health fund (especially Medicare) you will be allocated a provider number. This number must be clearly stated on all receipts and on all correspondence between you and the fund.



You are then required to keep a formal Medical Receipt system in which you can list the Item Number for the service which attracts benefits and so differentiate these from services for which no benefit can be claimed. The health fund issues lists of services and their claim numbers.

Once a part of the refund system, your service becomes more attractive to a client, therefore it is worth your while to make enquiries with the individual funds.

However, you are then subject to audit and scrutiny as funds are legally obliged to ensure that clients are not over serviced and that no medical frauds are being committed.

Medical frauds and over servicing are two of the fastest growing 'white collar' crimes in mainstream health.

The problem with this is that the few dishonest people make it very difficult for everyone else. Once someone breaks the rules, it is assumed that everyone else might do the same and we get more and more laws and regulations.

## MANAGING A CASH-BASED AND DISCRETIONARY BUDGET

The process for determining responsibilities for budget allocations is very simple in large organisations.

The management team generally retains all financial control of central functions such as human resources, asset acquisition and maintenance and risk management.

Each department or section will be allocated an annual sum of money in several 'cost centres' or 'lines' (such as equipment, consumables etc.)

Money cannot usually be transferred across cost centres to address shortfalls without direct approval from management

The team or department manager may, or may not, be given discretion as to how the money is spent within cost centres or authorisation to spend to a given limit without management prior approval

The team or department manager has the responsibility of monitoring spending against this budget and estimating budgetary needs for future fiscal years

The team or department manager will make monthly, quarterly and annual reports of cost centre spending to the management committee or financial controller

At a fixed date each year, generally three months before the end of the financial year, the team or department manager will prepare an estimate of budgetary needs for the following fiscal year. This funding request could contain budgetary needs for areas like:

- Equipment
- Consumables
- Occupational health and safety
- Training
- Special projects



Future funding is usually calculated on a formula of current spending plus a percentage for inflation, with an allowance for any special circumstances or projects

Any requests for special allocations must be written up and presented to management with good arguments as to why the money should be spent in this manner

Management will then make decisions on the relative merit of budget submissions from each team or department and allocate funds as it sees fit

Any team or department that has unspent funds at the end of a financial year may not be able to carry that funding over until the next year without special authorisation

Unspent funding may be gathered into a central funding pool and used for centrally authorised projects

## BUDGETS FOR SMALL BUSINESS OPERATION

The accepted definition of a 'small' business is one employing fewer than 60 people. Most complementary health practices are 'micro-businesses' employing fewer than six people.

If you have, or intend to have, your own 'micro-business', you need to appreciate the methods for budgeting, costing and financial forecasting. These are covered in more depth in the *Practice Administration* module, but some basic information is included here so that you can appreciate the differences between how different types of health organisation are funded.

If you have a micro-business, your budget provides your 'bottom line' for operations.

This is required because you need to ensure that:

- **all** needs are planned effectively
- there are no 'nasty little surprises' when obligations are forgotten
- that personal needs and sickness do not become cash flow emergencies
- some money is set aside for contingencies and business expansion
- new equipment and consumables are planned for
- something is produced as a benchmark for performance evaluation
- a professional attitude is developed to money management
- all resources are kept in good order

If you develop and use budgets:

- life becomes more manageable
- you can make sure every dollar is spent effectively
- you will always know the financial health of your business
- you can throw away the crystal ball

Once the business is established, you will need to keep:

- a series of interim profit and loss statements monthly for the first year so that you can track your income and expenditure precisely
- a cash flow budget after the first six months and thereafter so that you can plan future spending allocations based on income projections
- quarterly or six monthly interim profit and loss statements after the first year and thereafter so that you can always know what your 'bottom line' is.

The cash and discretionary budget for a small business is exactly like the ones used in large organisations to track the spending.



## OPERATIONAL BUDGETS

A cash budget is the easiest type of budget to manage because you account for income in and expenditure out at the time each transaction occurs.

**Cash receipts budget:** Estimated receipt of cash from **all** sources.

**Cash payments budget:** **All** estimated payments of cash by the business.

There are several types of budgetary control systems that may operate concurrently within an organisation. Some of these operate on a cash basis, others operate on an amortisation schedule or an accrual basis:

**Accrual budget:** This enters items in as they come to hand, not as they are paid. This makes your budget line different from your actual bottom line. Not a recommended way of keeping track for novices.

**Discretionary budget:** This is one where you have the ability to move funds from 'below estimate' lines to fund other lines that may require extra funding. It will also allow you to roll funds over from previous tax years.

**Fixed budget:** This is estimated in the same way as a discretionary budget, but the organisation does not allow managers to move funds between the lines or to roll over funds at the end of financial years. Generally all used funds are allocated back to general revenue at the end of the project period or accounting period.

**Depreciating budget:** This is a way of keeping check of items that depreciate in value, such as cars and computers. If your project was a large one and spread over more than one year, you might talk to your accountant about running a depreciating budget for equipment and fixed assets.

**Repayment schedule budgets:** This can vary according to the type of loan or credit funds to be repaid.

**Maintenance and replacement schedule budgets:** These run alongside the depreciating budgets to plan for new equipment, plant upgrades and regular maintenance. This ensures that funds are available to cover the costs of replacements or structural work.

**Contingency budgets:** These are the budgets for the 'What if?' or unforeseen events that can cause major disruptions to business. Everything from major equipment malfunctions, through damage control and an unexpected need to employ temporary or new staff should be budgeted for in a 'slush fund' which is reserved for the uncertainties of life.



## BUDGET ESTIMATES

Budgets are generally estimated at three different levels:

- total operating funds requirements for all functions of the business (macro)
- operating funds for each department or functional division of the organisation (micro)
- operating funds for special projects (project)

In all cases, the information you need to estimate new budgets or to monitor existing budgets are taken from your ongoing financial records:

- Profit and loss statements (Statement of financial performance)
- Balance sheets (Statements of financial position)
- Statements of Net Worth

At a fixed date each year, generally three months before the end of the financial year, the Director or business owner, or team leader will prepare an estimate of budgetary needs for the following fiscal year.

This funding request could contain budgetary needs for areas like:

- Salaries for own function or department
- Expenditure for departmental share of fixed costs
- Equipment
- Consumables
- Occupational health and safety
- Training
- Special projects



Future funding is usually calculated on a formula of current spending plus a percentage for inflation, with an allowance for any special circumstances or projects.

Any requests for special allocations must be written up and presented to management with good arguments as to why the money should be spent in this manner

Management will then make decisions on the relative merit of budget submissions from each team or department and allocate funds as it sees fit

An example of a budget estimate sheet is given on the next page. This is the type of worksheet a department manager or team leader will provide at around the nine-month stage in a budget cycle to allow senior management to allocate funds for next year.

Where funding is also available from external sources, such as grants, industry awards or government incentives, this is also built into budget.

Extract from 'Introduction to Health Services Management'

Budget lines	Cost Centre	Allocated	Spent YTD	Next fiscal year
Departmental salaries, including on-costs:	Position title	\$35,000	\$23,000	\$40,000
	Position title	\$30,000	\$22,000	\$35,000
	Position title	\$25,000	\$17,000	\$30,000
	Position title	\$23,000	\$15,000	\$25,000
	Position title	\$23,000	\$18,000	\$25,000
	Position title	\$12,000	\$8,000	\$26,000
Major equipment (over \$1,000):	Item description	\$2,000	\$1,875	None required
	Item description	\$500	\$300	\$300
	Item description	\$5,000	\$5,000	None required
Minor equipment:	Item description	\$100	\$0	\$100 rollover
	Item description	\$500	\$150	\$300 rollover
Safety equipment:	Item description	\$500	\$200	\$300 rollover
	Item description	\$150	\$145	\$165
	Item description	\$100	\$95	\$120
Software:	Item description	\$200	\$230	\$200 rollover
	Item description	\$500	\$0	\$600 rollover
Consumables	Item description	\$5,000	\$3,500	\$6,000
	Item description	\$500	\$300	\$200 + \$200 rollover
	Item description	\$3,000	\$3,500	\$4,500
	Item description	\$200	\$250	\$300
Other expenses	Item description	\$1500	\$2,500	\$3,000
Totals		\$167,750	\$100,315	\$197,195

In a large organisation, the budget estimate lines may be linked to the Chart of Accounts, which is a numbered list of all items:

- Assets
- Liabilities
- Equity
- Income
- Expenditure

This is the chart details the items in the accounting system and organises the financial information which is monitored in order to track budget performance.

**ASSESSMENT SIX: BUDGETING CASE STUDY**

You have been working in the Yourtown Health Centre for some time and your supervisor thinks it will be good experience for you to get some idea about budgeting and financial controls. After all, she will be retiring sometime or other and she wants you to be prepared so that you can apply for the position. The supervisor is allowed to authorise spending on items up to \$500.00 at a time without management approval. Medicinals are ordered on a just-in-time basis from a central store which is restocked according to purchase rate by clients. Office equipment and furniture is allocated centrally. She gives you a budget sheet in April that that looks like this:

YTD = Year to date

Linen	Cost Centre	Allocated	Spent YTD
Minor equipment:	Massage tables	\$500.00	\$000.00
	Trolleys	\$500.00	\$000.00
	Diagnostic instruments	\$500.00	\$230.00
Consumables	Massage oil (carrier)	\$200.00	\$175.00
	Essential oils	\$200.00	\$183.00
	Disposable gloves and gowns	\$300.00	\$299.00
	Disposable sheets	\$1,000.00	\$375.00
	Dispensary bottles and jars	\$500.00	\$435.00
	Labels	\$100.00	\$50.00
Linen	Massage table sheets	\$200.00	\$199.00
	Pillowcases	\$50.00	\$9.99
	Towels	\$500.00	\$575.00

You are asked to check the equipment and consumables stores and estimate how much you will need to order to last the rest of the financial year.

For some items you discover that sufficient supplies have been ordered in advance. For others, you will need to place orders.

One of the massage therapists has asked for an automatic gas-lift adjustable table since she has several disabled and frail clients. She also shares her treatment area with another therapist and he is considerably taller than she. Having a fixed height table is a potential back care issue.

You come up with this list:

Linen	Cost Centre	Number required	Estimated cost
Minor equipment:	Massage tables	5	\$2,500.00
	Trolleys	0	\$000.00
	Diagnostic instruments	1 TempTake	\$35.00
Consumables	Massage oil (carrier)	0	
	Essential oils	0	
	Disposable gloves and gowns	0	
	Disposable sheets	50	\$150.00
	Dispensary bottles and jars	0	
	Labels	1,000.00	\$50.00
Linen	Massage table sheets	0	
	Pillowcases	0	
	Towels	0	

Do the figures in front of you suggest good management of a discretionary budget?

Is there enough surplus unspent money from all budget lines for you to consider requesting the new massage table from the current funds with an additional allocation from central equipment funds?

How much extra funding will you need?

What arguments would you put forward to make your case?

Do you think management is likely to approve this request?

What funding would you ask for in the next financial year given that you need to allow a minimum of 5% for inflation, price rises and so forth?

What area of the budget (apart from massage table) is an over-run which signals additional funding for next year?

If management says no to the new massage table now, how would you propose to them that it be funded for next year from a common sense approach?