



## SOURCES OF FINANCE IN HEALTH AND SOCIAL CARE

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### Learning Outcomes

You will be able to learn.

- The concept and various objectives of health financing.
- The various sources of finance.
- The importance working capital in healthcare.
- The principles and steps in budgeting.




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### Introduction to Health financing

**Health financing.**

Health financing is a critical component of health-care systems that can help move us closer to universal health coverage by improving service coverage and financial security.

Due to the high cost of services, millions of people are unable to use them. Even when they pay out of pocket, many others receive poor service. Health financing policies that are carefully designed and implemented can help to address these issues.




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## Objectives of Financial Management in Healthcare - 1

Healthcare boards ensures that management teams and finance teams run efficiently while pursuing goals that lead to profitability.

Following are the objectives of financial management.




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## Objectives of Financial Management in Healthcare - 2

Following are the objectives of financial management in detail.

❖ **Careful evaluation and planning.**

Financial managers assess the effectiveness and financial health of organizations.

❖ **Generating income.**

Generate income refers to invest in assets to ensure financial sustainability.

❖ **Protecting tax status.**

Health-care management teams to concentrate on following tax-exempt laws and regulations.

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## Objectives of Financial Management in Healthcare - 3

Following are the objectives of financial management in detail.

❖ **Monitoring internal spending.**

Healthcare financial managers also monitor fraud and misuse expenditures.

❖ **Influencing third-party payers.**

Insurance companies and other third-party payers may cover all or a portion of a patient's medical expenses.

❖ **Long-term investment decisions.**

Financial teams usually take the lead on major investment decisions.

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## Objectives of Financial Management in Healthcare - 4

Following are the objectives of financial management in detail.

❖ **Financing.**

Finance managers must also raise money to cover their expenses.

❖ **Contract management.**

Contracts can involve a lot of people, so they need to be handled carefully.

❖ **Financial Risk Management.**

Many companies have loss prevention or mitigation risk management teams or risk management policies.

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## Financial Needs Of Healthcare

Following are the financial needs of healthcare:

SHORT TERM NEEDS	LONG TERM NEEDS
1. Payrolls	1. Purchase of land
2. Worker supplies and patient care supplies.	2. Research and Development
3. Equipment maintenance	3. Equipment Purchase and Replacement.
4. Administrative/Overhead Payment.	4. Facilities Expansion

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## General Sources Of Finance

**Sources Of Finance.**

A source or sources of finance, refer to where a business gets money from to fund their business activities. A business can gain finance from either **internal** or **external** sources and from long term or short term sources. Sources of finance for business includes equity, debt, debentures, retained earnings, term loans, working capital loans, letter of credit, euro issue, venture funding.

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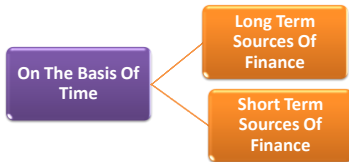
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## Types Of Sources Of Finance

Following are the different types of sources of finance.




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## Long Term Source: Equity Share (1)

### Equity Share.

It is a main source of finance for any company giving investors rights to vote, share profits and claim on assets.

Following are the types of equity shares.




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## Long Term Source: Preference Shares

### Preference Shares.

They are one of the special types of share capital having fixed rate of dividend and they carry preferential rights over ordinary equity shares in sharing of profits and also claims over assets of the firm.




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## Long Term Source: Debentures

### Debentures.

Long-term debt financing is majorly categorized into a term loan and debentures. Debentures are one of the common long-term sources of finance. They normally carry a fixed interest rate and a certain date of maturity.



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## Long Term Source: Lease Financing

### Lease Financing.

Lease is a contract between the owner of an asset and the user of such asset. Owner of the asset is called 'Lessor' and the user is called 'Lessee'. At the end of the period of lease contract, the asset reverts back to the lessor, who is the legal owner of the asset. Hence leasing is a device of long term source of finance.

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## Short Term Source: Accounts Receivable

### Accounts Receivable.

It is a means of short-term funding that a business can draw on using its receivables. It is very useful if a timing mismatch exists between the cash inflows and outflows of the business.



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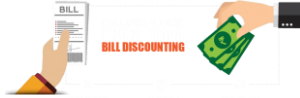
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### Short Term Source: Bill Discounting

#### Bill Discounting.

It is a source of working capital finance for the seller of goods on credit. Bill discounting is an arrangement whereby the seller recovers an amount of sales bill from the financial intermediaries before it is due.



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### Short Term Source: Factoring

#### Factoring.

It is a financial service in which the business entity sells its bill receivables to a third party at a discount in order to raise funds. It differs from invoice discounting. Factoring involves the selling of all the accounts receivable to an outside agency. Such an agency is called a factor.

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### Short Term Source: Accounts Payable Or AP

#### Accounts Payable Or AP.

They are also known as creditors, which means the money owed by a business to its suppliers. AP is a form of credit that suppliers offer to their customers by allowing them to pay for a product or service after it has already been received.

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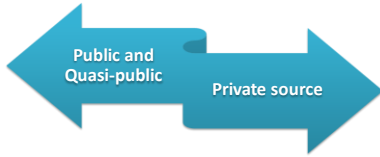
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## Sources Of Finance in Healthcare

The sources of finance in healthcare are categorised into two, they are as the following.




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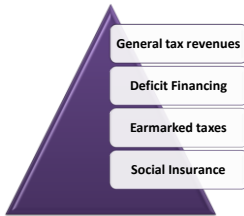
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## Public and Quasi-public Source Of Finance

The public sources of finance are as the following.




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### 1. General tax revenues

#### General tax revenues.

In almost every country in the world, general tax revenues are used to finance certain components of health care and are often a major source of finance in developing countries. However, these countries' low tax ratios that is the proportion of national income collected as tax which means that the health care is frequently insufficient on its own.




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## 2. Deficit Financing

### Deficit Financing.

Deficit financing, which is the decision to borrow and spend funds in the present and repay them over time, can supplement general tax revenue. Deficit financing can be raised on a national or international scale using mechanisms such as bond or certificate issuance or long-term low-interest loans. The interest that must be paid on the loan is the cost of using these funds in the present rather than the future.



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## 3. Earmarked taxes

### Earmarked taxes.

The majority of tax revenues are paid into a national pool and then distributed among various areas of government spending. Some governments, on the other hand, may 'earmark' a tax for a specific purpose. Taxes on the sale of specific products, for example, could be used to fund health services at the national or local level. The problem with such taxes is that they are frequently difficult to administer, may be politically unpopular, and are frequently unpopular with tax administrators because they restrict their ability to act.



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## 4. Social Insurance

### Social Insurance.

Health care, as well as other needs such as invalidity and old-age support, can be covered by social insurance for the entire population or a portion of it. It is typically funded by imposing mandatory insurance payments on employed workers as a percentage of their wages, as well as a similar or slightly higher payroll tax on employers. In some cases, governments may also contribute to the schemes.



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## Private Sources of Finance

The Private sources of finance are as the following.

- Private Health Insurance
- Employer-financed Schemes
- Charity And Voluntary Contributions
- Community Financing And Self-help

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### 1. Private Health Insurance

#### Private Health Insurance.

Private medical insurance differs in two main ways from social insurance. To begin with, most private health insurance policies do not cover pensions for invalidity or old age. Second, the price charged for private health insurance is based on personal risk characteristics and the likelihood of illness in the individual or group covered, rather than on the pooled risks of a large population. As a result, premiums for different individuals or groups are likely to differ.




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### 2. Employer-financed Schemes

#### Employer-financed Schemes.

In some cases, employers may pay for their employees' health care directly. They could, for example, pay for private health services, directly employ medical personnel, or provide necessary facilities and equipment. Oil companies, mining and mineral industries, and large-scale export-oriented agricultural enterprises typically cover their employees' medical needs. Employers are primarily concerned with maintaining the productivity of their workforce, so benefits are rarely extended to families.

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### 3. Charity And Voluntary Contributions

#### Charity And Voluntary Contributions.

Business enterprises, wealthy families, religious organizations, and private individuals may make charitable or voluntary contributions in the form of financial support or in-kind donations, for example personal services, physical facilities, equipment, and supplies.

These funds are frequently channeled through foundations or religious organizations.



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### 4. Community Financing And Self-help

#### Community Financing And Self-help.

In developing countries, current primary health care initiatives emphasize the importance of national self-sufficiency and community participation in health care delivery.

It is hoped that basic health care will become universally accessible by mobilizing underutilized national and local resources such as organizational skills, manpower, and cash, as well as developing affordable and culturally appropriate delivery systems.



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### Working Capital In Healthcare

#### Working Capital In Healthcare.

The difference between a company's current assets and current liabilities is known as working capital.

*Cash and cash equivalents, short-term investments, inventories, and accounts receivable are all examples of **current assets**.*

For a business to make necessary payments or expenditures, all of these current assets can be easily accessed. The company's accounts receivable of payments owed from Medicare, Medicaid, private insurers, or patients is typically the company's largest current asset for small businesses in the homecare and HME industries.

*Accounts payable, the current portion of long-term debt, and unearned revenues are all examples of **current liabilities**.*

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## Importance Of Working Capital

Following is the importance of working capital.

- It helps to manage current asset and current liabilities of the hospitals.
- Efficient working capital management allows hospitals to reduce their holdings of current assets, such as inventory and accounts receivable.
- The cash inflows can be reinvested in interest-bearing financial instruments.
- It measures the average payment period and also reduces the short-term borrowings

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## Budgeting In Healthcare

### Budgeting In Healthcare.

A budgeting process enables an organization to better understand which funds are available for a specific project or section, as well as how much of each should be spent. In the healthcare industry, developing a sound capital budgeting process allows for more useful investments and less room for error in purchasing. A budget is a living document that is extremely important and can be used to determine funding levels.




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## Principles Of Budgeting in Healthcare

Following are the Principles of budgeting in healthcare.

- Available Resources
- Fair Treatment
- Reasonable Transition Period

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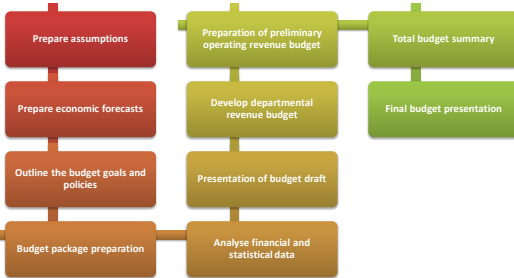
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## Steps Of Budgeting In Hospitals - 1

Following are the steps used for hospitals budgeting.




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## Steps Of Budgeting In Hospitals - 2

Following are the steps used in hospitals for budgeting in detail.

➤ **Prepare assumptions.**

The budget assumptions are aimed at sharing as much information with all departments as possible.

➤ **Prepare economic forecasts.**

The hospital administrator must prepare economic forecasts in light of new developments.

➤ **Outline the budget goals and policies.**

The hospital administration must outline the budget goals and policies in front of directives of the governing board

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## Steps Of Budgeting In Hospitals - 3

Following are the steps used in hospitals for budgeting in detail.

➤ **Budget package preparation.**

The Finance Officer must prepare a budget package that includes written instructions for the budgeting process' framework, procedures.

➤ **Analyse financial and statistical data.**

This step requires each department head to analyze financial and statistical data generated.

➤ **Presentation of budget draft.**

A budget hearing is held at the departmental level by the Finance Officer.

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### Steps Of Budgeting In Hospitals - 4

Following are the steps used in hospitals for budgeting in detail.

➤ **Develop departmental revenue budget.**

The Finance Officer is responsible for developing the department's revenue budget.

➤ **Preparation of preliminary operating revenue budget.**

The Finance Officer must compile a preliminary operating revenue budget for the entire hospital.

➤ **Total budget summary.**

The Finance Officer must compile the total budget both capital and cash into a proper budget format.

➤ **Final budget presentation.**

The Finance Officer presents the budget to the governing board or board of trustees.

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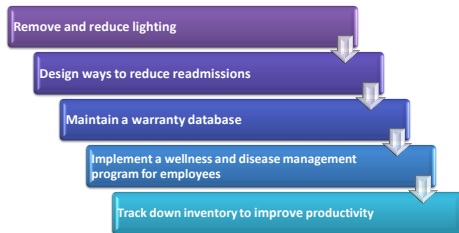
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### Cost Control Measures for Hospital Budgeting

Following are the Cost control measures for hospital budgeting.



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### Hospital Budgeting Control Process (1)

Following is the process to control hospital budgeting.



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## Hospital Budgeting Control Process (2)

Following is the process to control hospital budgeting.

❖ **Establish Actual Position.**

Budgets will be identified by some type of budget code, depending on the system. The budget code is then used to track income and expenditure.

❖ **Compare Actual with Budget.**

The data collected must be compared with the figures forecast at the start of the financial year. If the actual income and expenditure headings match those that were originally set.

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## Hospital Budgeting Control Process (3)

Following is the process to control hospital budgeting.

❖ **Calculating Variances.**

In the context of budgetary control, the term variance refers to the difference between actual and budget or planned income and expenditure.

❖ **Establish Reasons for Variances.**

The differences between the budget and actual expenditures can be explained by several reasons. It is necessary to identify the reasons for all variances.

❖ **Take Action.**

Budgets can only be controlled if corrective action is taken in response to the variances.

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