



Podcast Transcript

Making Sense of Dollars and Cents

Episode 1 – Capital Budgeting Best Practices

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Transcript

FAITH ROBERTS, HOST: Hi, everyone. My name is Faith Roberts, and I'll be your host for this Elite Learning podcast series, Making Sense of Dollars and Cents: Finance, Budgeting, and Staffing Skills for Nurse Leaders.

Throughout the course of the sessions, we'll discuss building skills that are central to a nurse leader's success, including return on investment, staffing, capital, employee engagement and retention, and how that can help with patient safety.

In this first session, we'll learn about capital budgeting, organization techniques. Finance is a broad topic. It might not sound exciting, especially to us nurses. And it might be something with which you've been frustrated in your work.

In my own practice as a nurse leader, manager, director, and executive director, I understand that business-related topics like these can raise even the most experienced leader's blood pressure. For decades now in nursing, many leaders were isolated from the actual development of a budget, monthly reports, and how to read them. The end result was that too often nurses were not at the table when decisions were made.

Whether working within the constraints of a budget for a state entity or the detailed specifics of a donor grant, the finance-related aspects of healthcare are a valuable component of a nurse's skill set. Today, a solid knowledge base of finance will help a nurse leader obtain what an area needs as well as be open to creating different staff mixes based on their understanding of how a budget works.

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Over the years, though, I have observed peers who fall into different groups. There's the "I don't do the numbers, my one up does it, lucky me" type; the "I have a peer who really likes this stuff, so they do mine for me" group; and finally, the set that thinks, "No one prepared me for this, and it was not covered in my orientation. I am responsible for a \$5 million budget, and I don't even know how to find it on the accounting section of our leader site." Regardless of a nurse leader's circumstances or motivation, it has become clear that to be a well-rounded and effective leader, finance and budgeting are among the skills a nurse leader must master.

Twenty years ago, I met our guest, Pamela Hunt, at a national conference for nurse leaders. She had enthralled an audience while speaking about a budget – seriously, a budget of all things. Her knowledge of staffing, ROIs, how to build a case for capital purchase was stellar. Since then, Pam and I have traveled to many conferences and have enjoyed a close friendship.

An expert on finance and healthcare, Pam is a frequent presenter for national and state nurse leader workshops and conferences. She's authored articles and co-authored books about finance in the world of healthcare. And she was recently, as in 2020, named a fellow in the American Academy of Nurses. You can read more about her background and my education and experience in the notes that accompany this episode.

So let's get started. Welcome, Pam. I'm looking forward to talking with you. Before we get too deep into our first topic – capital budgeting – I would like to hear your thoughts on why finance remains something with which our nurse colleagues continue to struggle.

PAMELA HUNT, GUEST: Well, thank you, Faith, for that wonderful introduction. And the reason why this is a struggle for us is that many of us, in our formal education, did not receive finance education. I always say, I had a rotation in mother-baby, and I had a rotation in med-surg, and I had a rotation in peri-op; but I didn't have a rotation in finance.

And in our world, a lot of nurse leaders are promoted because of their leadership but also in a large part because of their clinical competence. And clinical competence does not always translate to really having a good business mind and a sense of business skills.

So think of it as a new skill that we have not been formally trained in. A recent study came out that, in assessing nurse leaders' competency, 62% of nurse leaders say that their largest learning curve and their largest need for learning is in the realm of finance.

So don't be hard on yourself. Don't be hard on yourself. It's OK. What we need to realize and recognize is that this is an area that perhaps we haven't received formal education, and therefore we need to take that upon ourselves.

(SOUNDBITE OF MUSIC)

ROBERTS: Thanks, Pam. So, when we talk about organizational capital budgeting and organizational techniques, the first thing is what action steps do you take to prepare for a budget? Capital budgeting is important to the strategic plan of the organization. It is a long range. Those capital purchases are important to our long-range plans of our organization. So, what are the action steps we should take as nurse leaders?

HUNT: Well, number one, we need to understand the long-range plans of our organization. It's important to know your organization's objectives, what service lines or what product lines your organization is particularly interested in and that they think, as far as the market research shows, are areas that they need to grow.

Another step is to understand your department's – what your specific department must do to support that organization's goals and objectives. An example of this is let's say that you are a perioperative services leader, a perioperative director, and you know that your organization has made a commitment to improve and enhance the oncology services that they provide.

If you're that perioperative services director, then you need to ask yourself the question, what is my department going to need to do to prepare to take on additional, perhaps more complicated oncology cases as a result of my system or my network or my organization's initiative to improve its oncology services to our community? So, knowing what the market shows, knowing what the organization's initiatives are, is very important to the planning of the capital in your department.

Another action step is to ask questions. Be inquisitive. As leaders, sometimes we think we need to know all the answers, and we don't need to know all the answers. We need to ask questions. I just read a thing on courage; and courage is not about just being able to speak up, but it's the courage to listen as well. So have the courage to listen to what's going on, to listen to the needs of your staff, to listen to the needs of the medical staff. Yes, I said medical staff. So, listen to the needs of the medical staff, as well, so that you know what is needed in the department.

Talk with other departments. Biomed is our friend. Oftentimes our capital purchases are based on some replacement needs, and who better to tell us about replacement needs than biomed that has most likely a log of all the repair history in your department? So speak with other departments as you prepare this capital budget.

Talk with purchasing and suppliers. I know some of us, when I may say talk with vendors – I know we're on a [INAUDIBLE], but I can feel your cringe. But vendors are our partners on this. They have a lot of information to share with us. Yes, we have to be responsible. We have to know the other vendors out there, the competitors, etc., in the landscape. But speaking with purchasing and our suppliers and our vendors is part of developing a capital budget that is responsible and that meets the needs of the organization.

And last but not least, a great action step is to review your historical data. And in a little bit, I'm going to hopefully inspire you to actually do long-range capital planning. And there's a reason for that that we'll talk about as we talk about capital budgeting.

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HUNT: One of the next steps in preparing for a capital budget is to really do a SWOT analysis of your department. You know what a SWOT analysis is – strengths, weaknesses, opportunities, and threats. And I encourage you and hopefully inspire you to do a SWOT analysis, not just with yourself, not just with your leadership team, but to do and perform a SWOT analysis with either your whole department or if that group is large maybe your shared governance council, your professional practice council, maybe a group of staff nurses that are key to your organization and to your department.

And what you want to ask them is, from their perspective, what are the strengths of your department? What are the weaknesses? What are the opportunities and the threats? And in the handouts that are going to be provided to you for this session when you are able to access them and perhaps not on the road listening to the podcast, there's an example of a SWOT analysis for a department that may be helpful to you in understanding what kind of answers you may get from your team during the SWOT analysis exercise.

How about physician engagement? You know, I talk about our medical partners early on. And we really need to engage our medical partners when we're planning capital projects or capital equipment purchases. Don't be afraid to ask them, what are you using that seems to not be working? What frustrates you in the clinical area? How can I help you with what you need? What have you seen at your conferences?

I was responsible for a department of surgery for several years. And when any of the specialty group physicians attended their national conferences, I always made a point to get with them afterwards to say, what did you want? What did you see? What new equipment is out there?

Now, don't get me wrong, we all know that you can't have everything, right? You can't run – we're not promising them anything. But I'm being inquisitive. And you're asking what did they see and what's out there so that you can be prepared for what they might be asking for and be prepared to make that business case for their request.

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HUNT: We're going to talk about how you determine a return on investment. And so this may help you. If you know what they might be requesting, you can get a little ahead of that game, if you will, and do some investigation about the reimbursement for that procedure, what disposables are needed for that procedure, and maybe perhaps – maybe that procedure decreases the length of stay, and that could be very beneficial to your business case. So don't be afraid to involve your physicians.

When we talk about capital budgeting, first of all, maybe all of us need to do a level set on what makes a piece of equipment a capital equipment. Well, number one, it's long term in nature. So capital decisions are long term in nature – larger expenditures, usually defined by our strategic direction of our organization – they're important to our business future of our organizations.

When I think about capital budgeting – let's organize it a little bit. I'm a very linear thinker. Maybe that's why I like finance a little bit more than the average nurse. But I always like to break it down. Is it construction or remodeling? Is it a mandatory replacement of an existing item? So, you've got this piece of equipment or this item, but it's starting to wear and going to be replaced. Is it expansion of an existing service? So, I have this piece of equipment, but I need more of it. Or is it expansion into a new service?

So those are the four categories – construction or remodeling, mandatory replacement, expansion of existing services, and expansion of a new service. I think it helps to categorize when you're trying to get your arms around capital budgeting.

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HUNT: Now, definition. Before I go into definitions, Faith, is there anything that you want to add to this at this point or a question that you think our listeners might have?

ROBERTS: I was really fascinated when you broke it down into the different categories. That helps a lot because for some of us, I think we only look at capital as getting something new versus replacement and new services. Just – it's good to have those definitions. But the question I have is, when you talk about, a capital is about a long term, how do you define that in a timeline?

HUNT: Usually, we think about that as something that's got a life of over two years. And many organizations – I will tell you that many organizations have their own definition of capital. But usually, it's something that is going to last or you're going to use, has a life of over two years. Many organizations also define capital by a dollar amount.

And I've been in our profession for many years. I remember when our capital threshold was \$500. I grin with that now because many and most organizations, their capital threshold currently is about at least \$2,500 if not \$5,000. So capital is defined by the length of the life of the equipment and the purchase price, and both of those definitions are set by the organization.

ROBERTS: All right, thank you.

HUNT: Yup. Thank you for asking the question.

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HUNT: Now, I want to inspire you. I said a little bit about long-term planning. And this session is really about, how do we get our arms around capital budgeting? Many organizations, I will tell you, do not think your organization is inadequate. I see many organizations that plan from year to year. I understand it. I want to inspire you to do longer-term planning.

So, I was part of an organization at one time in my career that did 15-year capital budget planning. Now, many of you don't – if you're listening to this podcast and you're driving, please do not run off the road when I say that. I know 15 years sounds overwhelming. And I will tell you that it was at first overwhelming.

But let me just kind of inspire you. And again, I'm going to direct you back to the handouts. Because when you get in the handouts that are available, I have given you a 15-year capital plan spreadsheet that, if you are inspired by this podcast to start your 15-year plan, you can go in and use this Excel spreadsheet and start your plan on your own.

But let me inspire you why 15 years is important. When we – well, first of all, if you can't comprehend doing 15, try 5. But here's the reason why: Is because oftentimes the longer that you have a plan that has all of your capital equipment on it that you can predict the replacements – that you don't forget how long it's been since you purchased something, and all of a sudden, it starts to fail, and you haven't had your eye on it's getting to the end of life.

The longer you have that plan, and you can see it on a spreadsheet, the more likely you are going to be able to predict replacements. You're going to be able to also see if you have a year coming up that many things are going to need replaced in that year. You're going to be able to maybe move some of those forward or move some of those back so that you don't have one large expenditure that most likely won't be approved in a budget in one year. You can kind of move that forward, move it back, whatever is appropriate.

So, in that 15-year plan, you're going to look at the asset description. And then I inspire you – and you'll see this on the Excel spreadsheet – to put the serial number of the equipment – and this is a work in progress. It won't be perfect the first year you do it, when the equipment was purchased, and the expected life of the equipment. Now, how do I get the expected life of the equipment? The manufacturer will have that when you purchase it.

And then you put in the year that you purchased it, the dollar amount, and then, according to the life of the equipment, you would also put that on your spreadsheet of when it's due to be replaced. I often get the question, well, if I bought something in 2020, how do I know what it's going to cost in 2025 when it's due to be replaced? You don't. And I understand that. But what you do is you put that same cost in 2025, and then as you get closer to 2025, you then go back to the vendor and see what that piece of equipment for replacement costs as you get closer to the time that you're going to have to purchase it.

Something that I've seen over the years is sometimes things drop below capital and they actually fall off this list. I'll give you an example of that. In the smoke evacuators in the OR, they used to hit the capital threshold. But as the capital threshold increased – remember, I said it used to be 500 and now it's 5,000 – as the capital threshold increased and the price of the smoke evaluator did not increase that much, the smoke evacuators actually fell off of capital and became operational budget.

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So that's an example of planning, of why long-term planning is important. When you think about planning, you think about predictive replacements. You think about business volumes. You think about new regulations. So, what new regulations has come out, and how has that affected your capital budget?

I think about particularly sterilization regulations have affected our capital budget over the years many times. Physician and staff input – we've already talked about that. And don't forget, if you've purchased something this year, maybe you purchased a new piece of equipment this year, a new service, don't forget to put that on your planning because in the future, it's going to need to be replaced.

Sources of information for your capital – let's talk about that a little bit. Where do I get some information? I've already talked about biomed and using the vendors. Surgeons – I've talked about that as well – surgeons or physicians that use your service. Journals – what's the latest in the journals? And don't forget your medical librarians. They are a wonderful source of information.

Going on to getting yourself organized – I don't want to forget to tell you about this. So let's say you've done a wonderful job of justification. You've gotten your capital budget approved. Wow. That was a lot of work. And now you put it away. And even though there's things on there that you really need, you take a break for a few months instead of organizing yourself in what you need to move forward and purchase.

So what I recommend is that after you get your capital budget approved in your department that you actually set yourself up and organize yourself into, what do I want to purchase in the first quarter, what do I want to purchase in the second quarter of the year, what do I want to purchase in the third quarter, and what do I want to purchase in the fourth quarter?

Let me tell you a couple reasons why. Some of the things that you bring in, you may want to do a site visit for different companies. You may want to bring this product in for your staff or the staff that you work with to trial. Maybe it's a bed. Maybe it's a piece of equipment in a procedural area. That takes time. It not only takes your time, but it takes time from purchasing and other partners of ours in our organizations.

So, if you organize yourself so that all of those trials are not happening in one quarter, i.e., what I see a lot of times in the third and fourth quarter because, wow, we did all that work, we got the capital approved, and then

we want to take a break. And then all of a sudden, before you know it, it's the third quarter of the year, and we got to get all that stuff in here, and we got to get it all trialed, and we got to get a decision made because the capital dollars go away at the end of the year. We don't want to do that. So, organize yourself.

And again, I'll direct you to your handouts. In your handouts, there is a chart that says – it gives an example of how to organize yourself. The other, before I leave that topic, the other incentive to do it in this manner is how many of you have been a part of an organization that capital is approved, first and second quarter happens, and, hmm, financials don't look too good, so capital is put on hold.

If you have not prioritized your capital purchases and have not moved forward in getting those really important things purchased in quarter one or quarter two, they all may be put on hold. So that's a big incentive to say, OK, I'm going to do this. I'm going to organize myself.

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Here's some questions to ask when you're looking at new equipment, and we're going to go over a justification in a minute. But I like to ask the following questions. Does the new equipment support the overall unit objectives and the objectives of the organization, of course? How long will it take to realize a return on investment? And in future podcasts, we'll talk about, how do you develop an ROI?

Can the equipment be used for other procedures or shared? Maybe it's a piece of equipment that you really want for your department, but it's not a high-volume procedure or usage at this time, and I share it with somebody else because, as we'll see when we talk about ROI, the more volume you have with a piece of equipment, the lower the cost, the average cost per procedure.

Will the cost incurred be offset by cost savings? So if I purchase this piece of equipment, am I going to save cost in other areas? How do I do that? Well, maybe this piece of equipment would decrease length of stay. Wow, that could be a big cost savings. Maybe it would reduce time in the procedural area. Therefore, we could do more cases in a less amount of time – big cost savings.

So, there's ways to offset those costs. And always ask yourself, are there construction costs associated with the purchase? Those have to be included in the cost of the capital.

Who else needs to be involved in the purchase? So don't forget who else should be involved, who else. We talked about physicians, but who else? I worked with organizations before that did a great job planning to purchase a piece of capital equipment but didn't do a good job with supply management and understanding what supplies were needed with that piece of equipment. So they get the equipment in. And guess what? They don't have the disposables to use with it. So be thinking about that as well.

Will the purchase require staff education? And if so, whose expense is that? Will the purchase require maintenance cost? And I always think of maintenance costs as being an operational line item – expense account. However, you need to take that into consideration when you are purchasing the capital equipment.

And always ask yourself, what's not working? I always say this, and we may laugh, but it's not funny if you're the staff nurse. I always used to say, what's not working? What do you have to plug in, unplug, plug in again, maybe hit it a couple times on the side before the display comes on? Those are things you need to take care of for the staff because you know what, you guys, as leaders, we know that one of our most important responsibilities is to get the people at the bedside, at the OR table, at the ED cart what they need to do their job in the least disruptive way possible.

So those frustrations we need to take away from them for so many reasons because, number one, how much do we trust what the readout of that monitor is if that's what you have to do to get it to work? But number two, we want to take away that frustration for our team members.

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So, you're writing a justification. How do you start? Well, perhaps your organization has a form. But if they don't, I love to say, I would love for nursing to lead the way on how to write a true justification even when you don't have to. So, I'm going to inspire you again to do this work even if your organization does not require it.

What's the service provided? And when you say service, when I say, "service provided," you need to define that in terms that are not particularly highly clinical because capital equipment sometimes goes to the Finance committee of your organization, which is made up of community members that are not clinical in their background. Perhaps they come from the insurance industry. Perhaps they come from the banking industry.

So, make it understandable for the people that are not clinical. What's the necessity or the importance of this service? What's the expected utilization? You're open 365 days a year. How often are you going to use it? What's the expected life of the equipment, the products that have been evaluated, the cost of the equipment, the estimated savings or profits, which we've talked about before, and what's the added value to the organization and to our patients?

In your handouts, I'm going to direct you to the concept of a picture speaks 1,000 words. So oftentimes, if you have a piece of equipment or a project that you want to get approved and you can take a picture of it in the current state, it often speaks 1,000 words.

So, I was doing some job shadowing as the regional CNO. And I was with a staff nurse, went into a patient room, and I saw that their computer keyboards – they were having problems with them floating down. They were on arms. And if you – if that makes sense. I'm sure it does to you. And those arms were getting old, and they were floating down.

What are nurses best at? We're best at doing the workarounds. So what did they do? Well, they stuck the bedside table, the nightstand, underneath that computer board, put a wastebasket on top of that nightstand, and rested the keyboard on top of that so that it wouldn't float down when they were using it.

I was appalled. We're not supposed to have our cell phones in our pockets. But I said to the nurse that I was with, can I take a picture of that? And she said, sure. So I whipped out my cell phone. I took a quick picture of it. And it was a very easy justification, with those pictures included, that we needed new workstations put in for these nurses so that they had a workstation that was reasonable for them to work on and also much safer and also much cleaner for the nursing staff.

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So lessons for all of us. Capital budgeting is not a once-a-year step. Even after you get the justification done, start organizing yourself on how you're going to prioritize and what quarter you're going to purchase in. Preparation is the key to having a complete plan. Don't be afraid to ask questions. Involve everyone in that decision. And preparing a comprehensive capital budget is a group process.

When we talk about finance – I want to leave you with – it's not about cost versus quality, but it's about cost and quality. And responsible nursing leaders may never have a great passion for finance. But you'll understand the

importance of finance because you know that it protects patient and workforce safety and quality of care for our patients. Thank you for listening to this podcast, and I hope to see you or be with you in future podcast.

ROBERTS: Thank you so much, Pam. I just would want to tell everyone who's listening, as we refer to the notes for this session, please understand that – I think it's very evident in the way that Pam presents, but this is something she feels very – she just thinks it's one of the most important things. And when you listen to her talk, all of a sudden, at least for me, I look back at certain capital requests that I made in my career and shudder to think of how I gave the rationale after listening to Pam give us really succinct ways to do it.

I do think she's a very organized person and could help someone as scattered as I am. So that's great. So thanks very much. We are really looking forward to our next session, which is session two series. And it is what I would call the nitty gritty of it all. It is about how we look at FTEs and staffing and what comprises a good work mix and actually understanding why the schedule is so important, not just to the people who – I mean, come on. Schedule is a metaphor for your life. It's not just for the nurse. It's also, for an accountable nurse leader, a way to look at the finance.

And how important getting a schedule that utilizes staff appropriately without going over budget. It is a process. And I hope you will join us for that session, number two. And it's entitled Workforce Strategies and Solutions. And we look forward to you listening then. Thank you very much.

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