

## Chapter 2

# Revenue Allocation

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### **ABSTRACT**

*Until now, the revenue allocation of a hospital service has not received sufficient attention. Previous research done on this subject overlooked the details of revenue streams in the activity-based funding environment and has not introduced any technical dimension faced by new clinical costers. On the other hand, clinical costers (who manage clinical costing database) have a strong aversion to talking about revenue, because of the exclusion of revenue data collection and submission for most funding authorities. Clinical costing also tries to prevent revenue information from influencing on cost allocation methods. That makes research on this subject extremely difficult. However, the chapter uses a language called “revenue is an integral part of clinical costing” as an alternative way to explore this subject, including fine technical details. The benefits of investing in the revenue allocation process seem to exceed its cost, since the cost, revenue, and clinical outcomes could be analyzed in toto for delivering information on safety and quality of care.*

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## **INTRODUCTION**

Until now, the revenue allocation of a hospital service has not received sufficient attention. Previous research done on this subject overlooked the details of revenue streams in the activity-based funding environment and has not introduced any technical dimension faced by new clinical costers. On the other hand, clinical costers (who manage clinical costing database) have a strong aversion to talking about revenue, because of the exclusion of revenue data collection and submission for most funding authorities. That makes research on this subject extremely difficult. However, the author of this chapter used a language called ‘revenue is an integral part of cost analyses’ as an alternative way to explore this subject, including fine technical details.

Revenue allocation for a hospital is as important as cost allocation. Understanding revenue streams provides a fairly complete financial picture of a health service, which in turn, enhances the quality of clinical costing and most importantly, financial planning. Having both revenue and cost data opens up a new horizon of analytic possibilities for a clinical service since the revenue data provides a second set of comparison data within and between hospitals. Clinical costers would find it easier to engage clinical services if revenue allocation is incorporated in their analyses. This chapter argues that revenue allocation needs as equal support as cost allocation from finance departments, health departments, clinical services and software vendors. The revenue allocation also needs its own guidelines, business rules and standards as clinical costing.

This chapter will be based on Victorian activity-based funding model of Australia. The contents of the chapter are applicable to other states and countries which have similar activity-based funding models.

## **THE OBJECTIVES**

This paper is aiming to explain why revenue allocation is important in clinical costing and what constitutes revenue allocation in the activity-based funding environment in terms of knowledge, resources, technical expertise and software.

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