

# Budget Explanatory Notes

## Northern Sydney Local Health District



Health



# Northern Sydney LHD

The Budget Explanatory Notes have been prepared to assist your finance department to unpack the overall budget for 2019/20, including Expenditure, Own Sourced Revenue, Balance Sheet Movements and Government Contributions.

Through-out the 2018/19 financial year, the Ministry has reviewed and realigned various budget lines, including:

- Intra-Health Realignment
- Revenue Realignment
- Balance Sheet Movement Realignment
- Depreciation Expense and Provision Realignment

The Ministry is committed to providing a fair and robust budget process and will continue to improve processes via further review, creation of additional “cash classes” ensuring budget allocations are used for their intended purpose(s), and providing various mechanisms for health entities to request budget reviews where appropriate.

## Expenditure

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The initial budget allocation for your Health Entity is \$1,720,518,253 for 2019/20, representing an increase of \$56,882,287 (3.4%) compared to your annualised budget as indicated in Schedule C of the Service Agreement.

The increase in expenditure is broken down into three areas:

- Escalation
- Activity Growth
- Other Initiatives & Priorities

### BUDGET SNAPSHOT

2019/20 Initial Budget Allocation

**\$1,720,518,253**

An increase of

**\$56,882,287**

**3.4%**

*Row K of your Schedule C Part 1*

**TOTAL BUDGET INCREASE \$56,882,287**

Escalation <sup>1</sup> \$34,679,388

Activity, Growth, Savings, Other Initiatives & Priorities <sup>2</sup> \$22,202,899

*The values within this section relate to only the General Fund, so when comparing to your Schedule C, you will need to exclude Restricted Financial Assets noted in row i.*

## Escalation

The 2019/20 budget includes a state average efficient escalation factor on budgeted G&S expenditure and 2.5% on funded Employee Related expenditure, excluding non-escalated items. National Partnership Agreement items of expenditure are not escalated (and generally relate to expenditure sourced from Commonwealth funds). Depreciation and RFAs are subjected to a separate in year review. Items for specific escalation are noted in the table below.

The composite escalation rate for your organisation is 2.1%, calculated as follows:

				Budget Ref
<b>2018/19 annualised expenditure base</b>	<b>\$ 1,663,635,966</b>		A	
<b>Less specific items:</b>				
2018/19 Blood & Blood Products	\$ 2,583,999		B	
2018/19 Electricity	\$ 10,990,834			
2018/19 NGOs	\$ 5,734,445			
<b>TOTAL 2018/19 annualised expenditure base (excl. Specific Items)</b>	<b>\$ 1,644,326,688</b>		C	A - B
Less: Non escalated expenditure items	\$ 274,488,788		D	
<b>Escalatable expenditure base for 2018/19 (excl. Specific Items)</b>	<b>\$ 1,369,837,900</b>		E	C - D
<b>General escalation (excl. specific items)</b>	<b>\$ 29,252,358</b>	✓	F	IB20-001
<b>Add specific item escalations:</b>				
Electricity (adjustment to 5%)	\$ 280,022	✓	G	IB20-006
Blood & Blood Products (adjustment to 4%)	\$ 45,220	✓		IB20-010
Non-Government Organisations (adjustment to 2.5%)	\$ 49,600	✓		IB20-007
Intra-Health Adjustment - Escalations	\$ 5,052,188	✓		IB20-011 to IB20-016
<b>Total composite escalation (\$)</b>	<b>\$ 34,679,388</b>	1	H	F + G
<b>Escalated expenditure base for 2019/20 (incl. Specific Items)</b>	<b>\$ 1,698,315,354</b>		I	A + H
<b>Total composite escalation rate (%)</b>	<b>2.1%</b>		J	H / A

✓ Indicates the adjustment has been annualised

### **Please Note:**

Escalation is not shown separately in Schedule C, it forms part of the total expenditure increase noted in Row K Column G of Part 1.

It is a Condition of Subsidy (Government Grant) that the budget Health Entities allocate for services purchased from NSW Health Pathology, eHealth NSW and HealthShare NSW must agree with the pricing advice provided by these entities (and, therefore, with the budgets allocated to Health Entities for this purpose). It is also a Condition of Subsidy that Health Entities escalate NGO budgets by the applied escalation rate (2.5%).

## Activity, Growth, Savings, Other Initiatives & Priorities

Activity & Growth		\$ 28,914,089
Savings & Efficiency Targets		\$ -7,353,799
Other Initiatives & Priorities		\$ 642,609
<b>Total</b>	<b>2</b>	<b>\$ 22,202,899</b>

### Activity and Growth

The Health Entity has been provided with total ABF growth funding of \$28.9 million. The net ABF growth funding allocated is as follows (no transition grant):

ABF In-Scope growth funding	\$ 28,914,089	✓	IB20-055 N-IB20-066 N-IB20-067
<b>Net ABM Growth Funding</b>	<b>\$ 28,914,089</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

**Please Note:**

Activity and Growth is not shown separately in Schedule C, it forms part of the total expenditure increase noted in Row K Column G of Part 1.

The NSW State Price for 2019/20 is set at \$4,925. This price has been informed by the 2017/18 District and Network Return (DNR - clinical costing study) results provided by all Districts and Networks. These results have been subject to the annual internal clinical costing audit, and results are expressed in NWAU19. As the previous year's State Price was based on DNR results expressed in NWAU18 a direct comparison between last year's price and this year's price is not possible.

The State Price for 2019/20 has been informed by the cost of providing all activity based service streams by NSW Local Health Districts and Specialty Networks. These have been subject to improved Quality and Assurances (QA) processes targeting both the reporting of activity and cost allocation methodologies.

The 2019/20 Budget funding for all growth activity is set at 77% of the State Price, reflecting the marginal cost of service provision.

For further information regarding Activity and Growth, please refer to the "Schedule C Budget Notes" which were issued with your Service Agreement.

## Savings & Efficiency Targets

Total savings targets for Districts/Networks has been set as an offset of the total annualised expense budget less depreciation. The procurement savings and efficiency dividends are two key components of the overall 0.8% target.

In addition to the above, Districts/Networks activity has been offset by activity benefits (\$-4.3M) through a state price reduction to 77%. This has been factored in the overall target of 0.8% to ensure fairness in the overall savings allocation.

All targets have been annualised and has been separately noted in schedule C.

2018-20 Expense Budget	Demand & Volume ABF	Procurement Savings	Activity Benefits	Efficiency Dividend s	Treasur y Cap	Total Savings	% of Total Expense Budget
\$M	\$M	\$M	\$M	\$M	\$M	\$M	%
\$ 1,679	\$ 39	\$ -4.6	\$ -4.3	\$ -2.8	\$ -1.9	\$ -13.6	0.8%

Procurement Savings		\$ -4,594,290	✓	IB20-086
Efficiency dividends 2019-20		\$ -2,759,509	✓	IB20-087
<b>Total Savings &amp; Efficiencies</b>		<b>\$ -7,353,799</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

### Procurement Savings

HealthShare NSW recently distributed a procurement update to your Executive detailing the expected procurement savings for 2019/20. If you have no received the update, please contact your Executive Services Unit before contacting HealthShare.

*For further information, please contact:*

*Rod Treadwell, Executive Director, Procurement, HealthShare NSW*

### Efficiency dividends 2019-20

Efficiency dividends are a Treasury defined figure of the deficit between growth funding and health costs. Working backwards from the Treasury set target, efficiency dividends have been distributed proportionately across NSW Health Organisations. This accounted for NSW Health Organisation type, and the percentage of Health budget allocation to enable an equitable target split across all NSW Health Organisations. Efficiency dividends are to be monitored and assessed under Efficiency Improvement Plans (EIPs) outlined in the Conditions of Subsidy 2019/20 and supported through the NSW Health Program Management Office under expenses reduction roadmaps.

*For further information, please contact:*

*Jamie Boyce, a/General Manager, NSW Health Program Management Office*

## Other Initiatives & Priorities

A number of new initiatives and priorities have been included in your 2019/20 budget allocation and reflected in your Schedule C. Election commitments not funded within Growth and Activity will appear in the section.

New or Expanded Services	\$ 504,000	✓	*	IB20-070 N-IB20-070
New or Expanded Services – North Beaches	\$ 11,800,000	✓	*	IB20-069
Data Improvement Project	\$ 500,000	✓	*	IB20-065
Leading Better Value Care Program	\$ 350,000		*	N-IB20-068
Other Block Growth and Purchasing Adjustors	\$ -769,628		*	N-IB20-072
Procurement Savings	\$ -4,594,290	✓	*	IB20-086
Efficiency dividends 2019-20	\$ -2,759,509	✓	*	IB20-087
<b>Total from Growth</b>	<b>\$ 5,030,573</b>	<b>A</b>		<b>Budget Ref</b>
2015 Election Commitment - Additional Nursing, Midwifery and Support positions	\$ 107,689	✓	*	IB20-084
Regional Workforce Boost	\$ 208,224	✓	*	IB20-155
<b>Total from Other Initiatives &amp; Priorities</b>	<b>\$ 315,913</b>	<b>B</b>		
<b>Total Appearing in Schedule C</b>	<b>\$ 5,346,486</b>	<b>C</b>		<b>A + B</b>
NDIS Cash Out Adjustment	\$ 326,696	✓		IB20-075
<b>Total for Other Initiatives &amp; Priorities Not in Sch C</b>	<b>\$ 326,696</b>	<b>D</b>		
<b>Grand Total for Other Initiatives &amp; Priorities</b>	<b>\$ 642,609</b>	<b>E</b>		<b>B + D</b>

✓ Indicates the adjustment has been annualised

\* Total Provision for Specific Initiatives are shown separately in Schedule C Part 1 as Row H

### Data Improvement Project (Edward)

Please refer to the “Enable eHealth, Health Information and Data Analytics” section within your Service Agreement.

### Leading Better Value Care Program

Local health districts, St Vincent’s Health Network and the Sydney Children’s Hospitals Network have been provided non-recurrent funding in 2019-20 to support them to continue to embed and scale the Leading Better Value Care Tranche One initiatives and implement the Tranche 2 initiatives. More detailed expectations and deliverables are outlined in your Service Level Agreement.

*For further information, please contact:*

*George Leipnik, Director, Strategy and System Priorities, Strategic Reform*

## 2015 Election Commitments - Additional nursing, midwifery and support positions

In 2019/20, the Health Entity has been provided with the following funding with respect to 2015 Election Commitments:

Nursing, Midwifery & Support positions – full year impact of 2018/19 funding	\$ 107,689	✓	IB20-084
<b>Total 2015 Election Commitment Funding</b>	<b>\$ 107,689</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Increment for Election Commitments Part-Funded in 2018/19

In 2018/19, the Health Entity received only part-year funding for the additional Nursing, Midwifery and Support positions (4 FTE @ 9 months). The following budget increase has been provided to fund the full year impact of these positions in 2019/20 (escalated at 2.5%):

Health Entity Positions	FTE	\$		
Nurse Practitioners	1	\$ 37,691	✓	IB20-084
Clinical Nurse Consultant	1	\$ 32,307	✓	IB20-084
Clinical Support Officers	2	\$ 37,691	✓	IB20-084
<b>Total Other Priorities</b>	<b>4</b>	<b>\$ 107,689</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## NDIS Cash Out Adjustment

The enable user charge adjustment in 2018/19 factored the NDIS impact for two years, through to 2019/20. The forecast impact for 2018/19 was \$15M and the actual was \$16.2M. This adjustment is to recover the short fall of \$1.2M across the health system. The 2019/20 adjustment will not occur until the Cash Out adjustment is known (likely to be March 2020).

*For further information, please contact:*

*Mark Fawcett, Manager Budget & Financial Reporting, HealthShare NSW*

## Regional Workforce Boost

Nursing Enhancement Strategy to increase Nursing Hours per Patient Day (NHPPD) to 6.0 in Peer Group B and C hospitals and provide more mental health nurses in specialist mental health hospitals.

Psychological support for drought sufferers and victims/sufferers of domestic violence

*For further information, please contact:*

*The Office of the Deputy Secretary - People, Culture & Governance*

## Intra-Health Escalation and Growth

Increases in Intra-Health budgets have been calculated using a combination of price and volume increases. Increases in price have been reflected as Intra-Health escalation, whereas increases in volumes have been reflected within your growth funding. Details below:

Shared Service Type	\$
Ambulance Inter-Hospital Transport	\$ 2,059,719
Ambulance NETS	\$ 233,202
HSSG Compacts	\$ 2,503,283
HealthShare NSW Linen	\$ 6,252,943
HealthShare NSW Warehousing & Service Centres	\$ 5,392,823
HealthShare NSW Cleaning & Hotel Services	\$ 34,868,494
HealthShare PTS Hub	\$ 422,886
HealthShare PTS Fleet	\$ 8,800,932
HealthShare Enable	\$ 2,483,993
Cancer Institute of NSW	\$ -8,955,086
eHealth	\$ 24,235,823
NSW Health Pathology	\$ 36,534,686
<b>Total IntraHealth Charges</b>	<b>\$ 136,491,936</b>

There will be variances between Part 3 of your Schedule C, due to more recent data being used in the table above and the values above do not include GST where the service is deemed a taxable supply.

An update to Part 3 will be issued early in the new financial year.

For further information, please refer to the IntraHealth schedules (to be distributed soon).



# Own Sourced Revenue

The initial budget allocation for your Health Entity is \$284,559,031 for 2019/20, representing an increase of \$16,992,391 (6.4%) compared to your annualised budget as indicated in Schedule C of the Service Agreement.

The increase in own sourced revenue is broken down into five areas:

- Price
- Volume
- Performance
- Performance Adjustment (Prior Year)
- Other

**BUDGET SNAPSHOT**

2019/20 Initial Budget Allocation

**\$284,559,031**

An increase of

**\$16,992,391**

**6.4%**

*Row I of your Schedule C Part 2*

**TOTAL BUDGET INCREASE \$16,992,391**

Price	\$3,787,869
Volume	\$4,987,701
Performance	\$2,295,413
Performance Adjustments (Prior Year)	\$5,340,010
Other	\$581,398

## Price

Price increases are account-specific and based on various sources. Broadly, private accommodation and pension-based fees are determined by the Commonwealth, with inflation applied to the majority of the remaining accounts. Price changes for motor vehicle accident and workers compensation patients are exceptions as they are based on decreases in the applicable NWAUs. No price indexation is applied to grant accounts.

Please refer to the table to the right for the applicable escalation rate applied to the type of revenue

Revenue Type	Rate %
Change in Pension Fees	1.15%
Inflation	2.50%
NWAU Change (MVA)	-2.70%
NWAU Change (WC)	-0.13%
Change in Fee (Other Comp)	3.80%
New Price (\$306)	1.90%
New Price (\$362)	1.90%
New Price (\$773)	2.90%
Ambulance Fee	2.70%
MBS Change	0.00%
Fed Govt policy	0.00%
DVA	0.00%

General	\$ 1,942,802	✓	IB20-250
Patient Fees	\$ 1,845,067	✓	IB20-250
<b>Total Price Increase</b>	<b>\$ 3,787,869</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Volume

Volume escalations are generally limited to those revenue accounts related to patients, such as accommodation charges and facility fees. Indexation rates are equivalent to the 2019-20 NWAU targets with an additional 1% growth component.

NWAU Target FY2019-20 + Additional 1% growth target						
Public	Private	Compensable	Total	Private-Day	Private-Single	Private-Shared
2.9	2.5	2.7	2.9	2.5	2.5	2.5
General				\$ 1,922,212	✓	IB20-251
Infrastructure and Facility Fees				\$ 605,108	✓	IB20-251
Patient Fees				\$ 2,460,381	✓	IB20-251
<b>Total Volume Increase</b>				<b>\$ 4,987,701</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Performance

Certain LHDs are receiving performance increases in private patient fee and/or facility fee accounts.

A 2% performance increase is applied in the following circumstances:

1. Private patient revenue: Year-to-date LHD private patient conversion rate as at 31 March 2019 was less than 75% (Source: State-wide Revenue Portal).
2. Infrastructure and facility fee revenue: Percentage of chargeable episodes with no clinician billing for the two-year period ending 14 May 2019 was greater than 25% for metropolitan LHDs or greater than 10% for rural and regional LHDs. (Source: State-wide Revenue Portal)

Private Patient	Facility Fees
2.0	2.0

General (Prostheses Income)	\$ 193,678	✓	IB20-252
Infrastructure and Facility Fees	\$ 417,317	✓	IB20-252
Patient Fees	\$ 1,684,418	✓	IB20-252
<b>Total Performance Increase</b>	<b>\$ 2,295,413</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Performance Adjustment

An additional performance component is added to LHDs where their FY19 forecast as at May 2018 exceeded FY19 current DTL budget to acknowledge the new revenue model needs to be bedded down further.

This adjustment is only applied to Patient fees (excluding MAA, DVA and TACP) and Revenue-General accounts. The additional performance component is equal to difference between the FY19 forecast as at May 2018 and the FY19 current DTL budget.

Patient Fees (Excl MAA, DVA, TACP)	\$ 5,340,010	✓	IB20-260
<b>Total Performance Adjustment</b>	<b>\$ 5,340,010</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Other Revenue Adjustments

IntraHealth Revenue Escalation	\$ 546,248	✓	IB20-253
Emerging Assets Adjustment	\$ 35,150		IB20-261
<b>Total Other Increase</b>	<b>\$ 581,398</b>		<b>Budget Ref</b>

✓ Indicates the adjustment has been annualised

## Balance Sheet Movements

The initial budget movement allocation for your Health Entity is \$-80,322,905 for 2019/20.

Balance Sheet movements are broken down into thirteen areas:

- | <b>Assets</b>     | <b>Liabilities</b>  |
|-------------------|---------------------|
| • Cash at Bank    | • Creditors         |
| • Investments     | • Accruals          |
| • Debtors         | • Borrowings        |
| • Inventories     | • Provisions        |
| • Prepayments     | • PPP Liability     |
| • Emerging Assets | • Income in Advance |
| • Capital / FA    |                     |

### BUDGET SNAPSHOT

2019/20 Initial Budget Movement Allocation

**\$-80,322,905**

*Row S of your Schedule C Part 2*

### TOTAL BUDGET MOVEMENT

**\$-80,322,905**

Cash at Bank	\$-17,102,732	Creditors	\$0
Investments	\$0	Accruals	\$3,647,387
Debtors	\$8,422	Borrowings	\$256,000
Inventories	\$0	Provisions	\$0
Prepayments	\$0	PPP Liability	\$0
Emerging Assets	\$550,693	Income in Advance	\$0
Capital / FA	\$-67,682,675		
<b>Total Assets</b>	<b>\$-84,226,292</b>	<b>Total Liabilities</b>	<b>\$3,903,387</b>

Further details regarding balance sheet movement budgets are provided below:

Account Group	Rules	Adjustment Mechanisms	Annualised Adjustments	Capital Budgets
<b>ASSETS</b>				
<b>Cash</b>	Due to buffer restrictions, there should be no recurrent Cash budget movements	Only when buffers change	Never	Will be reviewed by the Capital Team
<b>Investments</b>	Due to cash buffer restrictions, health entities	None	Never	None

	are unable to accumulate cash for investment purposes			
<b>Debtors</b>	Health entities are expected to maintain debtors at existing levels.	Material movements require formal written requests in June each year	Never, but will be reversed the following year	Will be reviewed by the Capital Team
<b>Inventories</b>	Health entities are expected to maintain inventories at existing levels unless otherwise requested	Material movements require formal a written requests in June	Never	None
<b>Prepayments</b>	Health entities are expected to maintain prepayments at existing levels	Material movements across multiple financial years require a formal written request in June	Never, but will be reversed the following year	Will be reviewed by the Capital Team
<b>Emerging Assets</b>	Health entities are to provide a schedule outlining the "Rights to Receive" component	Annual Forward Estimates process	Never, but budget movements can be loaded for 2 forward years	None
<b>LIABILITIES</b>				
<b>Creditors</b>	Health entities are expected to maintain creditors at existing levels	Material movements require formal a written requests in June	Never	Will be reviewed by the Capital Team
<b>Accruals</b>	Health entities are expected to maintain accruals at current levels, with the exception of S&W Accrual	S&W Accruals can be adjusted by the annual Forward Estimates process. Other Material Movements across multiple financial years require a formal written request in June	S&W Accrual adjustments are annualised. All other accruals are not annualised, but will be reversed the following year	None
<b>Borrowings</b>	Health entities are expected to provide repayment schedules	Annual Forward Estimates process	Never, but budget movements can be loaded for 2 forward years	None
<b>Provisions</b>	Health entities are expected to manage provisions	Submission can be made to the Financial Accounting Team in May each year	Never	None
<b>PPP Liability</b>	Health entities are expected to provide repayment schedules	Annual Forward Estimates process	Never, but budget movements can be loaded for 2 forward years	None
<b>Income In Advance</b>	Health entities are expected to maintain IIA at existing levels	Material movements across multiple financial years require a formal written request in June	Never, but will be reversed the following year	Will be reviewed by the Capital Team

# Government Contributions

The initial budget allocation for your Health Entity is \$1,385,517,460 for 2019/20.

Recurrent Government Contributions does not receive direct escalation or growth, as Government Contributions is calculated using the formula, however

<b>Start</b>	Total Expenditure Budget
<b>Minus</b>	Total Own Sourced Revenue Budget
<b>Plus/Minus</b>	Balance Sheet Movement Budget
<b>Equals</b>	Government Contributions

**BUDGET SNAPSHOT**  
 2019/20 Initial Budget Allocation  
**\$1,385,517,460**  
 An increase of  
**\$55,684,948**  
**6.1%**  
*Sum of Rows A to D of your Schedule C Part 2*

Government Contributions	2018/19	2019/20	Movement	%
Recurrent	\$ 1,304,826,261	\$ 1,345,668,909	\$ 40,842,648	3.1%
Capital	\$ 0	\$ 14,842,300	\$ 14,842,300	0.0%
Crown Acceptance	\$ 25,006,251	\$ 25,006,251	\$ 0	0.0%
<b>Totals</b>	<b>\$ 1,329,832,512</b>	<b>\$ 1,385,517,460</b>	<b>\$ 55,684,948</b>	<b>6.1%</b>