2019-20 SERVICE AGREEMENT

Schedule C
Budget Notes

Northern Sydney
Local Health District

Health

NOTES AND GLOSSARY

OVERVIEW

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.

Further technical information will be available in the NSW Activity Based Management (ABM) and Activity Based Funding (ABF) Compendium 2019/20.

The following notes relate to the specific elements of the Schedule C tables:

SCHEDULE C - PART 1

ROW SECTIONS A AND B – ABF EXPENDITURE ALLOCATION

Activity targets for Acute Admitted, Emergency Department, Non-Admitted Patients (including Dental) and both Admitted and Non-Admitted Sub-Acute services are used to set the ABF budget for these service streams. The value of the NWAU is multiplied against the lower of either the Districts or Networks Projected Average Cost (PAC) or the State Price is used to calculate the expense budget for each category.

At its inception Activity Based growth for all Districts and Networks was funded at the full State Price. This approach recognised and rewarded the Districts and Networks whose cost of service provision was lower than the State Price. Furthermore, it meant that all Districts and Networks benefitted from the fixed cost and overhead/corporate cost component of the State Price for all growth activity.

In the 2018/19 Budget, growth activity was funded at 90% of the State Price, with growth activity related to new builds or new capacity funded at the full State Price. 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 Districts where the PAC does not exceed the State Price, the expense budget for each category represents the sum of multiplying the forecast activity *(Column I)* by the PAC and the growth activity *(Column A less Column I)* by the relevant growth price.

For Districts where the PAC exceeds the State Price, the expense budget for each category represents the sum of multiplying both the forecast activity *(Column I)* and the growth activity *(Column A less Column I)* by the State Price. The difference between PAC and the State Price in these cases will be addressed by a Transition Grant *(refer to Row Section F)*.

Projected Average Cost Calculation

The PAC *(reflected in column D of Schedule C Part 1)* has been calculated based on the cost of providing services for all streams. Consistent with the prior years, non-grouped Sub-Acute activity has been excluded from the PAC calculation as there are no price weights for these services.

Further information on the elements of the PAC can be found in the ABM Portal.

Privately referred Non-Admitted services do not have activity targets and therefore are not included in the ABF allocation. A block allocation for these services has been included in the State Only Block section *(refer to Row Section E)* and has been set using the cost reported in the most recent full year DNR clinical costing study.

ROW SECTION C – MENTAL HEALTH SERVICES

This section reflects the budget allocation for Mental Health Services whether funded on an ABF basis or through specific block funding. The principles for funding the ABF component are consistent with those described above for all other ABF services.

A small number of standalone psychiatric hospitals have continued to be block funded while the new Australian Mental Health Care Classification is being implemented.

As of the 2017/18 DNR clinical costing study, Mental Health Sub-Acute services have been amalgamated with Mental Health Acute services in the Mental Health - Admitted service stream.

For 2019/20, Mental Health Non-Admitted services will continue to be shadow funded using NSW Mental Health Non-Admitted Interim classification. Districts and Networks are shadow funded at their Mental Health Non-Admitted PAC. This calculation is based on the interim classification and does not adversely impact any District or Networks overall Mental Health funding.

As in previous years, a separate Transition Grant has been identified for the Mental Health Admitted stream to maintain the visibility of Government funding commitments for these services. Any Mental Health Transition Grant in this section has been calculated in accordance with the principles described below *(refer to Row Section F)*.

It is important to note that some Mental Health resources are also included in;

- *Row section D* which contains Mental Health service resources allocated to Block Funded Hospitals (Small Hospitals) as well as Teaching, Training and Research;
- *Row section E* which contains Mental Health service resources deemed to be out of scope for the National Health Reform Agreement (NHRA), such as some child and adolescent services;
- *Row section G* which contains Gross-Up (Private Patient Service Adjustments) as NWAU values have been discounted for the relative contributions sourced from other funding streams such as private health insurance.

ROW SECTION D – BLOCK FUNDING ALLOCATION

Block Funded Hospitals (Small Hospitals)

A NSW Small Hospitals Funding model was introduced in 2017/18 to support a better interface in patient care between the larger ABF hospitals and small hospitals which operate with lesser patient volume. This model and concept is particularly applicable to the Rural and Regional Districts. The model adopts a fixed and variable cost methodology which replaces the previous funding approach that was based on the IHPA Efficient Cost for Small Rural Public Hospitals.

This NSW Small Hospitals Funding model has been applied for 2019/20. Where additional activity in a small hospital has been negotiated and the NSW State Price has been applied to this activity.

In the 2019/20 model, the variable component for delivering activity from small hospitals has been pegged to the 2019/20 State Price of $4,925. The fixed component for the 2019/20 budget has been set at $0.8 million.

Further technical information regarding the NSW Small Hospitals funding model is available in the NSW Activity Based Management (ABM) and Activity Based Funding (ABF) Compendium 2019/20.

Block Funded Services In-Scope

This section has been set on the basis of the most recent full year clinical costing data submitted by Districts.

In 2016/17, NSW implemented a state-wide Teaching and Training cost allocation methodology to reduce the volatility and enhance the stability of the Teaching and Training cost allocation across the system. This cost allocation has been applied in the 2019/20 Budget.

The Other Non-Admitted Patient Services component began in 2018/19 to address the movement of home ventilation clinic from ABF to Block. This process has been put in place for the 2019/20 Budget.

ROW SECTION E – STATE ONLY BLOCK FUNDED SERVICES

These include state based services that are not subject to Commonwealth funding contribution under the NHRA (i.e. not in-scope).

They include;

- Services such as a number of population, aboriginal health and community based programs;
- Privately referred Non-Admitted services;
- Also included are amounts which have been excluded for pricing such as Public Private Partnerships (PPP) interest, Isolated Patients Travel and Accommodation Assistance Scheme (IPTAAS), S100 drugs and Blood products.

ROW SECTION F – TRANSITION GRANT AND ROC

Transition Grants

Transition Grants have been provided to Districts that reported a projected average cost greater than the State Price. They were incorporated into the NSW Funding Model in 2012/13 as a mechanism for "keeping the system safe and operating" while transitioning to Activity Based Funding.

The 2018/19 Schedule C represented the seventh year of funding under ABF. During the 2018/19 budget processes it was articulated that it would be the final year for provision of Transition Grants in its traditional structure. The transition to Activity Based Funding was considered to be complete and a commitment was made that a new methodology for determining structural costs which contribute to a District or Networks above average cost would be developed and implemented for 2019/20. Based on feedback from Districts and Networks this decision has been deferred for 1 year.

The concept of a Recognised Operational Cost (ROC) has been applied for the 2019/20 Budget and operates in a similar manner to the previous Recognised Structural Cost (RSC).

Recognised Operational Cost

In response to several frontline operational challenges faced by Districts and Specialised Health Networks, the concept of a Recognised Operational Cost (ROC) has been established. The ROC is intended to counterbalance some of the barriers which are beyond the control of District Management, both in a temporary and permanent sense in achieving operational efficiencies.

To overcome these operational circumstances the 2019/20 NSW Health budget allocation contains within the Schedule C (NSW Budget Allocation) of each District and Network impacted, a provision for Recognised Operational Cost (ROC).

It is important to note that not ever variation identified will warrant a ROC.

Acute, Emergency Department and Subacute Admitted

Consistent with the previous methodology, Districts with Acute and/or ED and/or Subacute Admitted transition grants are required to utilise a proportion of their transition grant to fund growth in activity. The method of calculating the amount of transition grant to be applied to growth is as follows:

1. Where the transition grant exceeds 1% of the overall ABF budget of a District, a maximum of 50% of the growth funding for Acute, Emergency Department and Subacute Admitted has been funded through a reduction in the transition grant.

2. Where the transition grant did not exceed 1% of the overall ABF budget of a District, 100% of the transition grant has been made available to fund the growth for Acute, ED and Subacute Admitted subject to a maximum of 50% of the growth being funded through a reduction in the transition grant.

3. Changes resulting from technical issues such as changes in NWAU version or substantial changes in cost allocation methodology are recognised and compensated for in the calculation of Transition Grants. These costs are removed from the District's transition grant calculation and are therefore not applied to growth funding for Acute, ED and Subacute Admitted services.

Districts are encouraged to use the data available in the ABM Portal to identify the key cost drivers affecting their overall cost performance.

Non-Admitted and Mental Health (Admitted)

Consistent with the current procedure, funding of growth from the Non-Admitted stream Transition Grants will not be applied, enabling Districts further time to address the issues underpinning this component of the Transition Grant.

Calculations for Mental Health - Admitted services Transition Grants have been based on the same principle described above (i.e. excluded from the funding of growth calculation).

Small Hospitals Transition Grant

The calculation for Small Hospitals Model Transition Grant is the difference between the overall funding, based on the NSW Small Hospitals funding model, for your District's small hospitals, and the aggregate projected cost for the District's small hospitals as informed by the 2017/18 costing results.

The application of these principles has been reflected in the table below:

Application of Transition Grant to Growth	2019/20 NWAU19 $ (000's)	2019/20 Recognised Operational Cost (000's)	2019/20 Applied to Growth (000's)	2019/20 Final as per Sch C $ (000's)
Acute Admitted	$7,173	-$7,173		
Emergency Department				
Non Admitted (including Sub-Acute Non Admitted)				
Sub-Acute Admitted	$629	-$629		
Mental Health - Admitted (Acute and Sub-Acute)	$1,074	-$1,074		
Block Funded Hospitals (Small Hospitals)				
Total:	$8,876	-$8,876		

ROW SECTION G – GROSS-UP (PRIVATE PATIENT SERVICE ADJUSTMENT)

Gross-Up (Private Patient Service Adjustments)

The calculated value of private patient revenue for accommodation and prostheses (which is included in the NWAU calculation as a negative adjustment) and therefore needs to be added back to the District expense budget to provide the total ABF expense for the NWAU activity.

Gross-Up (Private Patient Service Adjustments)	$ (000's)
Acute Admitted	$57,684
Sub-Acute Admitted	$13,831
Mental Health - Admitted (Acute and Sub-Acute)	$5,177
Total:	$76,693

ROW SECTION H – PROVISION FOR SPECIFIC INITIATIVES & TMF ADJUSTMENTS

Provision for Specific Initiatives

This section of Schedule C identifies new initiatives for funding in the current year. Where the initiative is ongoing in future years it will be reflected in other sections of Schedule C for those subsequent years (e.g. where activity is required it will move to the ABF sections).

COLUMN E - INITIAL BUDGET 2019/20

Schedule C sets out the key budget elements linking service stream activity to funding. In line with the devolved health system governance, Districts have the flexibility to determine the application and reconfiguration of resources between service streams that will best meet local needs and priorities.

Districts are also responsible for determining the allocation of activity and budgets to their individual hospitals and other services, noting the state-wide priorities identified in Part A of this Service Agreement.

SCHEDULE C – PART 2

The 2019/20 Revenue Budget for each District results from trend growth, price, and volume increases as well as a performance factor and other adjustments. There are also specific amendments for High Cost Drugs, revenue attributable to compensable patients and for certain other items.

Own source revenue includes all revenue from sources other than Government Grants.

SCHEDULE C – PART 3

This schedule represents the estimated 2019/20 shared services and consolidated payments summary.

The schedule has been grouped into specific categories and allows for the safe and efficient transfer of funds between NSW Health entities providing services to Districts.

HealthShare, eHealth and NSW Pathology charges relate to services either provided directly to the District or on behalf of the District by these entities and will be supported by formal customer service agreements.

Interhospital Transports relate to services provided on behalf of District by either NSW Ambulance or the Neonatal Emergency Transport Service. Formal service agreements will be required to be established to support these charges.

Payroll & PAYG represents District estimated payroll requirements to pay your employees their fortnightly payroll and from 2019/20 includes the PAYG payments to the ATO. The initial estimates are subject to periodic review and discussion between District, the Ministry and HealthShare as the payroll service provider. Existing processes and practices for weekly reconciliations will continue in 2019/20.

Creditors represents District estimated creditor requirements to pay your suppliers, VMOs, contractors, NGOs, AHO and all other payments made by Oracle Payables. The initial estimates are subject to periodic review and discussion between District, the Ministry and HealthShare as the payables service provider. The Ministry will be establishing a cash buffer in the new NSW Health Creditors bank account, Districts will be charged the actual creditors amount each week in arrears.

Other Miscellaneous includes a range of other matters dealt with under this schedule. These include items such as the provision of pathology services, or third party contract and or administrative arrangements, that require a single whole of health payment either annually in advance (i.e. TMF insurances) or monthly in arrears (i.e. Whole of Health electricity contracts and ACRBS blood supply). The fund management of these accounts is managed by the Ministry supported by third party invoices. As is the case now, costs will be journaled to Districts on a monthly basis to support these consolidated vendor payments.

SCHEDULE C – PART 4

National Health Funding Body Service Agreement

This section represents the initial activity advice being provided by the State Manager (i.e. Ministry of Health) as a system manager to the National Health Funding Body (NHFB) to enable the calculation and payment of the Commonwealth contribution.

Only the activity reported in this schedule C Part 4 is subject to Commonwealth contribution under the NHRA.