2017-18 SERVICE AGREEMENT

Schedule C
Budget Notes

Murrumbidgee
Local Health District

NSW GOVERNMENT | Health

Notes and Glossary

OVERVIEW

NSW State Price for 2017/18 is $4,691. This has been informed by the 2015/16 clinical costing (District and Network Returns – DNR) results provided by all Districts, which have been subject to the annual internal clinical costing audit, and expressed in NWAU17. As last year's price was based on NWAU16 a direct comparison between last year's price and this year's price is not possible.

The State price for 2017/18 has also been informed by the cost of all service streams, including Non-Admitted services, which in the past were excluded in setting the State Price. Inclusion of the Non-Admitted stream has been possible since the Non-Admitted services data coverage has improved significantly and is now considered robust enough for informing the State Price. This change will ensure that NSW State Price better harmonise services delivered from the admitted and the non-admitted service. Further technical information will be available in the NSW Activity Based Management (ABM) and Activity Based Funding (ABF) Compendium 2017/18.

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, Emergency Department, Non-Admitted and Sub-Acute 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 Projected Average Cost (PAC) or the State Price to calculate the expense budget for each category. Growth funding has been provided at State Price for all Districts. 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 State Price. Therefore, more efficient Districts have been funded for the activity growth at a rate higher than the cost of providing this activity.

Projected Average Cost Calculation - The PAC (reflected in column D of Schedule C Part 1) has been calculated for all streams, including Non-Admitted Patient. Consistent with the prior year, Mental Health Sub Acute and non-grouped Sub-Acute activity have 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 and has been set using the cost reported in the most recent full year clinical costing studies.

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.

For 2017/18, Mental Health Non-Admitted services will continue to be shadow funded, which does not adversely impact any District overall Mental Health funding for this stream, using NSW Mental Health Non-Admitted Interim classification. For 2017/18, Districts are shadow funded at their Mental Health Non-Admitted PAC calculated using this interim classification.

The implementation of the Australian Mental Health Care Classification (AMHCC) occurred over 2016/17 in NSW. This has had an impact on the activity targets reflected in Schedule C which required a temporary funding adjustment to accommodate for the impact of the AMHCC on costing processes.

As in previous years, a separate transition grant has been identified for 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 services resources allocated to Block Funded Hospitals (Small Hospitals) and Teaching, Training and Research, row section E which contains Mental Health services resources deemed to be out of scope for the National Health Reform Agreement (NHRA), such as some child and adolescent services and row section G gross-up 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 has been introduced in 2017/18 to support a better interface in patient care between rural ABF hospitals and small hospitals. This is particularly applicable to the rural Districts. The new model adopts a fixed and variable cost methodology and replaces the previous model based on the IHPA small hospitals model. Where additional activity in a small hospital has been negotiated the NSW State price has been applied to this activity. Under this model, the variable price for delivering additional activity from small hospitals has been pegged to the 2017/18 State Price. 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 2017/18.

Block Funded Services "In Scope" is defined by **NSW Cost Accounting Guidelines** and has been set on the basis of the most recent full year clinical costing data submitted by Districts accordingly.

ROW SECTION E – STATE ONLY BLOCK FUNDED SERVICES

These include state based services that are not subject to Commonwealth funding contribution under the NHRA. They include a number of population, aboriginal health, community based services and amounts related to costs associated with the provision of privately referred non-inpatient activity.

ROW SECTION F – TRANSITION GRANT

Transition Grants
Transition Grants are provided to Districts that reported a projected average cost greater than the State Price in 2017/18.

In keeping with the methodology for reducing transition grants, Districts with transition grants in Acute and Emergency Department (ED) service streams will continue to fund an element of growth from their transition grant. Consistent with the current procedure, funding of growth from the Non-Admitted stream Transition Grants will not be applied to funding growth until 2019/20 to enable Districts time to address the issues underpinning this component of the Transition Grant. Districts are encouraged to use the data available in the ABM Portal to identify the key cost drivers affecting their overall cost performance.

Similarly to previous years, Rural Districts with a transition grant in Acute and ED received a Recognised Structural Cost. This is to recognise the significant structural challenges experienced in rural settings and evidenced in the Clinical Costing studies. These

Recognised Structural costs are removed from the District's transition grant calculation and are therefore not applied to growth funding for Acute and ED services.

Acute and Emergency Department

Consistent with the previous year, Districts with Acute and/or ED 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 and Emergency Department 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 and ED subject to a maximum of 50% of the growth being funded through a reduction in the transition grant.
3. Where a Transition Grant is applied to funding Growth, any second year application will not exceed the amount determined for the first year (i.e. it is capped at the first year amount). Where the Transition Grant continues beyond two years the "capping" provision is reset as if it were a new Transition Grant and steps 1 and 2 above is reapplied.

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

Application of Transition Grant to Growth	2017/18 NWAU17 $ (000's)	2017/18 Applied to Growth (000's)	2017/18 Final as per Sch C $ (000's)
Acute Admitted			
Emergency Department	**$2,720**	**-$1,496**	**$1,224**
Sub-Acute Admitted			
Non Admitted (including Sub-Acute Non Admitted)	$2,758		$2,758
Mental Health - Admitted (Acute and Sub-Acute)			
Block Funded Hospitals (Small Hospitals)	$1,208		$1,208
Total:	**$6,686**	**-$1,496**	**$5,190**

Non-Admitted, Sub-Acute and Mental Health (Admitted)

Calculations for Sub-Acute and Mental Health - Admitted services' transition grants have been based on the same principle described above.

Small Hospitals

The calculation for Block Funded Hospitals' 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 2015/16 costing results.

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

Gross-Up (Private Patient Service Adjustments) is 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	$6,967
Sub-Acute Admitted	$2,380
Mental Health - Admitted (Acute and Sub-Acute)	$389
Total:	**$9,736**

COLUMN E - INITIAL BUDGET 2017/18

Schedule C sets out the key budget elements linking activity and service streams to funding. In line with our 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 2017/18 Revenue Budget for each District results from normal price and volume increases as well as a performance factor and other amendments.

The performance factor is based on each LHD's performance against seven revenue measures over a two year period with a share of the 2017/18 revenue target being allocated (or not allocated) accordingly.

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

SCHEDULE C – PART 3

This schedule represents the estimated 2017/18 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.

Note: State Superannuation (Pillar) payments are now managed by HealthShare.

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

Payroll represents District estimated payroll requirements to pay your employees their fortnightly payroll. 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 2017/18.

Note: Payroll does not include District PAYG tax liability nor does it include District contractors and VMO monthly payment requirements.

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.