

# Notes to the State Outcomes Budget Schedule

## Illawarra Shoalhaven Local Health District



Health



# Notes and Glossary

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## Overview

The NSW State Efficient Price for 2022-23 has been set at \$5,095. This price has been informed by the 2020-21 District and Network Return (DNR) clinical costing study results provided by all Districts and Networks. The State Efficient Price reflects the cost of providing activity based services by NSW Local Health Districts and Specialty Networks. These results have been subject to the annual internal clinical costing audit, and results are expressed in NWAU22.

The 2021-22 State Efficient Price was based on 2019-20 DNR results which were expressed in NWAU21, as such a direct comparison between the 2021-22 price and 2022-23 price is not possible.

The DNR clinical costing process has been subject to both quality assurance strategies which seek to prevent, detect, and correct the quality of data provided by Districts and Networks as well as improvement strategies which aim to improve the quality of data being provided through continuous enhancement. Both strategies target 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 2022-23.

NSW Health has continued its commitment to financial management reform delivering improved financial governance and oversight through the State Outcomes Budget Schedule. Outcome Budgeting continues to put the needs of people at the centre of investment decision-making across the health sector. It improves oversight of total expenditure, as well as providing greater evidence to support and prioritise resource allocation.

The 2022-23 State Outcomes Budget reflects the continuing shift in focus from incremental input measures to the delivery of outcomes and performance, where performance metrics are given as much importance as the financial results.

The State Outcomes Budget Schedule sets out the key budget elements linking outcomes to funding. In line with the devolved health system governance, Districts have the flexibility to determine the application and reconfiguration of resources between services that will best meet local needs and priorities.

# 4.1 State Outcomes Budget Schedule: Part 1

## SECTION A – OUTCOMES BUDGETING

The schedule represents the NSW Treasury’s transition to Outcome Budgeting (TPP 18-09) and aligns to the NSW Health Outcome and Business Plan 2022-23. The NSW Treasury Outcome Budgeting initiative intends to transform the way budget decisions are made, and resources are managed in the NSW public sector. The initiative aims to shift the focus of the NSW Government to deliver better outcomes for the people of NSW.

As this transition is taking place across several years, it is likely some figures listed in this schedule are unable to accurately be carried through from LHD/SHN budgets to each facility at this stage of the transition. Some facility figures will therefore be consolidated at the District or Network level with investment allocation managed locally.

Figures included in this schedule do not include stimulus funding in response to the COVID-19 pandemic.

The vision at NSW Health is that of a sustainable health system that delivers outcomes that matter to patients and the community, is personalised, invests in wellness and is digitally enabled.

The link between services and budget outcomes can be followed as per the structure below. The five key outcomes are detailed in the table below.

Table 1: NSW Health Outcomes

State Outcomes	Description
<b>Keeping people healthy through prevention and health promotion</b>	Preventive and population health are critical to keeping people healthier. This outcome covers a range of functions NSW Health is responsible for including to protect and promote public health, control infectious diseases, reduce preventable diseases and death, help people manage their own health, and promote equitable health outcomes in the community.
<b>People can access care in out of hospitals to manage their health and wellbeing</b>	Healthcare extends beyond the hospital and needs to connect across settings to reduce the burden of chronic disease, assist people with conditions to live well and avoid complications, support people to recover from illness and injury, and prevent avoidable hospitalisations. NSW Health services funded to achieve this outcome include non-admitted and community-based services, sub-acute services, hospital in the home, and dental services.
<b>People receive timely emergency care</b>	NSW Health often provides the first point of contact for those needing access to emergency healthcare and is responsible for managing and administering ambulance and emergency services.
<b>People receive high-quality, safe care in our hospitals</b>	This outcome reflects the State’s responsibility to manage and administer public hospitals. When people are admitted to a hospital in NSW they can expect world-class medical and surgical care within clinically recommended timeframes.
<b>Our people and systems are continuously improving to deliver the best health outcomes and experiences</b>	A skilled workforce with access to world leading education and training, and a system that harnesses research and digital innovation are essential to continuously improve outcomes and experiences of care across the system. These enablers are delivered by a range of statutory bodies and system managers.

The schedule sets out the key budget elements linking outcomes to funding. In line with the devolved health system governance, Districts have the flexibility to determine the application and reconfiguration of resources between services that will best meet local needs and priorities.

## Activity Based Funding

Activity targets for Acute, Emergency, Mental Health Admitted, Sub-Acute and Non Admitted Services as well as Dental and Drug & Alcohol Services have been used to set the ABF budget.

The 2022-23 State Outcomes Budget also includes activity targets for services provided within NSW small hospitals.

Non-admitted Mental Health is again block funded in the 2022-23 State Outcomes Budget while the NSW PSC classification continues to be used for shadow funding of mental health non-admitted services on an activity basis.

Activity targets using the interim PSC classes have been set for each District and Network. Non-admitted mental health services are monitored against these activity targets. These targets are included in each District and Networks schedule.

The table below sets out the components of the activity allocation and subsequent Activity Based Funding calculation for both ABF facilities and small hospitals.

Table 2: - State Outcome Budget Schedule 2022-23 - Allocation of Activity

Illawarra Shoalhaven LHD	ABF Hospitals		Small Hospitals
	Target Activity	Funding	Target Activity
State Efficient Price: \$5,095 per NWAU22	NWAU22	\$000	NWAU22
<b>Outcome 1: Keeping people healthy through prevention and health promotion</b>	<b>2,695</b>	<b>\$13,731</b>	<b>0</b>
<i>Dental Services</i>	2,695	\$13,731	0
<b>Outcome 2: People can access care in out of hospital settings to manage their health and wellbeing</b>	<b>33,027</b>	<b>\$138,110</b>	<b>363</b>
<i>Drug &amp; Alcohol Services</i>	1,870	\$9,527	5
<i>Mental Health Community Based Services</i>	5,920	Block Funded	0
<i>Non-Admitted Patients</i>	25,237	\$128,583	358
<b>Outcome 3: People receive timely emergency care</b>	<b>21,898</b>	<b>\$111,568</b>	<b>1,675</b>
<i>Emergency Departments</i>	21,898	\$111,568	1,675
<b>Outcome 4: People receive high-quality, safe care in our hospitals</b>	<b>108,856</b>	<b>\$554,620</b>	<b>2,713</b>
<i>Acute Services</i>	82,478	\$420,227	1,463
<i>Mental Health Services</i>	10,209	\$52,016	0
<i>Sub-Acute Services</i>	16,168	\$82,377	1,250
<b>Total excluding Mental Health Community Based Services</b>	<b>160,555</b>	<b>\$818,030</b>	<b>4,751</b>
<b>Sub-Total for ABF &amp; Small Hospitals</b>	<b>166,476</b>		<b>4,751</b>
<b>Total as per Service Agreement</b>		<b>171,226</b>	

The NSW State Efficient Price for 2022-23 has been informed by the Cost per NWAU data of the 2020-21 DNR Clinical Costing Study and has been set at a point lower than the State Average Cost per NWAU to facilitate the application of a single price. The State Efficient Price per NWAU for 2022-23 has been applied to both baseline and growth funding.

The 2022-23 State Outcomes Budget has all activity, including growth and small hospitals paid at the one price. NSW Health will continue to determine a State Price to meet other system requirements, including determination of Cost-Price Adjustment details (refer below).

For Districts or Networks with a Projected Average Cost (PAC) that exceeds the State Efficient Price the difference between their specific PAC and the State Efficient Price will be addressed by a Cost-Price Adjustment.

### ***Mental Health Services***

The 2022-23 Mental Health Services budget has had funding allocated across various Outcome Budgeting groups, both 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.

It is important to note that Mental Health funding is also included in:

- *Mental Health Non-Admitted* - For the 2022-23 State Outcomes Budget Mental Health Non-Admitted services will be block funded while the new Australian Mental Health Care Classification continues being implemented.
- *Standalone Psychiatric Hospitals* - A small number of standalone psychiatric hospitals have continued to be block funded based on the 2020-21 DNR clinical costing results.
- *Small & Rural Hospitals* - Within the Small and Rural Hospitals Block allocation a quantum of funding for both Mental Health services as well as Teaching, Training and Research for Mental Health has been provisioned.

### ***Non-Activity Based Funding***

#### ***Block Funded Hospitals (Small Hospitals)***

The NSW Small Hospitals Funding model was introduced in 2017-18 to support a better interface in patient care between the larger ABF hospitals and the small, predominately rural, hospitals which operate with lesser patient volume.

This model and the concept has been particularly applicable to the Rural and Regional Districts. The model adopts a fixed and variable cost methodology and has been used again for the 2022-23 State Outcomes Budget allocation.

In the 2022-23 model, the variable component for delivering activity in NSW Small Hospitals has been pegged to the 2022-23 State Efficient Price of \$5,095. The fixed component of the funding model has been set at \$1.35 million per facility.

Where additional activity in a small hospital setting has been negotiated, this growth in activity has been applied to the overall funding of these facilities.

It is worth noting that Multi-Purpose Service (MPS) program has been excluded from the small hospital funding model ensuring these MPS facilities receive DNR costs plus escalation.

#### ***Block Funded Services***

This allocation in the 2022-23 State Outcomes Budget has been informed by the 2020-21 DNR, clinical costing study.

- The NSW State-wide Teaching and Training cost allocation methodology has been applied to reduce the volatility and enhance the stability of the Teaching and Training cost allocation across the system. This allocation approach continues to be applied in the 2022-23 State Outcomes Budget.
- Other Non-Admitted Patient Services component addresses the funding of home ventilation clinics. These services are block funded in the 2022-23 State Outcomes Budget based on the 2020-21 DNR clinical costing submission.

### ***Gross-Up (Private Patient Service Adjustments)***

NSW uses the national price weights to determine NWAU value. The national price weights include a discount (negative value) for expense contributions for private patients. The calculated value of private patient revenue for accommodation and prosthesis, which represent the negative adjustment in the NWAU calculation therefore needs to be added back to the District expense budget to provide the total ABF expense for the NWAU activity. The Gross-Up component reflects this adjustment.

### ***State Only Block Funded Services***

These represent state based services that are not subject to Commonwealth funding contribution under the National Health Reform Agreement (i.e. “out of scope” for Commonwealth funding).

These services include:

- Public and Population Health, Aboriginal Health and other Community Health based programs as well as non-health related services;
- Privately referred Non-Admitted services which 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 DNR clinical costing study;
- 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.

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.

### ***Cost - Price Adjustment***

In further developing the NSW Funding Model, a Cost-Price Adjustment will be applied where a District/Network's Projected Average Cost exceeds the State Efficient Price. The rules for funding up to 50 per cent of growth will be applied, however from 2021-22, the calculation will apply to additional cost above the State Efficient Price.

Where the PAC exceeds the State Efficient Price, an ‘adjustment per NWAU’ is calculated against the base activity only. This represents the additional cost per NWAU that the District/Network has incurred over the State Efficient Price to deliver each unit of activity.

The ‘adjustment per NWAU’ is then multiplied by the respective District/Network baseline to calculate the total adjustment amount. This represents the total additional cost of providing the existing services in the previous year above the State Efficient Price.

The calculation for Small Hospitals Cost-Price Adjustment is the difference between the overall funding, based on the NSW Small Hospitals funding model, for a District's small hospitals and the aggregate projected cost for the District's small hospitals as informed by the 2021-22 DNR clinical costing results. See Table 3 below for details of the Cost-Price Adjustment by Outcome.

## Allocated Savings Programs

The Districts and Networks have been allocated a savings target as stated in Table 3 below. The savings target determined for each outcome program is proportionate to the total outcome funding for the program. The methodology used to estimate the savings target is consistent with the past years.

Table 3: - State Outcome Budget Schedule 2022-23 – Breakdown of Other Funding

Illawarra Shoalhaven LHD	Small Hospitals / Block Funding / Gross-Up	Cost-Price Adjustment	Allocated Savings Programs	Total Small Hospitals and Other Block Funding
	\$000	\$000	\$000	\$000
Outcome 1: Keeping people healthy through prevention and health promotion	\$10,300	\$313	\$0	\$10,613
Outcome 2: People can access care in out of hospital settings to manage their health and wellbeing	\$99,857	\$3,326	\$0	\$103,183
Outcome 3: People receive timely emergency care	\$9,116	\$11,061	\$0	\$20,177
Outcome 4: People receive high-quality, safe care in our hospitals	\$40,439	\$17,993	(\$2,700)	\$55,733
Outcome 5: Our people and systems are continuously improving to deliver the best health outcomes and experiences	\$31,816	\$0	\$0	\$31,816
<b>TOTAL SMALL HOSPITALS AND OTHER BLOCK FUNDING</b>	<b>\$191,529</b>	<b>\$32,693</b>	<b>(\$2,700)</b>	<b>\$221,522</b>

## SECTION B – SPECIFIC INITIATIVES

This section of the Schedule identifies the provision for specific and new initiatives for funding in the current year.

Where the initiative is ongoing in future years it will be reflected in other sections of the Schedule for those subsequent years.

For reporting purposes, these initiatives will need to be allocated against one or more State Outcomes for Health detailed in Section A

## SECTION C – RESTRICTED FINANCIAL ASSETS

This section of the Schedule identifies expenses relating to 'restricted' funds.

The delineation between 'restricted' and 'unrestricted' funds refers to the NSW Treasury classification of cash held in specified accounts. For NSW Health, all funds held in Restricted Financial Assets and Custodial Trust Fund accounts are considered 'restricted'. Monies held in a General Fund account are considered 'unrestricted'.

## SECTION D – GENERAL FUND DEPRECIATION

This section of the Schedule identifies expenses relating to depreciation amounts.

Depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life, where the depreciable amount is defined as the cost of an asset or other amount substituted for cost, less its residual value.

## 4.2 State Outcome Budget Schedule: Part 2

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The 2022-23 Revenue Budget for each District results from trend growth 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.

## 4.3 State Outcome Budget Schedule - NHRA Clause A95(b) Notice

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

The Schedule reflects both the Commonwealth and the State's contribution to the funding of health services both in scope for Commonwealth contributions as well as those services for which the Commonwealth does not contribute.

## 4.4 State Outcome Budget Schedule- Capital Program

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This section explains the 2022-23 capital program including capital projects managed by Health Infrastructure.

## 4.5 State Outcome and Performance Payment Schedule

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This part of the *State Outcome and Budget Schedule* has been included in the 2022-23 Service Agreement to articulate the additional investment in strategic initiatives the NSW Government is making in NSW Health.

The schedule provides indicative funding or numbers of full time equivalent staff for the two largest investments - the Deferred Care and the Workforce Resilience packages. Actual funding will be allocated according to the outcome and performance metric described in this schedule and will be managed against the performance outcomes.