

Explanatory Notes for Section 4 - Budget

Illawarra Shoalhaven Local Health District



Health



Notes

Overview

The NSW State Efficient Price for 2024-25 has been set at \$5,675 per NWAU24. This price has been informed by the 2022-23 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 NWAU24.

The 2023-24 State Efficient Price was based on 2021-22 DNR results which were expressed in NWAU23, as such a direct comparison between the 2023-24 price and 2024-25 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 2024-25.

The following notes relate to the specific elements of the Budget Schedule in Section 4 of the Service Agreement.

4.1 State Budget Schedule: Part 1

The Budget Schedule: Part 1 sets out types of services split by allocation method. 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.

Target Volume

The target volume in the Budget Schedule includes activity targets set for Activity Based Facilities, Small Hospitals and Specific Initiatives. The table below sets out the components of the activity allocation.

Table 1: State Budget Schedule 2024-25 - Allocation of Activity

	Total as per Schedule	Activity Based Funded Services	Specific Initiatives
Illawarra Shoalhaven Local Health District	Target Activity NWAU24	Target Activity NWAU24	Target Activity NWAU24
Acute Admitted	94,983	94,774	209
Emergency Department	25,684	25,684	
Sub-Acute Services	18,226	18,226	
Non Admitted Services - Incl Dental Services	32,204	31,679	526
Total	171,097	170,362	735
Mental Health - Admitted	10,012	10,012	
Mental Health - Non Admitted	7,129	7,129	
Total	17,141	17,141	0
Grand Total	188,238	187,504	735

Activity Based Funded Services

The ABF Services budget has been set by multiplying the ABF target (NWAU24) against the State Efficient Price. This applies to both baseline and growth activity. Note: This does not apply to contractual arrangements, where specific adjustments are made for these arrangements. The ABF activity targets have been set for Acute Admitted, Emergency Department, Sub-Acute Services, Non-Admitted Services (including Dental) and Mental Health Admitted Services. This amount also includes amounts related to specific initiatives (refer below).

The NSW State Efficient Price for 2024-25 has been informed by the Cost per NWAU data of the 2022-23 DNR Clinical Costing Study.

NSW Health will continue to determine a State Price to meet other system requirements.

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 (refer below).

Small Hospitals and Other Block Funding

The Small Hospitals and Other Block Funding includes the following amounts allocated in relation to Block Funded Hospitals (Small Hospitals), Block Funded Services, Gross-Up (Private Patient Service Adjustments), State Only Block Funded Services and Cost-Price Adjustment. This amount also includes amounts related to specific initiatives (refer below).

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 is particularly applicable to the Rural and Regional Districts. The model adopts a fixed and variable cost methodology and has been used again for the 2024-25 State Budget allocation.

For 2024-25 NSW Small Hospital Funding Model, a linear regression analysis has been used to calculate the fixed and variable components. The variable price for delivering activity from small hospitals has been set at \$5,146 per NWAU24. The fixed component for the 2024-25 budget has been set at \$1.8 million per facility.

Block funded services at these facilities, the Multi-Purpose Service (MPS) program and Residential Aged Care are allocated funding using their DNR cost plus escalation and have been excluded from the 2024-25 Small Hospital Funding Model.

For Districts or Networks where their small hospitals aggregated projected cost (based on the DNR costs escalated) exceed the modelled funding based on the NSW Small Hospitals funding model, the difference is addressed by a Cost-Price Adjustment (refer below).

Block Funded Services

This allocation in the 2024-25 State Budget has been informed by the 2022-23 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 2024-25 State Budget.
- Other Non-Admitted Patient Services component addresses the funding of home ventilation clinics. These services are block funded in the 2024-25 State Budget.
- Non-admitted mental health services are block funded in the 2024-25 State Budget and allocated the DNR cost plus escalation. These services have been notionally applied an activity target in NWAU24 as part of the transition to Activity Based Funding.

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 NHRA ABF or block 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 2 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 have not been applied this year.

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 2022-23 DNR clinical costing results.

Specific Initiatives

The specific initiatives amounts have been allocated across both ABF and Block. These allocations were informed by the 2022-23 DNR, clinical costing study.

SECTION A

This section of the schedule identifies the budget for Acute Admitted, Emergency Department, Sub-Acute Services and Non Admitted Services (including Dental Services). The amounts have been allocated using both an activity based and block basis.

SECTION B

This section of the schedule identifies the Mental Health Services budget which has been allocated using both an activity based and block basis.

Admitted Mental Health is funded using the AMHCC on an ABF basis.

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

- *Mental Health Non-Admitted* - For the 2024-25 State Budget Mental Health Non-Admitted services will be block funded while arrangements are refined for the transition to ABF under the Australian Mental Health Care Classification. Activity targets (NWAU24) have been set for shadow funding purposes and achievement against these targets will be monitored.
- *Standalone Psychiatric Hospitals* - A small number of standalone psychiatric hospitals have continued to be block funded based on the 2022-23 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.

SECTION C

This section of the Schedule identifies the budget for Teaching, Training and Research and Other Non Admitted Patient Services which have been allocated on a block basis. Refer Block Funded Services section above.

SECTION D

This section of the Schedule identifies the budget for Other Services which has been allocated on a block basis. Refer to State Only Block Funded Services section above. This amount also includes the funding allocated for innovative models of care which the Commonwealth provide a contribution as part of a Bilateral Agreement

SECTION E

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 F

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.

SECTION G

This section of the Schedule provides the total expense amount.

SECTION H

This section of the Schedule provides other gains or losses on disposal of assets etc.

SECTION I

This section of the Schedule identifies the revenue, split by ABF Commonwealth Share, Block Commonwealth Share and all other revenue excluding these amounts.

SECTION J

This section of the Schedule provides the net result.

4.2 State Budget Schedule: Part 2

The 2024-25 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. From 2023-24, the Commonwealth contributions for National Health Reform Agreement (NHRA) activity based and block-funded services was considered own source of revenue.

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

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 Budget Schedule- Capital Program

This section explains the 2024-25 capital program including capital projects managed by Health Infrastructure and Ministry of Health.