

Budget Explanatory Notes

Justice Health and Forensic Mental Health Network



Health



Justice Health

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

The initial budget allocation for your Health Entity is \$242,500,817 for 2019/20, representing an increase of \$9,681,620 (4.1%) compared to your annualised budget as indicated in Schedule C of the Service Agreement.

The increase in expenditure is broken down into two areas:

- Escalation
- Activity, Growth, Other Initiatives & Priorities

BUDGET SNAPSHOT

2019/20 Initial Budget Allocation

\$242,500,817

An increase of

\$9,681,620

4.1%

Row K of your Schedule C Part 1

TOTAL BUDGET INCREASE \$9,681,620

Escalation ¹ \$5,766,699

Activity, Growth, Savings, Other Initiatives & Priorities ² \$3,914,921

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 2.5%, calculated as follows:

				Budget Ref
2018/19 annualised expenditure base	\$ 232,819,197		A	
Less specific items:				
2018/19 NGOs	\$ 107,620		B	
TOTAL 2018/19 annualised expenditure base (excl. Specific Items)	\$ 232,711,577		C	A - B
Less: Non escalated expenditure items	\$ 29,097,819		D	
Escalatable expenditure base for 2018/19 (excl. Specific Items)	\$ 203,613,758		E	C - D
General escalation (excl. specific items)	\$ 4,809,190	✓	F	IB20-001
Add specific item escalations:				
Intra-Health Adjustment - Escalations	\$ 957,509	✓	G	IB20-011 to IB20-016
Total composite escalation (\$)	\$ 5,766,699	1	H	F + G
Escalated expenditure base for 2019/20 (incl. Specific Items)	\$ 238,585,896		I	A + H
Total composite escalation rate (%)	2.5%		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	\$ 0
Savings & Efficiency Targets	\$ -1,552,385
Other Initiatives & Priorities	\$ 5,467,306
Total	2 \$ 3,914,921

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.

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 Dividends	Treasury Cap	Total Savings	% of Total Expense Budget
\$M	\$M	\$M	\$M	\$M	\$M	\$M	%
\$ 233	\$ 0	\$ -0.05	\$ 0.0	\$ -1.5	\$ 0.0	\$ -1.6	0.8%

Procurement Savings	\$ -48,058	✓	IB20-086
Efficiency dividends 2019-20	\$ -1,504,327	✓	IB20-087
Total Savings & Efficiencies	\$ -1,552,385		Budget Ref

✓ 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.

Data Improvement Project	\$ 500,000	✓	*	IB20-065
Justice Health Service Volumes	\$ 4,900,000	✓	*	N-IB20-068
Efficiency dividends & Procurement Savings 2019-20	\$ -1,552,385	✓	*	IB20-087
2015 Election Commitment - Additional Nursing, Midwifery and Support positions	\$ 67,306	✓	*	IB20-084
Grand Total for Other Initiatives & Priorities	\$ 3,914,921	2		As per Schedule C

✓ 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.

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	\$ 67,306	✓	IB20-084
Total 2015 Election Commitment Funding	\$ 67,306		Budget Ref

✓ 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 (2 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 Educators – Mental Health	1	\$ 29,614	✓	IB20-084
Total Other Priorities	2	\$ 67,306		Budget Ref

✓ Indicates the adjustment has been annualised

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:

FY20 IntraHealth Base Budget – Un-escalated	\$ 6,893,951		
Price increase funded from Escalation & Other	\$ 957,509	✓	IB20-012, IB20-013, IB20-14, IB20-015 & IB20-016
Volume increase funded from Growth – FY20	\$ 0	✓	IB20-074
Volume increase funded from Growth – PY*	\$ 171,469	✓	IB20-002
FY 20 IntraHealth Base Budget – Escalated	\$ 8,022,929		Bud Ref

✓ Indicates the adjustment has been annualised

* Historically, the starting point for the year on year movement of Intra-Health budgets was the closing forecast of the prior year provided by the shared services entity. This approach failed to take into consideration any gaps between the prior year forecast and the top level budget. An adjustment has been applied to your growth budget to align the prior year forecast and top level budgets for intrahealth.

Breakdown via Intra-Health Type:

	\$
HealthShare NSW Warehousing & Service Centres	\$ 660,978
HealthShare Enable	\$ 47,657
eHealth	\$ 3,330,564
NSW Health Pathology	\$ 3,963,026
Total IntraHealth Charges	\$ 8,022,929

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 \$10,019,724 for 2019/20, representing an increase of \$221,341 (2.3%) 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

\$10,019,724

An increase of

\$221,341

2.3%

Row 1 of your Schedule C Part 2

TOTAL BUDGET INCREASE \$221,341

Price	\$122,459
Volume	\$97,734
Performance	\$0
Performance Adjustments (Prior Year)	\$0
Other	\$1,148

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	\$ 61,468	✓	IB20-250
Patient Fees	\$ 60,991	✓	IB20-250
Total Price Increase	\$ 122,459		Budget Ref

✓ 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	
0.0	0.0	0.0	0.0	0.0	0.0	0.0	
General					\$ 97,734	✓	IB20-251
Total Volume Increase					\$ 97,734		Budget Ref

✓ 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
0.0	0.0

Performance Adjustment

This additional performance component has been added to health entities where their full year FY19 forecast as at May 2018 exceeded FY19 current DTL budget. This adjustment acknowledges the new revenue model will continue to be bedded down further until revenue forecasts provided by health entities become more reliable.

This adjustment is only applied to Patient fees (excluding MAA, DVA and TACP) and Revenue-General accounts.

Total Performance Adjustment	\$ 0		Budget Ref
-------------------------------------	-------------	--	-------------------

Other Revenue Adjustments

IntraHealth Revenue Escalation	\$ 1,148	✓	IB20-253
Total Other Increase	\$ 1,148		Budget Ref

✓ Indicates the adjustment has been annualised

Balance Sheet Movements

The initial budget movement allocation for your Health Entity is \$888,050 for 2019/20.

Balance Sheet movements are broken down into thirteen areas:

- | Assets | Liabilities |
|-------------------|---------------------|
| • 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

\$888,050

Row S of your Schedule C Part 2

TOTAL BUDGET MOVEMENT

\$888,050

Cash at Bank \$0	Creditors \$0
Investments \$0	Accruals \$-946,196
Debtors \$0	Borrowings \$1,464,000
Inventories \$0	Provisions \$327,972
Prepayments \$0	PPP Liability \$0
Emerging Assets \$0	Income in Advance \$0
Capital / FA \$42,274	
Total Assets \$42,274	Total Liabilities \$845,776

Further details regarding balance sheet movement budgets are provided below:

Account Group	Rules	Adjustment Mechanisms	Annualised Adjustments	Capital Budgets
ASSETS				
Cash	Due to buffer restrictions, there should be no recurrent Cash budget movements	Only when buffers change	Never	Will be reviewed by the Capital Team
Investments	No longer allowed in GF	None	Never	None
Debtors	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
Inventories	Health entities are expected to maintain inventories at existing levels unless otherwise requested	Material movements require formal a written requests in June	Never	None
Prepayments	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
Emerging Assets	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
LIABILITIES				
Creditors	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
Accruals	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
Borrowings	Health entities are expected to provide repayment schedules	Annual Forward Estimates process	Never, but budget movements can be loaded for 2 forward years	None
Provisions	Health entities are expected to manage provisions	Submission can be made to the Financial Accounting Team in May each year	Never	None
PPP Liability	Health entities are expected to provide repayment schedules	Annual Forward Estimates process	Never, but budget movements can be loaded for 2 forward years	None
Income In Advance	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 \$233,323,085 for 2019/20.

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

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

BUDGET SNAPSHOT
 2019/20 Initial Budget Allocation
 \$233,323,698
 An increase of
 \$13,811,244
 6.3%
Sum of Rows A to D of your Schedule C Part 2

Government Contributions	2019/20 Un-escalated	2019/20 Initial Budget	Movement	%
Recurrent	\$ 215,196,836	\$ 224,609,057	\$ 9,412,221	4.4%
Capital	\$ 0	\$ 4,399,023	\$ 4,399,023	0.0%
Crown Acceptance	\$ 4,313,005	\$ 4,315,005	\$ 0	0.0%
Totals	\$ 219,509,841	\$ 233,323,085	\$ 13,811,244	6.3%