

7 Finance & Performance Management

7.1 Financial and Performance Management Obligations

Organisation performance monitoring and review of financial management form a key part of the system of internal controls for public health organisations. Chief Executives and Boards are responsible for putting into place appropriate arrangements to:

- ensure the efficiency and effectiveness of resource utilisation by public health organisations; and
- regularly review the adequacy and effectiveness of organisational financial and performance management arrangements.

7.1.1 Budget allocations and conditions of subsidy

The NSW State Budget is handed down in June each year reflecting the culmination of budget planning and negotiation between agencies and NSW Treasury, and decisions of Government over the preceding months to meet the costs of both ongoing and new services.

The Minister for Health approves initial cash allocations to public health organisations in accordance with s127 of the Health Services Act 1997. The Ministry issues budgets on or around State Budget day as detailed within the State Outcome Budget Schedule of the annual Service Agreement between the Secretary, NSW Health and public health organisations.

It is a condition of subsidy for all public health organisations that the allocation of funds are expended strictly in accordance with the Minister's approval, as specified in the annual Service Agreement. The Financial Requirements and Conditions of Subsidy (Government Grants), a supporting document to the Service Agreement, outlines NSW Health policy and expectations about financial matters including accountability, budget and liquidity management, budget devolution, Auditor-General compliance, taxation, superannuation and leave. Section 2.2 of the Conditions of Subsidy requires Chief Executives to report monthly to the Ministry of Health's Finance Branch and to the Board of Board governed organisations.

The State Outcome Budget Schedule of the Service Agreement issued to public health organisations sets out the base budget, ABF and block funding, and specific enhancements funded by the Commonwealth, NSW Government or internally by NSW Health.

When reviewing and monitoring financial aspects of the administration of their organisation, LHD/SHN Chief Executives and Boards must ensure:

- arrangements are in place to enable proper conduct of the public health organisation's financial affairs and to monitor the adequacy and effectiveness of these arrangements
- arrangements are in place so that the public health organisation's financial affairs are conducted in accordance with the law and relevant regulations
- the financial standing of the public health organisation is soundly based and complies with statutory financial requirements, financial obligations, relevant codes and guidelines, level of reserves and provisions, financial monitoring and reporting arrangements, and the impact of planned future policies and known foreseeable future developments on the organisation's financial position
- proper arrangements are in place to monitor the adequacy and effectiveness of the public health organisation's systems of internal control, including systems of internal financial control
- adequate arrangements are in place to maintain proper standards of financial conduct, and to prevent and detect fraud and corruption
- systems of internal control are in place to ensure the regularity of financial transactions and that they are lawful
- the maintenance of proper accounting records
- preparation of financial statements that give a true and fair view of the financial position of the health organisation and its expenditure and income.

7.1.2 Finance and Performance Committee

7.1.2.1 Establishment

The Model By-Laws provide that LHDs/SHNs must establish a Finance and Performance Committee to assist the Board and Chief Executive to ensure operating funds, capital works funds and service outputs required of the organisation are being managed in an appropriate and efficient manner, and consistent with requirements of the LHDs/SHNs Service Agreement with the Secretary, NSW Health.

The Finance and Performance Committee is required to be established as a sub-committee of the Board, or the Board itself may act as the Finance and Performance Committee. Where the full Board fulfils the role of the Finance and Performance Committee, financial reports should be received and discussed at each ordinary meeting of the Board. Financial reports must not be noted or deferred.

7.1.2.2 Membership

Where a Finance and Performance Committee is established as a sub-committee of the Board, it should include the Chief Executive as a member and provide for attendance of the Director of Finance. Under the By Laws, the Chair of the Audit and Risk Management Committee cannot also be appointed as the Chair of the Finance and Performance Committee.

7.1.2.3 Meeting and procedures

Minutes

Where the Finance and Performance Committee is established as a sub-committee of the Board, its deliberations and minutes must be submitted to the Board for approval.

Reporting

Reporting processes must be in place to allow the Finance and Performance Committee to review the efficiency and effectiveness of the organisation in delivering its strategic objectives and in meeting its accountabilities, as prescribed in the annual Service Agreement.

The main purpose of reporting is to provide relevant information to enable the Finance and Performance Committee to understand the organisation's performance against service and activity levels, and the management of resources applied for the delivery of these services set out in the Service Agreement. This indicates but is not limited to budget consideration, use of staff resourcing and other inputs used in service delivery. Identification of any exposure to financial risks and the extent to which they are being effectively managed are key considerations when assessing the impact of these risks on the overall performance of the organisation.

Reports prepared for the Finance and Performance Committee must represent a fair and true view of the performance of the organisation and should include effective strategies which the Chief Executive proposes to utilise to mitigate and resolve risks. All reports to the Finance and Performance Committee should include advice from management which reconciles the information within any report to the Committee with monthly reports provided to the Ministry of Health.

Reports to the Finance and Performance Committee should be succinct and focus on key issues that require attention, in a narrative style rather than voluminous pages of detailed figures. Reports should be prepared in accordance with accounting standards and statutory requirements and guidelines issued from time to time by the Ministry of Health.

An executive summary should be included in the Finance and Performance Committee report to highlight key financial and performance issues requiring the attention of the Committee. The Finance and Performance Committee should ensure it receives monthly reports that include the following information as a minimum:

- year to date and end of year projections regarding the financial performance and financial position of the organisation
- financial performance of each major cost centre
- any mitigation strategy to resolve a financial performance issue to achieve budget
- liquidity performance
- the position of Special Purpose and Trust funds
- the financial impact of variations to activity targets
- advice on any investments
- bad debts and write-offs
- activity performance against indicators and targets in the organisation's Service Agreement
- advice on the achievement of strategic priorities identified in the organisation's Service Agreement
- year to date and end of year projections on capital works and private sector initiatives
- year to date and end of year projections on expenditure and achievements against efficiency improvements and other savings strategies
- progress against targeted strategies in Financial Recovery Plans required under the NSW Health Performance Framework (where the LHD/SHN has been escalated to Performance level 2 or above).

A copy of the monthly narrative report and supporting documentation provided to the Ministry of Health is to be tabled by management at the next Finance and Performance Committee following month end.

Letters to management from the Auditor-General, Minister for Health and the NSW Ministry of Health relating to significant financial and performance matters should be tabled at the next meeting of the Finance and Performance Committee.

Treasury Managed Fund results – both at premium and hindsight – for workers' compensation, motor vehicle, property, liability and miscellaneous insurance policies must be considered by the Finance and Performance Committee on at least a quarterly basis.

Attendance

The Chief Executive and Director of Finance should attend all meetings of the Finance and Performance Committee unless on approved leave.

7.2 State and National Health Funding

7.2.1 National Health Reform Agreement

In August 2011, the Council of Australian Governments agreed to the National Health Reform Agreement (NHRA). The NHRA sets out the shared intention of Commonwealth, State and Territory governments to work in partnership to improve health outcomes for all Australians and ensure sustainability of the Australian health system.

On 29 May 2020 the Commonwealth, States and Territories entered into a new agreement through the *Addendum to the National Health Reform Agreement 2020-21 to 2024-25*. The new Addendum provides an opportunity for the Commonwealth, States and Territories to work together to ensure the best possible outcomes for the Australian people through the collective investments that governments make in health.

7.2.2 Activity Based Funding

Under the *Addendum to the National Health Reform Agreement*, NSW remains committed to activity based funding (ABF), wherever practicable. ABF is a way of funding hospitals for the number and mix of patients they treat. ABF accounts for some patients being more complex and resource intensive to treat than others.

Under ABF in NSW, public health organisations are funded for their activity at a single price (weighted activity unit) based on activity targets agreed to in annual Service Agreements with the Secretary, NSW Health. This single price is known as the 'State Efficient Price'.

NSW public health organisations have an obligation to count and classify activity in a timely, meaningful and consistent way, to manage performance against agreed targets and so that activity is accurately costed for funding purposes.

7.2.3 Activity Based Management

Activity Based Management (ABM) is an evidence-based management approach, using patient level costing data to inform strategic and operational decisions.

NSW public health organisations submit costing data via the District and Network Return (DNR).

ABM provides analysis of costing and activity data, allowing stakeholders across the health system to identify areas for improvement and make informed decisions about patient care through the optimisation of resource allocation. Linking patient level costing data to outcomes can assist in assessing value. Maximising value supports NSW in improving financial sustainability. This ensures NSW can provide ongoing access to quality health care.

DNR Costing data submitted by NSW public health organisations through the

National Hospital Cost Data Collection (NHCDC) is used to inform the National Efficient Price (NEP). Based on the NEP and other available data, ABM are responsible for setting the State Efficient Price for each financial year.

7.2.4 NSW funding model

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 overarching objective of outcome budgeting is to shift the focus of the NSW Government to deliver better outcomes for the people of NSW with increased transparency, accountability and value.

NSW Health has identified five State outcomes that it will achieve for the people of NSW to 2022-23. The State outcomes cover the broad range of functions and services provided across care settings:

1. Keeping people healthy through prevention and health promotion
2. People can access care in out of hospital settings to manage their health and wellbeing
3. People receive timely emergency care
4. People receive high-quality, safe care in our hospitals
5. Our people and systems are continuously improving to deliver the best health outcomes and experiences.

Funding allocated to public health organisations is based on the five NSW State outcomes. Each outcome is broken down into service line items and is aligned with funding streams. In 2021-22 funding streams included:

- ABF:
 - acute admitted
 - emergency department (ED)
 - non-admitted (including dental) (NAP)
 - sub-acute admitted and non-admitted (SNAP)
- small rural hospitals
- mental health non-admitted
- mental health block funded hospitals
- other non-admitted patient services
- teaching, training and research
- State only block funded services
- gross-up private patient adjustments

The NSW funding model is reviewed on an annual basis. Annual considerations include:

- any fundamental changes to National classification systems or pricing frameworks that may impact Commonwealth funding to NSW public hospitals
- annual costing results submitted by public health organisations
- annual State budget allocation
- other budgetary matters.

7.3 NSW Health Performance Framework

The NSW Health Performance Framework (the Framework) outlines the NSW Ministry of Health process for setting performance expectations and monitoring performance of public sector health and support services. The Framework clearly outlines the process of assessing the performance of each health service.

The Framework applies to:

- **Health Services** - Local Health Districts (LHDs), Specialty Health Networks (SHNs), NSW Ambulance and St Vincent's Health Network; and
- **NSW Support Organisations** - Pillars, shared services and statewide health services.

The Framework promotes a culture of continuous improvement in the delivery of quality care to patients across the NSW Health System and ensures NSW Health strategic priorities including the Future Health: Strategic Framework, Regional Health Strategic Plan 2022-32 and NSW Government priorities are implemented

Service Agreement, Performance Agreement or Statement of Service

The Ministry and health organisations operate as a purchaser-provider relationship. Service agreements are developed between the Ministry and LHDs/SHNs on an annual basis. They establish the performance expectations for the funding provided.

The agreements include the annual budget, the mix and level of services purchased under activity-based funding and the key performance indicators (KPIs) and deliverables against which the performance of the health system is monitored and managed. These KPIs are developed by relevant Ministry branches.

Support organisations enter into performance agreements or statements of service with the Ministry. Like service agreements, these agreements set out service and performance expectations for the funding and other support provided. They also outline KPIs and deliverables.

KPIs and deliverables in service agreements, performance agreements and statements of service are designed to ensure NSW Health is aligned with its strategies and priorities.

Performance expectations set by the Ministry are underpinned by legislation and agreements as outlined in service agreements, performance agreements and statements of service.

Monitoring and Managing Performance

As system managers, the Ministry regularly monitors performance and escalates concerns. In ongoing communications concerning performance, the primary focus of the Ministry is to support the health service to maintain, improve or restore performance to agreed standards. Performance monitoring and management activity includes:

- **Health System Performance Reports** - The Ministry produces a monthly report for each LHD/SHN and NSW Ambulance, providing data on performance against KPI's listed in service agreements. The reports detail variation in performance from targets and from the previous year.
- **Safety and Quality Framework** - LHDs/SHNs are required to submit an annual Safety and Quality Account. The Safety and Quality Accounts provide a broad picture of safety and quality and across the state. The account documents outcomes achieved against planned safety and quality initiatives, performance against KPIs and commitment to consumer participation and staff culture.

- **Financial Reports** - The Financial Requirements and Conditions of Subsidy (Government Grants) is a supporting document to service agreements and outlines NSW Health policy and expectations in relation to financial matters. Public health organisations must submit cost, budgeting and forecast data to the Ministry each month, as well as a narrative based on the results. In addition, Efficiency Improvement Plans reporting on strategies to improve financial sustainability regarding productivity, revenue and expenses also form part of the monthly financial reporting processes.
- **Performance Meetings** - Quarterly performance meetings are held between the Ministry and LHDs/SHNs. Ministry branches that are policy owners of service agreement KPIs nominate performance issues to be discussed at the meetings. Meetings cover the following:
 - Performance against service agreement KPIs.
 - Progress against Future Health strategic outcomes .
 - Priority areas impacting health service delivery.
 - The health service performance level.
 - Opportunities for the Ministry and the health service to collaborate to improve performance.

Biannual performance meetings chaired by the allocated Ministry Deputy Secretary partner are held between the Ministry and Support Organisations. Ministry branches that are policy owners of a KPI or are subject matter experts for performance deliverables in performance agreements/ statements of service are invited to the meetings. Meetings cover the following:

- Performance against performance agreement/statement of service KPIs.
- Progress against Future Health strategic outcomes.
- Achievement of service deliverables.
- Priority areas impacting service delivery.

Assessing Performance

Each health organisation is assigned a performance level between 0 and 4.

Performance Level	Description	Point of escalation
0	Nil performance concerns	N/A
1	Under review	Performance issue identified.
2	Under performing	The original performance issue that triggered a Level 1 response has not been resolved; or Other performance issue(s) emerge warranting Level 2; or A governance or management failure or sentinel event occurs warranting escalation to level 2.
3	Serious under-performance risk	Recovery activity is not progressing well and is unlikely to succeed without additional support and input from the Ministry
4	Health service challenged and failing	The recovery strategy has failed and changes to the governance of the health service may be required.

Process for Determining Performance Levels

Performance Advisory Meeting - The Ministry holds a monthly Performance Advisory Meeting to review the performance of LHDs/SHNs. Discussions are informed by Health System Performance Reports, financial reporting and other factors impacting health service performance LHD/SHN performance levels are considered on a quarterly basis.

Health System Performance Monitor Meeting - supports the Secretary monitor and manage system performance risks and issues of strategic importance across the NSW Health System. Meetings are held monthly and are chaired by the Deputy Secretary, System Sustainability and Performance Division. Participants include the Secretary, NSW Health and NSW Health Deputy Secretaries. The Secretary and Deputy Secretaries meet separately at the conclusion of the Committee meetings on a quarterly basis to confirm the performance levels of each LHD/SHN and endorse any changes. Once a decision has been made to escalate or de-escalate a performance level, the Chief Executive and Board Chair of the LHD/SHN will be formally notified via correspondence outlining the reasons for the change.

Performance Recovery

Where performance issues are identified the Ministry will support LHDs/SHNs in remediating performance. It is the responsibility of Ministry branches who are policy owners of KPI's to collaboratively work with LHDs/SHNs who have performed below target for a sustained period to undertake the recovery action.

Increased performance concern will result in broader more intensive recovery activity. Actions for Health services who have a performance level of three will include monthly performance recovery meetings attended by representatives from branches responsible for the underperforming KPI's and chaired by Deputy Secretary System Sustainability and Performance Division. The meeting will review the implementation of a comprehensive recovery strategy to address underperformance. Actions for Health services with a performance level of four will be determined by the nature of the performance issue. These may include Secretary of Health commissioning an independent review of LHD/SHN governance and management capability or the Minister determining to change the membership of the board and/or appointing an administrator.

Note that nothing in the Framework is to be taken as affecting or limiting the discretion to exercise powers under the Health Services Act 1997, including sections 29, 52 or 121H.

Finance & Performance Management – Resources & References

Funding Reform – NSW Health Performance Framework

<http://www.health.nsw.gov.au/Performance/pages/frameworks.aspx>

NSW Health, Accounts and Audit Determination for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounts-audit-determination.aspx>

NSW Health, Accounting Manual for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounting-manual-pho.aspx>

NSW Health, Fees Procedures Manual for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/fees-manual.aspx>

NSW Health, Goods and Services Procurement Policy Manual:

<http://www.health.nsw.gov.au/policies/manuals/Pages/goods-services-procurement.aspx>

NSW Health Policy Directive, *Episode Funding Policy 2008/2009* – NSW (PD2008_063)

http://www.health.nsw.gov.au/policies/pd/2008/PD2008_063.html

NSW Health, Accounting Manual for the Ministry of Health:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounting-manual-for-moh.aspx>

NSW Health, Goods and Services Tax and Fringe Benefits Tax Manuals:

<http://internal.health.nsw.gov.au/finance/taxissues.html>

NSW Ministry of Health, Finance and Business Management Branch intranet site:

<http://internal.health.nsw.gov.au/finance/index.html>

NSW Public Sector, Community of Finance Professionals:

<http://www.finacc.net.au/>

Council of Australian Governments (COAG) National Health Reform Agreement:

<http://www.coag.gov.au/node/96>

Local Documentation

Service Agreement – annual agreement between the public health organisation and the Ministry of Health.

Individual Performance Agreements – Chief Executive and Tier 2 of Local Health District and the Ministry of Health

Recovery plans (if needed). A Recovery plan is generally an agreed strategy and timeline to address a specific performance concern.