Special Commission of Inquiry into Healthcare Funding

Statement of A/Prof Anthony Schembri

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1. I have provided a statement to this Inquiry dated 12 April 2024 **(MOH.9999.1062.0001).** **[D.78.]** This, my second statement, accurately sets out the evidence that I would be prepared, if necessary, to give to the Special Commission of Inquiry into Healthcare Funding as a witness. The statement is true to the best of my knowledge and belief.

A. BACKGROUND

2. I am the Chief Executive of Northern Sydney Local Health District (NSLHD). I have set out my professional experience and current role in my statement of 12 April 2024.

3. NSLHD currently has a budget of approximately $2.3 billion and a workforce headcount of 12,000.

B. NSLHD'S BUDGET POSITION

The Current Budget Position

4. NSLHD's current Net Cost of Service YTD figures as at October 2024 was unfavourable to budget by $31.5 million, represented by expenditure variance of $32.18 million and revenue variance of $0.8 million. [MOH.0010.0731.0001]

5. Currently, NSLHD is forecasting $45 million unfavourable to budget for expenditure and a balanced budget for revenue for the 2024/25 financial year. The slowing of the scale of the deficit is as a result of anticipated efficiency improvement initiatives currently being implemented and yet to return a saving to the system.

6. At present the proportion of NSLHD residents who are 80 years and older is higher than the rest of NSW on average and this is reflected in the higher activity NSLHD has experienced, particularly in surgical and emergency department activity. NSLHD also has the highest concentration of Residential Aged Care Facilities (RACFs) in NSW by LHD.

7. NSLHD's current unfavourable budget position against its 2024/25 Service Agreement is due to the following contributing factors:

a. Surgical services including associated costs for surgery beds – there has been a general increase in surgical services including:

   i. additional theatre activity at Ryde and Hornsby Hospitals to assist the District in meeting its target for 0 elective surgeries overdue as outlined in the 2024/25 Service Agreement,

   ii. an increase in complex spinal surgeries as part of the statewide service,

   iii. a significant level of surgical outsourcing to ensure timely access to surgery within clinical benchmarks, which has seen an increased expenditure. A total of 35 cases have been outsourced year to date at a cost of $1M.

b. Emergency Department – there has been a 3% increase in Emergency Department activity across NSLHD,

c. Mental Health – there has been an 8% increase in non-admitted mental health services,

d. Hornsby Hospital - there has been increased activity associated with the opening of the new Hornsby Hospital facilities,

e. discrepancy in private patient revenue as a result of delayed private insurance payments. Workforce costs being:

   i. Paid FTE above the assessed affordable FTE level (being the assessed affordable FTE level which was set by NSLHD on receipt of the funding envelope set out in the 2024/25 Service Agreement),

   ii. Increased overtime expenses,

   iii. High premium labour use,

f. increased management (non-clinical) overheads,

g. increased costs in consumables, including utility charges, not adequately covered by adjusted CPI (but partly offset by supplementation).

C. RESPONSE TO THE BUDGET POSITION

8. NSLHD anticipates that the increased activity experienced by NSLHD will become part of the discussion during the next funding roadshow and may result in increased budget

allocation to NSLHD. However, NSLHD also needs to address its budget overrun through identification of savings that can be made now.

9. NSLHD has identified a number of initiatives that will improve the District's financial performance without having a detrimental impact on patient care. These are formulated through Efficiency Improvement Plans (**EIPs**) and Financial Recovery Plans discussed below.

Efficiency Improvement Plans

10. NSLHD is actively engaging with its facilities and services to develop EIPs to improve its financial performance.

11. EIPs are developed at a local level at a particular facility or service and this is then cascaded up to the executive leadership team, presented to the NSLHD Finance Risk & Performance Committee of the Board and then submitted to the Board for noting. Endorsement of the proposed EIPs is then sought from the NSW Ministry of Health (**Ministry**) who undertake a "reality testing" process with the benefit of comparing the proposed EIPs with those across the state.

12. EIPs proposed within NSLHD include:

    a. Whole of Government savings (reduction in travel, consultancy, contractor, legal and advertising expenses)

    b. Premium labour / Agency reduction

    c. Corporate and other workforce efficiency

    d. Medical workforce efficiency

    e. Goods and Services reduction

    f. Repairs and Maintenance reduction

13. To date, NSLHD has submitted $13.9M of EIPs to the Ministry. $13.2M of these EIPs have been approved by the Ministry with a further $0.7M in development. Progress reporting to the Ministry has commenced.

14. At present, NSLHD's current workforce models do not have the right skill mix due to both custom and practice and this is an area which would improve overall efficiency. This is

seen, for example, in allied health, where 4-year trained physiotherapists are undertaking the “6 minute walk” test which could more appropriately and cost-effectively be performed by a technical or physiotherapy assistant. Better division of this workload to the appropriate channels would enable all staff to work at their appropriate licencing capabilities.

Financial Recovery Plans

15. NSLHD facilities and services have been asked to submit final or revised Financial Recovery Plans to the Chief Executive by end of November 2024. These plans are conducted at a local facility level, separate to EIPs.

16. Where there are increased service activity requirements but a need to reduce FTE to affordable FTE levels, these plans look at strategies to reorganise services to maintain delivery in a more affordable way. For example, we are currently examining whether a broader skill mix of nursing staff, including enrolled nursing staff or assistants in nursing, could be utilised (other than in safe staffing wards where registered nurse ratios apply).

17. Contrary to media reporting suggesting that NSLHD is seeking to address budget overrun by reduction in clinical staff which will affect patient care, NSLHD is instead undertaking a review of management staffing structures, and not extending temporary contracts.

18. The review of management is being done with a view to establishing a more efficient and financially sustainable management structure. NSLHD has identified 18 positions (15.4 FTE) held by permanent employees and five vacant positions (4.7 FTE) it proposes to delete, in consultation with the relevant industrial bodies. The majority of these positions are from the central LHD services, rather than hospitals and have been selected to ensure that there is no impact on patient care.

19. The temporary contracts which have not been extended include three temporary allied health contracts at Ryde Hospital (following the decision to discontinue a pilot program) and seven temporary allied health contracts at Royal North Shore Hospital (where contracts were at their end).

20. NSLHD has recently undertaken a benchmarking exercise comparing Mona Vale Hospital Allied Health staff against Mount Druitt Hospital and Camden Hospital allied health staff, being similar in their service roles and delineation as sub-acute health facilities. Generally, Mona Vale Allied Health benchmarked well against those two

facilities, with the exception of social work at one facility which required a 0.5 FTE increase. Increases were also provided for allied health management and nutrition and dietetics services for the Diabetes Young Adult Clinic. The conversion of a Level 2 to Level 3 inpatient physiotherapist was also supported.

21. NSLHD's financial recovery has not placed a hold on recruitment to vacant positions and NSLHD continues to recruit to clinical and non-clinical vacant positions via established processes.

Expenditure

22. Through the EIPs and Financial Recovery Plans, NSLHD is reducing expenditure across the District, by:

    a. Reduction in casual and premium labour utilisation, including by recruitment to permanent positions,

    b. Reduction of management positions across the LHD,

    c. Review of surgical and Emergency Department rosters to ensure maximum efficiency,

    d. Review of pathology ordering,

    e. Strengthening governance of all outsourced activity, particularly around surgical and other providers where NSLHD partners with private services, through a single point of governance for these activities,

    f. Review of discretionary spend including food, travel, training and development.

Revenue sources

23. In addition to efficiencies through expense reduction, NSLHD is maintaining its focus on activity collection to maximise the own source revenue benefit afforded by the 2020 – 2025 National Health Reform Agreement (**NHRA**), including by: [SCI.0001.0020.0001] - A.24 [SCI.0001.0024.0001] - A.28

    a. A renewed focus on actual coding of service activity, with additional coders being implemented to assist with more accurate activity collection.

    b. Additional private patient officers and administrative staff to capture private patient revenue and more accurately calculating private patient billings.

24. NSLHD is continuing to improve year-on-year Own Source Revenue performance. Excluding revenue, YTD performance is $4.3M higher than October 2023. This is largely attributed to:

    a. Increasing private health insurance conversions,

    b. Increasing staff specialist billings,

    c. Increasing private billings for Medicare ineligible patients (e.g. overseas residents).

25. Increasing of private billings and accurately capturing those billings is of particular importance to NSLHD, which has a higher proportion of private patients in comparison to other LHDs and is disproportionately impacted where private insurers have failed to pay their billings or where private activity is not accurately captured.

Anthony Schembri

Witness name: Tegan Mitchley

13.11.24
Date

13/11/2024
Date