Special Commission of Inquiry into Healthcare Funding

Statement of Peter Bonnington

Name: Peter Bonnington

Occupation: Executive Director Finance and Corporate, Western New South Wales Local Health District

1. This statement made by me 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.

My role

2. I am the Executive Director Finance and Corporate for Western New South Wales Local Health District (**WNSWLHD**). I have held that role since November 2023. I had previously worked with WNSWLHD as the Associate Director of Finance between February 2018 and October 2022. My professional background is as a Chartered Accountant.

3. In my role I am accountable for the overall financial management of WNSWLHD. My portfolio is split across the following 4 streams:

   a. Financial Services – Substreams include financial accounting, management accounting and revenue. Included within this is budget preparation, financial liaison with Ministry of Health and general financial reporting and analysis.

   b. Corporate Services and Clinical Support – the Director Corporate Services and Clinical Support reports to me. Substreams include Infrastructure and Property, Asset Operations, Contracts and Procurement, Fleet Services and Biomedical Engineering and Technology.

   c. Corporate Governance and Risk Management – single FTE role encompassing enterprise risk management framework, delegations, Government Information Public Access (**GIPA**) and general enterprise level risk management.

   d. Health ICT (**HiCT**) – the Chief Information Officer reports to me. Functions include technology support, technical services and security, corporate information (including records management), telecommunications, clinical application management and the operational interface with eHealth NSW.

4. This statement sets out a number of key areas which are within my portfolio and challenges which I view in these areas for WNSWLHD.

Infrastructure and Capital Works

5. WNSWLHD is currently undertaking the following capital works projects with Health Infrastructure involvement, and which are each at various stages of delivery:

   a. Bathurst Hospital Redevelopment;

   b. Blayney Multipurpose Service Redevelopment;

   c. Cowra Hospital Redevelopment; and

   d. Dubbo Drug and Alcohol Residential Rehabilitation Facility.

6. As the asset delivery authority, Health Infrastructure has carriage of general project management, coordination, engagement and delivery of the above projects.

7. My role in relation to capital works is limited to oversight and high-level issues management from a WNSWLHD perspective, rather than day to day milestone management. Financial Impact Statements come to my team for review and are signed off by myself and the Chief Executive.

8. Financial risks in relation to project delivery will be escalated to my team, when required. In the main these are handled within the project delivery governance framework. In general, escalation points arise when defined capital budgets allocated are at risk of not meeting the expected outcomes of the endorsed Clinical Service Plan. In this case, my role is to liaise with peers to strategise and re-prioritise in order to address the financial risk, whilst maintaining planned core service provision.

9. Bathurst and Orange Health Services operate under a public-private partnership (**PPP**) model which can add complexity to infrastructure planning and funding at these sites. Where planning indicates a need for capital investment at these two sites, it has subsequent impact regarding consideration of facility maintenance and asset life cycle renewal in the context of the PPP arrangement, involving potential contract renegotiation in areas such as ownership of future maintenance and renewal processes and subsequent financial liability. At other facilities, the processes and ownership structure is more clearly defined (that is, process ownership rests solely with WNSWLHD)

10. The Health Infrastructure model is largely beneficial as it has the specialist skill sets, that generally do not exist within WNSWLHD, in the management of large construction projects.

Procurement

11. WNSWLHD has a team of approximately five staff within its contracts and procurement function.

12. The centralised model under HealthShare NSW (**HealthShare**) enables efficiencies and provides benefits across the whole system. The majority of WNSWLHD procurement leverages either directly or indirectly whole-of-health contractual arrangements and processes instigated via HealthShare.

13. WNSWLHD still needs an internal contracts and procurement function for smaller scale contract management and procurement. The economies of scale the HealthShare model brings are largely beneficial but there are instances where WNSWLHD is unable to fully leverage statewide procurement initiatives and savings due to its geographic remoteness. For example:

    a. WNSWLHD has had to seek exemption from the Chief Procurement Officer to engage local vendors where the whole of government contract (for Security Services) vendors were unable or unwilling to provide services in remote locations. In this instance contracted vendor pricing was substantially higher than standard pricing available under the whole of government contract.

    b. Additional supply chain costs from operating in rural and remote locations, such as freight and travel related costs, tend to be unavoidable costs associated with operating in regional areas.

14. In the above examples enhanced definition and review of the current compensation/budget models by the Ministry of Health for the cost of doing business in rural and remote areas would be beneficial. The current model provides an adjustment for Recognised Structural Costs and I understand that it is reviewed annually. In the current inflationary environment, and with a lag in costing data informing decisions, it is difficult to ascertain whether unavoidable structural costs, such as freight, are adequately compensated for in the current model.

HiCT

15. The Chief Information Officer (**CIO**) reports to me and is primarily responsible for IT services in WNSWLHD. I provide high-level oversight and a sounding board for governance and issues in terms of risk awareness and planning. The HiCT team provides associated HiCT services to Far West Local Health District (**FWLHD**).

16. The CIO is responsible for interactions with eHealth NSW with respect to technical and operational matters as they pertain to WNSWLHD and FWLHD. We have a similar relationship with eHealth NSW as we do HealthShare in terms of procurement of HiCT related goods and services.

Activity Based Funding (ABF) and Budget Process

17. The following WNSWLHD facilities and services operate under an ABF model:

    a. Bathurst Health Service,

    b. Dubbo Health Service,

    c. Orange Health Service,

    d. Parkes Health Service,

    e. Mudgee Health Service,

    f. Forbes Health Service,

    g. Cowra Health Service, and

    h. Certain mental health and alcohol and other drug services.

18. The remainder of WNSWLHD facilities are block funded.

19. I am supportive of the ABF model insofar as it seeks to promote efficiency in service delivery. As a participant in the budget setting process there appears to be tension between utilising an ABF model to determine budget targets based on an efficient allocation of demand driven activity, and the overarching budget itself having constraint at a system level.

20. Further, a number of block funded sites in WNSWLHD have a relatively fixed cost structure, combined with relatively static, or declining, activity levels. The price of running these services, has increased exponentially over the past two financial years in particular. This is largely due to workforce instability and mobility, and a subsequent reliance on higher cost premium labour sources to maintain service provision, across both nursing and medical staffing. Such price escalation in premium labour costs is

influencing a significant component of the current deficit in the WNSWLHD budget position.

21. The cost of goods and services have also increased significantly over the last few years due to inflation. The annual budget allocation process may not always fully take into account the actual increased costs incurred on the basis of inflation for goods and services type expenditure. Although it is difficult to assess the precise effect of inflation on the goods and services purchased by WNSWLHD, it is reasonable to infer that the prices of some goods and services have increased beyond the escalation allowed for under the Service Agreement. For example, the baseline budget for the LHD's repairs, maintenance and renewal (**RMR**) expense category was uplifted for inflation by 1.50% in FY22, 1.52% in FY23 and 2.03% in FY24. In comparison output prices in the construction industry price index (with reference to ABS) rose 12.2% in FY22, 6.5% in FY23 and are currently 5.9% for FY24 (annual rate to March 24). Referencing this ABS index as an estimated proxy for some components of actual price growth incurred, WNSWLD has experienced higher rates of price growth in this expense category when compared to "funded" inflation over the last three financial years. This creates a tension in managing repair and renewal programs, balancing needs against a declining "real" (relative budget over time) budget position.

22. WNSWLHD receives funding from the Commonwealth for the provision of Residential Aged Care (**RAC**) beds as part of the Multipurpose Service (**MPS**) model. Funding received from the Commonwealth was in the vicinity of $32million in 2020-21 to approximately $35million in 2023-24 (forecast). MPS services fall under the block funding component of the ABF model and have been exposed to significant cost increases since 2020-21, with actual direct expenditure incurred at these sites increasing from approximately $101million in 2020-21 to a forecast of $132million in 2023-24. This expenditure includes costs for both RAC and sub-acute/acute services.

23. The consolidated fund budget allocation for minor works and equipment (capital items between $10,000 to $250,000) has remained relatively static for several years, with budget in the range of $4.53million to $4.69million per annum between 2019-20 to 2023-24. Similar to the above point, there are challenges in managing declining or static "real" budget positions over time, with expanding asset bases from new developments and standard renewal needs of pre-existing assets ensuring that there is a continuing pipeline of demand in this space. Ministry of Health has been maturing asset planning processes, in cohort with Health Entities, for several years with a view to improving visibility and understanding of asset renewal and replacement needs. This initiative is welcomed and is hoped that it will provide enhanced information to inform budget allocation in the future.

P.P.Bonnington

Peter Bonnington

6/5/24

Date

Witness:

6.5.2024.

Date