



AM-18

## SVHA Board

### Matter for Decision

<b>Matter for Tabling</b>	St Vincents Hospital Network Sydney FY24 Interim Budget
<b>Date of Meeting</b>	31 August 2023
<b>Executive Sponsor(s)</b>	Anna McFadgen, CEO, SVHNS John Slaven, CFO & Director Corporate Services, SVHNS

#### Purpose of Paper

The purpose of this Paper is to present to the SVHA Board the FY24 Interim Budget for St Vincent's Hospital Network Sydney (SVHNS).

#### Recommendation

The Committee recommends that the SVHA Board approve the FY24 SVHNS Interim Budget.

#### Mission Imperative

SVHNS is committed to being sound and prudent stewards of our resources in order to continue with our healing Ministry, particularly to those who are vulnerable and in need.

#### Analysis – Financial and Risk

SVHNS achieved a balanced EBITDA for FY22/23 against a budget surplus of \$5m. This result is consistent with other NSW Local Health Districts (LHD's) and was driven by lower than budgeted Own Source Revenue (impacted by COVID-19) and NWAU activity lower than target. Importantly, the result also included non-recurrent contributions totalling \$24.5m from the NSW Ministry of Health (MOH) and non-general fund sources.

Due to the deferment of the NSW State Budget, MOH has yet to provide final FY24 Service Level Agreements to NSW health entities, issuing instead an Interim Service Level Agreement for Quarter 1. Final Service Level Agreements are expected in September 2023.

Based on the Interim Service Level Agreement, Management estimates the budget deficit, prior to the inclusion of savings initiatives and sustainability funding to be \$43.8m.

SVHNS is committed to achieving a financial result of a targeted surplus of \$5m and a cash surplus of at least \$2.0m to close LSL liability gap. Achievement of this result will be dependent on a two pronged strategy that includes:

1. Achieving \$23.5m in local efficiency initiatives; and,
2. Negotiating a sustainable funding agreement with NSW Health to address the underlying structural deficit of \$20m.



Efficiency Improvement Initiatives are focused on five Workstreams:

1. **Revenue:** focusing on the optimisation of coding and own source revenue; target of \$11.3m.
2. **Operational:** focusing on enhanced bed management, increased efficiency in diagnostic services and improved medication management; target of \$2.8m.
3. **Workforce:** including workforce right sizing using the findings from the Workforce Diagnostic Review, enhanced rostering, improved overtime & leave management; target of \$5.1m.
4. **Service Optimisation:** including service rationalisation, divestment, and networked care arrangements; target \$1.5m.
5. **Procurement:** focusing on purchasing efficiencies to be implemented; target of \$2.8m.

The most significant risks relating to SVHNS' achievement of the FY23/24 budget target are:

- SVHNS' ability to negotiate a sustainable and appropriate funding agreement with MOH;
- Achievement of activity targets in the context of potential recall of activity related revenue; and,
- Cost of closure (including redundancies and site make good) for St Joseph's Hospital, Auburn.

SVHNS plans to mitigate these risks through:

- Continued engagement and communication of a value proposition strategy with MOH and NSW Government;
- Development of a Sustainability Workstream focused on activity and NWAU, including enhanced approach to target setting, monitoring, and clinical coding to optimise revenue;
- Implementation of a refreshed operational performance and governance framework with regular cadence of reporting and clear accountabilities; and,
- Continued weekly meetings with MOH regarding the St Joseph's Hospital activity transfer and clear position regarding NWAU transfer.

### Conclusion

The SVHNS Interim Budget seeks to meet the target budget surplus position through a suite of local efficiency initiatives, as well as a coordinated and refreshed approach to NSW Government funding negotiations, to ensure the long-term sustainability and growth of St Vincent's Health Network Sydney and St Vincent's Health Australia.

### Attachments

SVHNS 2023-24 Interim Budget Update – Presentation



# SVHNS 2023-24 Interim Budget Update

F&I Extraordinary Meeting – 31 August 2023  
Anna McFadgen, SVHNS CEO  
John Slaven, SVHNS CFO

Under the stewardship of Mary Aikenhead Ministries



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# 2022-23 Year In Review



## Balanced Budget

- During a difficult financial year, SVHNS achieved a balanced EBITDAR against a Budget surplus of \$5m.
- NWAU activity as at 30 June was just 0.7% behind target with work ongoing to further improve performance
- The EBITDA result was supported by the following non-recurrent contributions:

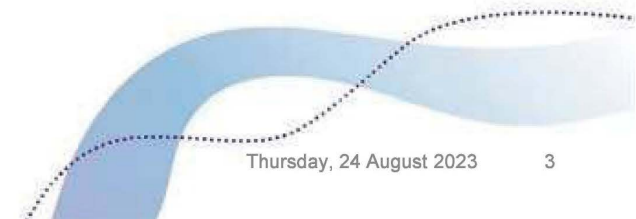
Funding Ending 30 June 2023	Funding Source	\$
One-off additional funding	MOH	\$18m
Funds from non-general fund sources	SVHNS	\$6.5m

## Sector comparison

- SVHNS results are consistent with other Local Health Districts (LHD) driven by:
  - Own Source Revenue, impacted by COVID-19.
  - NWAU activity lower than budget (note no LHD asked to repay).
- To provide relativity, SVHNS achieved the break-even target utilising \$18m of supplementary funding from MOH. Many other NSW LHDs were provided significant one-off additional funding to achieve acceptable financial results for FY23.

## Commentary

- Result driven by YTD Revenue above budget by \$41.5m offset by YTD expenses unfavourable to budget by \$46.5m.
- Revenue position driven by COVID funding & one-off MOH funding
- Expenses position driven by COVID costs, use of premium labour and overtime, admin expenses related to organ retrieval and prostheses.
- Result included \$11.4m of COVID related imposts, partly offset by \$8.25m of COVID funding and \$1m of stock received free of charge.
- NWAU activity results were 99.3% for the year against a target that minimal growth.
- \$18m of additional funding was provided through successful negotiations with MoH.



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# Environmental Scan



## A Challenging Year Ahead

- The 2023-24 NSW State Budget has been deferred until 19 September 2023.
- The NSW Government is undertaking a 'Comprehensive Expenditure Review' to reduce waste and inefficiency across all Government sectors. SVHNS has provided feedback on opportunities for the health system, through MOH consultation.
- The NSW Ministry of Health has indicated that:
  - The 2023-24 financial year will be characterised by minimal growth in health funding.
  - COVID-19 financial arrangements, other than allowance in the State Efficient Price, have ceased, and any residual COVID impact on our services are now considered BAU.
  - The previous (significant) levels of supplementary funding provided to NSW Health entities will not continue post December 2023.
  - Budget performance (expense, revenue and NCOS) will remain the key metrics, with quarterly performance meetings extending the focus to Balance Sheet movements and ABF Commonwealth revenue.
  - Final FY24 Service Level Agreement funding may be further reduced by MOH expenditure savings initiatives of \$902M being passed through to health entities.

## SVHNS Impact

- MOH have provided an interim funding allocation for the first quarter 2023-24 (1 July to 30 September 2023), which includes a limited number of initiatives issued primarily for business continuity reasons.
- This heavily constrained fiscal environment is compounded for SVHNS due to our historic lack of growth funding and our sub-optimal funding agreement with the State across both opex and capex.
- The supplementary funding received from MOH in FY23 (\$18m) is unlikely to be sustained in FY24.
- Pass through of MOH savings targets via the Comprehensive Expenditure Review is likely to reduce total funding to SVHNS and reduce our local ability to apply further savings from target areas (eg. Procurement, workforce, back of house).



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# FY24 Net Entity Budget (pre MOH negotiations)



## SVHNS FY24 Budget (pre MOH negotiations)

- The underlying budget position for SVHNS in FY24, before impact of local efficiency initiatives and MOH negotiations, is a deficit of \$43.8m.
- Consistent with previous years, SVHNS has developed and commenced implementation of a suite of efficiency initiatives, totaling \$23.5m. These initiatives have been incorporated in the budget and include:
  - Revenue** – coding optimization and own source revenue
  - Operational efficiencies** – enhanced bed management, increased efficiency in diagnostic services and medication management
  - Workforce** – workforce right sizing, rostering, overtime & leave management
  - Service optimization** – service rationalization, divestment and networked care arrangements
  - Procurement** – purchasing efficiencies
- There remains an historical structural deficit for SVHNS of approximately \$25m which will be the focus of negotiations with MOH.

	Year to Date performance net entity result				
	2019/2020	2020/2021	2021/22	2022/2023	2023/24
	Actual	Actual	Actual	Actual	Budget
<b>Revenue</b>	<b>534.4</b>	<b>592.6</b>	<b>664.5</b>	<b>626.2</b>	<b>575.6</b>
Staff Costs	(384.1)	(399.9)	(456.2)	(431.1)	(422.2)
Medical/ Surgical	(93.9)	(116.1)	(120.9)	(105.7)	(103.6)
Admin/ Repairs/ Other	(50.4)	(71.7)	(82.1)	(89.5)	(93.6)
Savings Initiatives (Budgetted)					23.5
<b>EBITDAR</b>	<b>6.0</b>	<b>4.9</b>	<b>5.3</b>	<b>(0.1)</b>	<b>(20.3)</b>
Depreciation	(15.5)	(18.6)	(19.5)	(17.0)	(17.2)
Capital Funding	0.0	0.0	0.0	0.0	0.0
<b>Earnings after dep'n:</b>	<b>(9.5)</b>	<b>(13.7)</b>	<b>(14.2)</b>	<b>(17.1)</b>	<b>(37.5)</b>
Interest income (net)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)
Asset transfers/ non-op	23.0	33.2	29.3	16.9	12.0
Trust Fund surplus (net)	13.6	8.1	32.9	3.4	4.0
<b>Net Entity Result</b>	<b>26.5</b>	<b>26.9</b>	<b>47.3</b>	<b>2.5</b>	<b>(22.4)</b>

### Key assumptions include:

- The budget is built as BAU with no COVID-19 assumptions, noting COVID costs now incorporated in ABF.
- MOH revenue as per the Interim Service Level Agreement
- Minimal growth funding from MOH (\$87k).
- Salaries and wages CPI escalation of 2.5% in line with EBA increases, as well as 0.5% SGC increase. Impacts both Salaries and Wages and Annual Leave provisions.
- Comparison between 2021-22 actuals and 2022-23 budget not appropriate as actuals include COVID-19 imposts of \$74.5m.

# FY24 Net Entity Budget (post MOH negotiations)



## SVHNS FY24 Budget (post MOH negotiations)

- SVHNS Management is committed to achieving a 2023-24 financial result consistent with the long term targeted surplus of \$5m and a cash surplus of at least \$2.0m to close LSL liability gap.
- The historical structural deficit of circa \$25m is a key focus on ongoing discussions with MOH. The key drivers of this structural deficit include:
  - Heart Lung Transplant program funding deficit
  - Additional supplementary funding provided to LHDs not always provided to Schedule 3 entities
  - Only \$750k per annum of capital funding for minor works and equipment replacement etc. Remainder funded through general fund or philanthropy where available.
- Discussions have commenced with MOH to review the drivers of the deficit and agree a way forward to develop a more sustainable funding agreement, covering operating funds and capital.
- These negotiations will be augmented through the refreshed stakeholder engagement plan and value proposition work with NSW Government.

Year to Date performance net entity result					
	2019/2020	2020/2021	2021/22	2022/2023	2023/24
	Actual	Actual	Actual	Actual	Budget
<b>Revenue</b>	<b>534.4</b>	<b>592.6</b>	<b>664.5</b>	<b>626.2</b>	<b>575.6</b>
Additional Negotiated MoH Funding					25.3
Staff Costs	(384.1)	(399.9)	(456.2)	(431.1)	(422.2)
Medical/ Surgical	(93.9)	(116.1)	(120.9)	(105.7)	(103.6)
Admin/ Repairs/ Other	(50.4)	(71.7)	(82.1)	(89.5)	(93.6)
Savings Initiatives (Budgetted)					23.5
<b>EBITDAR</b>	<b>6.1</b>	<b>5.0</b>	<b>5.3</b>	<b>0.0</b>	<b>5.0</b>
Depreciation	(15.5)	(18.6)	(19.5)	(17.0)	(17.2)
Capital Funding	0.0	0.0	0.0	0.0	0.0
<b>Earnings after dep'n:</b>	<b>(9.4)</b>	<b>(13.6)</b>	<b>(14.2)</b>	<b>(17.0)</b>	<b>(12.2)</b>
Interest income (net)	(0.6)	(0.7)	(0.7)	(0.7)	(0.9)
Asset transfers/ non-op	23.0	33.2	29.3	16.9	12.0
Trust Fund surplus (net)	13.6	8.1	32.9	3.4	4.0
<b>Net Entity Result</b>	<b>26.6</b>	<b>27.0</b>	<b>47.3</b>	<b>2.6</b>	<b>2.9</b>

### Key assumptions include:

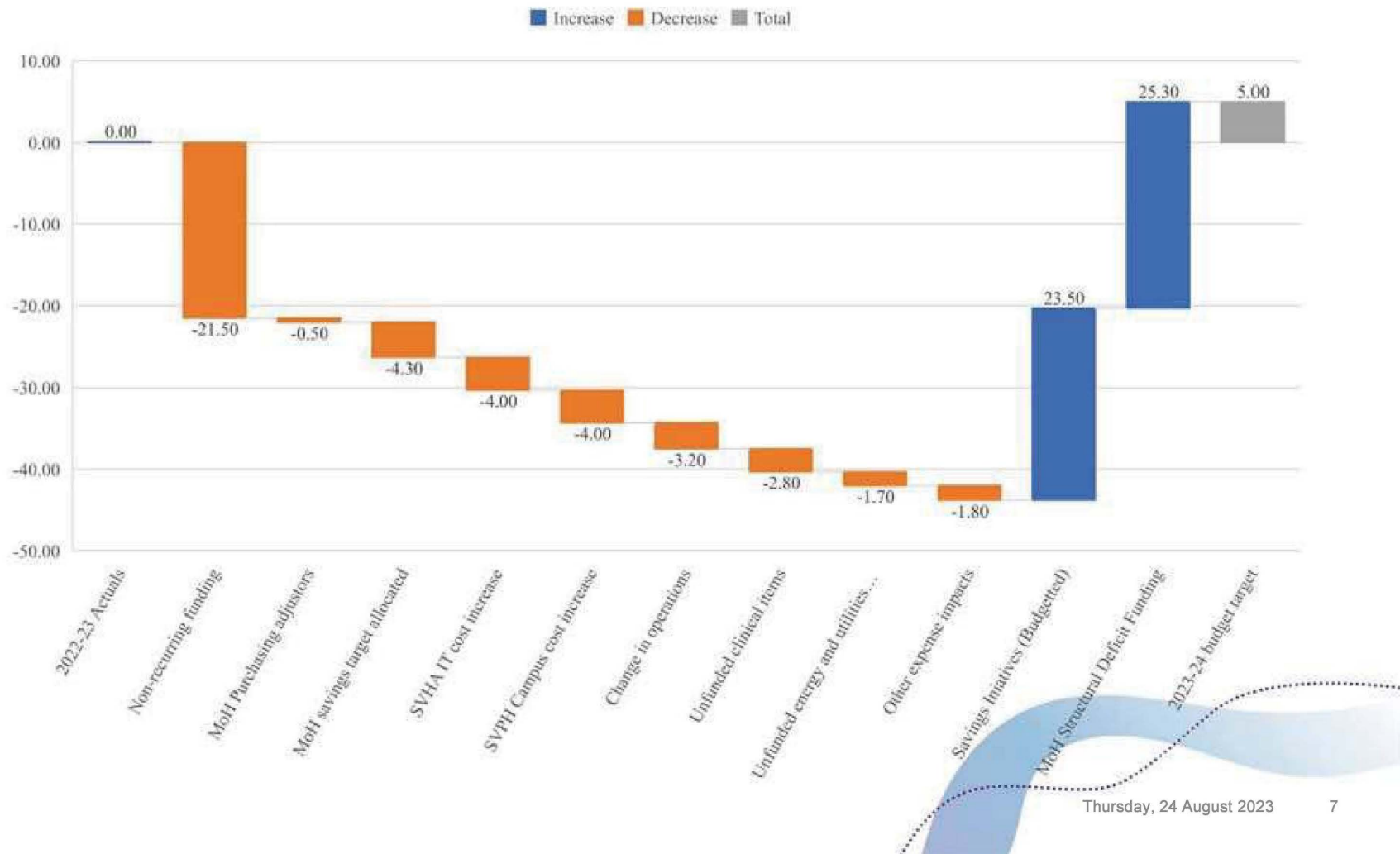
- The budget is built as BAU with no COVID-19 assumptions, noting COVID costs now incorporated in ABF.
- MOH revenue as per the Interim Service Level Agreement
- Minimal growth funding from MOH (\$87k).
- Salaries and wages CPI escalation of 2.5% in line with EBA increases, as well as 0.5% SGC increase. Impacts both Salaries and Wages and Annual Leave provisions.
- Comparison between 2021-22 actuals and 2022-23 budget not appropriate as actuals include COVID-19 imposts of \$74.5m.



# Budget Bridge



2022-23 actual to 2023-24 budget



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# Efficiency Improvement Plans

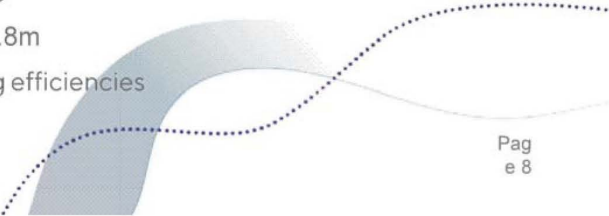
## Context

- The interim budget includes \$23.5m of efficiency improvement initiatives.
- Indications are that 2023-24 MOH funding will pass through \$900m of savings into base budgets which will reduce the amount of savings that can be applied locally. The impact of this will not be known until the final FY24 Service Level Agreement is provided in September.
- The key focus areas of the EIP program for FY24 is outlined opposite.
- The 2023-24 Efficiency Improvement Plans will need to be flexible, and subject to change to meet eventual MOH requirements.
- Management is confident a \$23.5m savings plan can be delivered in 2023-24.

## Efficiency Improvement Plans

The following will be areas of focus in delivering the required \$23.5m savings plan:

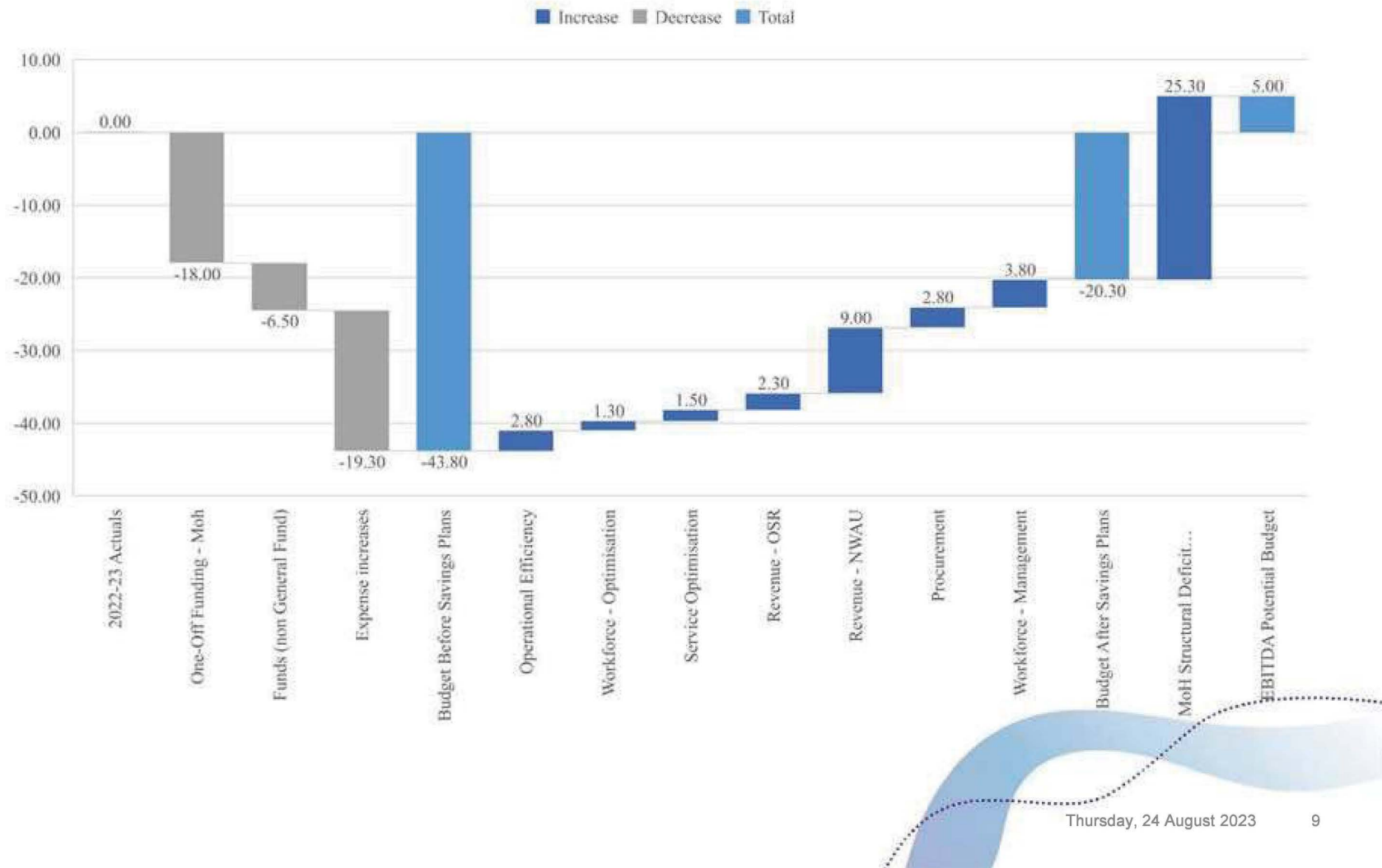
- Revenue - \$11.3m
  - Coding optimization
  - Own source revenue
- Operational efficiencies - \$2.8m
  - Enhanced bed management (operating within agreed bed base supported by enhanced diversion & substitution strategies & improved bed management, escalation and approval processes)
  - Increased efficiency in diagnostic services
  - Improved medication management
- Workforce - \$5.1m
  - Workforce right sizing (supported by findings of Workforce Diagnostic review)
  - Enhanced rostering practices
  - Improved overtime & leave management
- Service optimization – \$1.5m
  - Service rationalization, divestment and networked care arrangements
- Procurement – \$2.8m
  - Purchasing efficiencies



# Budget Bridge



2022-23 actual to 2023-24 budget



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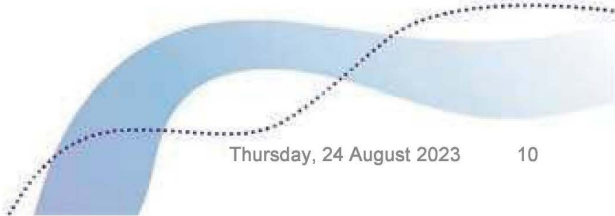


# FTE Overview

	Full Time Equivalents (FTE)			
	2018/19 Actuals	2021/22 Actuals	2022/23 Actuals	2023/24 Budget
Allied Health	330	368	369	370
Corporate/Admin	510	555	577	583
Diagnostics/Imaging	177	177	176	171
Medical	476	506	523	467
Nursing	1166	1196	1211	1206
Support/Domestic/Other	220	215	197	198
<b>TOTAL</b>	<b>2879</b>	<b>3016</b>	<b>3054</b>	<b>2995</b>

## Commentary

- Budget FTE Numbers reflect the savings to be achieved in staffing costs through sustainability initiatives.
- Savings to be targeted include:
  - Reduction in Total FTE
  - Reduction of Premium labor costs
  - Reductions in Accrued leave, and limiting backfill for non-front-line staff
- FTE relating to COVID-19 not included in the below overview. The below FTE are COVID-19 exclusive.



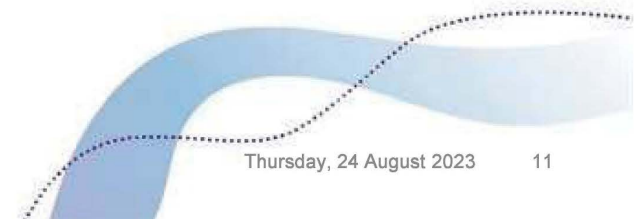
# Capital Expenditure



Key Capital Priority	Amount (\$m)
Single Digital Patient Record (eMR) and associated interim solution	125
Kitchen Upgrade	10
Network Modernisation	11
Cahill-Cater Redevelopment	405

## Commentary

- For the first time in FY24 SVHNS submitted a Strategic Asset Management Plan (SAMP) to MoH to align with MoH capital funding processes and highlight capital priorities as outlined above.
- A request for priority funding in 2023-24 has been made to progress these priority initiatives, however to date no funding confirmation has been provided by MOH.
- Active discussions are underway with eHealth NSW for SVHNS to be included in the Statewide Single Digital Patient Record rollout. An 8-week programme has been agreed in partnership with e-Health to scope SVHNS's participation (including costings) & readiness. An outcome on this process will be reached in October 2023.
- A Final Business Case in support of the Cahill Cater Redevelopment was submitted to NSW Government in October 2022, for consideration in the 2023-24 State Budget. This business case included a funding request for the NSW State Government of \$405m. Pending a budget decision, the majority of planning activities are currently on hold.
- In addition to the major capital projects as outlined above, the AMP outlined, 'must do' works totaling \$12.6m for 2023-24.
- Unspecified funding as part of the interim SVHNS FY24 SLA is \$750k p.a., resulting in a material risk exposure related to the funding of these activities.



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# Budget Risks

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## 2023-24 risks

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The greatest risks relate to:

- Ability to negotiate a sustainable and appropriate funding agreement with NSW Health;
- Achievement of activity targets in the context of potential recall of activity related revenue; and,
- Lost revenue and cost of closure (including redundancies and site make good) for St Joseph’s Hospital.

Other risks include:

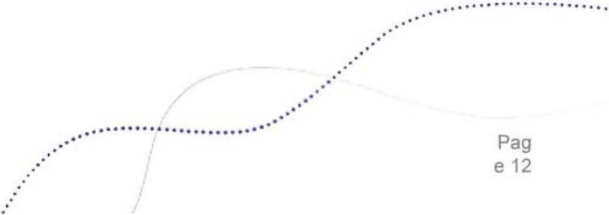
- Changes in parameters and assumptions between the interim funding agreement and the final Service Level Agreement to be received on 19 September 2023.
- Ongoing workforce shortages that impacts on activity, and increases use of premium labour, overtime and impacts leave uptake.
- The impact of yet to be determined EBAs and related MOH funding.
- The unknown impact of COVID on future services, workforce and costs.
- Operational discipline to achieve savings targets.
- Insufficient capital funding to address ageing infrastructure, equipment and IT needs.

## Mitigation Strategies

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Mitigation strategies include:

- Engagement and value proposition strategy with MOH and NSW Government
- Sustainability Workstream focused on activity and NWAU including enhanced approach to target setting, monitoring and clinical coding to optimise revenue
- Refreshed operational performance and governance framework with regular cadence of reporting and clear accountabilities
- Weekly meeting with MOH regarding the St Joseph’s transfer and clear position regarding NWAU transfer.



# Next Steps

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## Stakeholder Engagement

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The cornerstone of the stakeholder engagement strategy is to best position SVHNS to achieve a sustainable funding agreement with MOH across both operational and capital funding streams.

- Refreshed value proposition for NSW Government
- Engage across both Government and Ministry levels
- Clear and transparent approach
- Propose solutions

## Sustainability plan

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- Accelerate and further develop planned efficiency and savings initiatives.

## Partnerships and change

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- Leverage FY23 elective surgery performance with MOH to achieve additional surgical activity in FY24.
- Secure funding for outreach and tertiary referral role that reflects current and planned service provision
- Further explore opportunities to substitute activity to home-based care in partnership with St Vincent's Virtual and Home health
- Continue to work with SVPHS to achieve further service and economic efficiencies.

## Commentary and escalation strategy

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- Ongoing funding and underlying sustainability issues means SVHNS will again be reliant on MOH funding in 2023-24.
- Significant fiscal constraints at Government and MOH level mean securing supplementary funding will become increasingly competitive.
- No MOH commitment to ensure the viability of SVHNS
- The NSW system context, including SVHNS' status as an AHO and inability of MOH to provide SVHNS with viability commitments means an escalation strategy is likely to be required to support sustainability.
- This will include a sophisticated engagement strategy across all levels of Government.
- Management is also assessing options for service reductions and closures to ensure viability, in the event this is required.

