



AM-23

Finance and Investment Committee

Matter for Discussion

Matter for Tabling	St Vincent's Health Network Sydney Year to Date Results and Financial Sustainability Plan Update
Date of Meeting	21 March 2024
Executive Sponsor(s)	Anna McFadgen, CEO, St Vincent's Health Network Sydney Barry Mitrevski, CFO, St Vincent's Health Network Sydney

Purpose of Paper

To provide the St Vincent's Health Australia (SVHA) Board Finance and Investment Committee with an update on the St Vincent's Health Network Sydney (SVHNS) Year to Date results and financial sustainability plan.

Recommendation

That the SVHA Board Finance and Investment Committee note the information provided.

Mission Imperative

Implementing an EMR will position St Vincent's to continue to deliver the healing ministry of Jesus and care for the vulnerable in an increasingly digital world.

Overview and Strategic Alignment

1. Background

As indicated in previous Papers, the 2023-24 NSW State Budget was deferred until 19 September 2023, necessitating a staged approach to the service agreements and budget allocation for 2023-24. The initial interim 2023-24 budget deficit for SVHNS, based on the parameters of the Interim Budget provided by NSW Health, was estimated at \$43.8m.

SVHNS subsequently received the final Service Level Agreement from NSW Health on 3 November. Finalisation of the SLA was delayed due to the requirement to correct errors in the activity modelling arising from the transfer of St Joseph's Hospital services. The revised estimated budget deficit position, based on the parameters of the final SLA, was \$71m against the target EBITDAR of \$5m.

Acknowledging the context of broader system challenges and unprecedented budget deficits across the NSW Health system, the Board agreed to sign the FY24 SLA despite the unfavourable budget impact for SVHNS on the proviso that NSW Health enter into formal discussions with SVHNS and SVHA to negotiate a more sustainable and appropriate funding agreement. Formal correspondence to this effect was sent to the NSW Health Secretary by the SVHNS CEO and SVHA Board Chair in November 2023. Since that time, Management has been in active discussion with NSW Health regarding the current and future budget position. An update on this is provided in Section 4 below.



Analysis – Financial and Risk

1. February 2024 results summary

The reported February EBITDAR result was a deficit of \$3.2m, \$0.6m unfavourable to the budgeted deficit of \$2.7m. The year to date EBITDAR result is a \$39.7m deficit, \$12.7m unfavourable to budget.

The February YTD EBITDAR result is driven by:

- February revenue is \$3.2m favourable to budget. YTD revenue is \$7.0m favourable to budget, driven by favourable performance in facility fees, accommodation and non-inpatient fees. January YTD NWAU is 2.6% above target. The ongoing focus on activity capture and coding continues to impact favourably on revenue.
- February expenses are \$3.7m unfavourable to budget primarily driven by S&W (\$2.5m unfavourable), agency costs (\$1m) and JMO change of term payouts (\$1m). Goods and Services continue to be impacted by activity in medical consumables and prosthesis. YTD Expenses are \$19.7m unfavourable to budget driven by salaries which are \$14.6m unfavourable. FTEs continue to be lower than budget, but offset by higher agency costs of \$6.9m, overtime \$2.4m, VMOs \$1.5m, and sick leave \$1.6m. The YTD result is also impacted by a \$4.4m uplift to leave expenses in September 2023 which related to the finalisation of the EBA agreements. Goods and Services are \$5.2m above budget, mainly due to Heart Lung prosthesis cost of \$2.0m above budget.

2. Commentary on financial results

Activity is reported one month in arrears. For January, activity was 5.4% below target however this is due to a mis-alignment of revenue phasing with the planned low activity period and will be rectified for FY25. January YTD activity is 2.6% above target. This will remain a key focus for the remainder of FY24 to ensure activity and revenue remain within target range and that SVHNS is optimally positioned to negotiate FY25 activity targets with NSW Health.

In relation to expenditure, base salaries were unfavourable to budget. Despite FTE being 176 lower than budget YTD (largely driven by the ongoing challenging recruitment environment), the budget impact of this variance has been offset by higher agency and overtime costs and lower than expected performance against workforce savings targets. A significant program of workforce reform to realign FTE with service level and mix has been finalised and is summarised in Section 5 below.

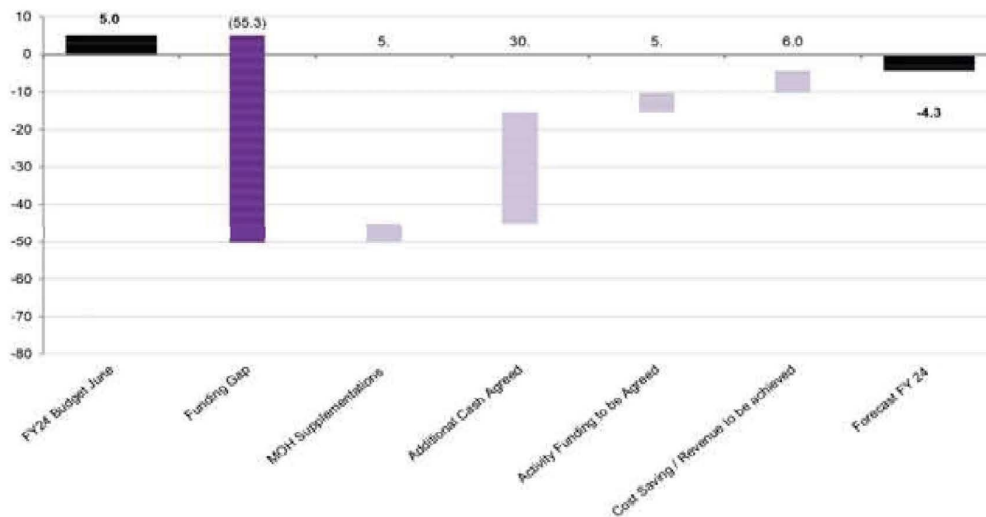
Trust fund results were \$4.4m favourable for January and are \$5.8m favourable YTD. The January result is driven by a significant donation received of \$2m. YTD results reflect phasing of endowment, special grant revenue and donation revenue.

3. 2023-24 Forecast

The forecast deficit position for SVHN to 30 June 2024 is \$4.3m unfavourable to budget which has been updated to reflect the confirmed \$30 million additional subsidy from NSW Health, as well as the estimated trajectory of efficiency improvement initiatives and other planned interventions. Figure 1 below represents the estimated forecast and relevant influencing factors. The key risk to be noted in the full year forecast is certainty of funding from MOH for above target activity performed.



Figure 1 – FY24 Forecast



Management remains focused on the cash position to ensure all obligations can be met for the remainder of the 2023-24 financial year. The current forecast cash position to 30 June 2024 is outlined in Figure 2 below.

Figure 2 – Forecast Cash Position

MoH Presentation	As at 07/03/24												Full Year
	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	
	510m released												
Opening GF Cash Balance	21,351,748	21,759,411	21,618,167	18,774,723	16,030,196	14,026,537	27,966,725	12,686,963	29,017,619	13,702,342	13,966,213	15,307,893	21,351,748
MoH Funding (incl. GST)	38,710,100	50,317,300	38,570,400	47,363,250	43,803,980	54,081,280	47,372,050	50,907,780	35,406,680	44,008,350	36,906,680	23,077,220	510,525,070
Other Income Received	18,362,826	21,787,511	18,348,006	20,178,687	13,860,829	11,222,601	7,287,264	20,764,619	16,080,000	14,780,000	12,880,000	11,880,000	193,432,343
Payroll Expenses Paid	-36,195,014	-46,705,705	-37,842,873	-41,852,619	-41,671,384	-31,233,464	-46,134,138	-36,386,348	-35,595,000	-37,845,000	-33,745,000	-33,745,000	-462,951,546
Other Expenses Paid	-20,470,248	-25,540,350	-21,918,977	-28,433,845	-15,997,084	-24,130,229	-23,804,938	-18,955,395	-31,206,957	-30,679,479	-24,700,000	-26,764,000	-292,601,502
Intervention Impact	0	0	0	0	0	0	0	0	10,000,000	10,000,000	10,000,000	10,000,000	30,000,000
Closing GF Cash Balance	21,759,411	21,618,167	18,774,723	16,030,196	16,026,537	27,966,725	12,686,963	29,017,619	13,702,342	13,966,213	15,307,893	-243,887	-243,887

4. Status of MOH Engagement

Following meetings held with the NSW Health Chief Financial Officer in December 2023 and January 2024, a formal letter requesting financial support to address the uncertainty in relation to SVHNS's financial position for FY24 was sent to the NSW Health Chief Financial Officer on 19 February 2024. This letter is included at **Attachment 1**. Importantly, as outlined in the letter, Management has proposed that SVHNS to work with MOH to prepare a Three Year Recovery Plan reflecting proposed role, purchased activity volumes and associated funding requirements to provide certainty of financial sustainability for both MOH and SVHA going forward.



On 19 February 2024, MOH formally advised SVHNS that they were escalating the Network's performance level from Level 1 to Level 2 due to risks related to financial performance.

SVHNS received correspondence from MOH on 1st March advising of an additional \$30 million cash subsidy to support mitigation of uncertainty in the cash position for FY24. This letter is included at **Attachment 2**. Importantly, this support was contingent on several factors including greater transparency of SVHN financial position across the General Fund, Trust Accounts and Group charges. Furthermore, the correspondence notes that the \$30 million will be recouped in the FY25 financial year, through expected efficiency savings. This creates further challenges in achieving a break even financial position in FY25 and it is the subject of ongoing discussion with MOH and NSW Health.

5. Recovery Plan

Aligned with MOH correspondence, Management is finalising a comprehensive financial recovery plan to support achievement of budget for FY24 and to position the Network for a sustainable position for FY25 and beyond. This Recovery Plan has four core pillars:

1. Cost reduction through workforce reform and operational efficiencies
2. Revenue optimisation and activity capture
3. Realignment of service level and mix to purchased volumes
4. Renewal of supporting financial systems, structures and capabilities

Activities within these Pillars encompass the suite of Efficiency Improvement Program initiatives outlined in previous Papers for this Committee. The estimated impact of cost reduction and revenue optimisation initiatives for FY24 is \$11m, with an estimated full year impact for FY25 of \$30m. Further analysis is required to confirm the potential impact for Pillar 3 – Realignment of service level and mix as this will be dependent on the parameters of the FY25 Service Level Agreement from MOH.

Noting that the preferred outcome with MOH is the development of an agreed Three Year Recovery Plan, the Plan will be updated once the parameters of the FY25 Service Level Agreement are known and further decisions can be made regarding service level and mix to align with purchased volumes. The Final Plan will be brought forward to the Board for discussion and endorsement prior to finalisation.

6. Stakeholder Engagement and Darlinghurst Value Proposition

Concurrent to the implementation of the tactical recovery plan as outlined above is a broader program of work and stakeholder engagement to activate supporter networks and develop and communicate a clear vision and value proposition for the future of the Darlinghurst Campus within the NSW health and medical research systems. This work will leverage the recently launched SVHA Strategy 2030 and storyboard to create a campaign of engagement with key networks to mobilise support for a more sustainable funding arrangement for SVHS.

Conclusion

Management is committed to resolving both the immediate and long term funding challenges for SVHNS and this remains the key priority for the SVHNS Executive Team.

Attachments

- Attachment 1** - Letter SVHN CEO to MOH requesting financial support
Attachment 2 – Letter MOH to SVHN CEO re: request for financial support



St Vincent's Hospital Sydney Limited
ABN 77 054 038 872

19 February 2024

Mr Alfa D'Amato
Deputy Secretary, Financial Services
Asset Management and Chief Financial Officer
NSW Health
1 Reserve Road
St Leonards, NSW 2065

By email: Alfa.DAmato@health.nsw.gov.au

Dear Mr D'Amato *Alfa*

Re: St Vincent's Health Network Financial Support 2023-24

I write to seek the urgent additional support of NSW Health for St Vincent's Health Network Sydney (SVHN) for financial year 2023-24.

Performance

SVHN is one of the most efficient providers of public health services in New South Wales, with a cost/NWAW23 of \$5,613; below the state average. This represents a ten place improvement in the State compared to the previous year. Activity performance year to date is strong, with December 2023 results indicating a 2.9% positive variance to target. Recent focused efforts to further improve our operating performance, particularly in relation to elective surgery and emergency access are now translating into impact, with further gains expected throughout the remainder of FY24. We are proud of the achievements of our people in delivering for their patients and the wider community of NSW.

Operating Environment

SVHN has a partnership with the Government of NSW spanning 167 years to provide services to the public in keeping with our shared Mission of delivering for those most in need.

Like all public hospitals, SVHN is experiencing material financial pressure as it shifts out of a COVID-response phase and returns to more predictable operating tempo. However,

UNDER THE STEWARDSHIP OF MARY AIKENHEAD MINISTRIES

St Vincent's Health Network Sydney
St Vincent's Hospital Sydney
Sacred Heart Health Service
St Joseph's Hospital

this year has brought unprecedented financial pressure to SVHN, as a consequence of three major factors:

- Slower than anticipated recalibration to an efficient operating tempo following the COVID response period, including the impact of significant staffing challenges on premium labour costs, overtime and leave uptake;
- The closure of St Joseph's Auburn including decommissioning costs and concurrent impact of activity transfer to Western Sydney LHD;
- Inflationary pressures impacting wages, other expenses and internal charges; and,
- Activity pressures evident in current YTD performance to NWAU target.

Cash Forecast

In November 2023, I wrote to the Secretary of NSW Health regarding the 2023-24 Service Level Agreement for SVHN, noting that the parameters of that funding Agreement would result in a cash deficit position for SVHN in early 2024.

Further to that correspondence, and based on current projection shared with NSW Health, SVHN will enter negative cash flow from April 2024. Projections indicate negative closing cash balances of -\$21.5M, -\$39.6M and -\$60.2M for each month of quarter four 2023-24. These projections include reasonable assumptions related to MOH funding and Own Source Revenue based on current run rate, costs and revenue impacts associated with the closure of St Joseph's Hospital and other known expenses to be incurred for the remainder of the financial year.

This forecast also reflects the significant contribution of St Vincent's Health Australia and related entities to the current year position and ongoing financial sustainability of SVHS, including: provision of land and facilities, funding for asset maintenance and clinical and non-clinical equipment replacement and support for clinical education & development.

At present, without urgent support in addition to the existing 2023-24 Service Level Agreement, SVHN will be unable to pay staff and creditors in Q4 2023-24.

Response

SVHN has implemented a significant program of efficiency improvement initiatives and structural reform across the Hospital to respond to these pressures.

Firstly, a four-stream efficiency improvement program has been implemented to deliver an annualised \$24m in efficiency gains, comprised of:

- Optimised coding and own source revenue;
- Enhanced bed management;

- Improved workforce management including overtime and leave management, enhanced rostering;
- Procurement purchasing efficiencies, including continued transition to State contracts.

This program is underway and preliminary impacts based on December results have been included in the cash forecast. However, whilst every effort is being made to expedite implementation of these initiatives, the size of the forecast deficit for 2023-24 exceeds the gains that could reasonably be derived from these actions in the present year.

Additionally, a structural reform program is being finalised to deliver additional annualised savings. These savings are currently being quantified and impacts will be reflected in the 2024-25 financial year.

Support

In light of this challenging situation I am seeking the support of NSW Health for supplementary funding of \$60 million to address uncertainty in relation to the forecast position to end June 2024. I acknowledge that this assistance will be time limited and will be designed to support transition to a sustainable financial position.

St Vincent's and I are committed to working collaboratively and transparently with NSW Health to monitor the forecast position for the remainder of the financial year and making adjustments to any support provided as needed.

Recovery Plan

In addition to the efficiency measures outlined above I am also proposing that we prepare a joint recovery plan to support a financially sustainable future for SVHN.

This would be designed to avoid any future occurrence of the current short-term financial challenges that SVHN faces, which leaves both the Hospital and NSW Health in an unenviable position.

The SVHN Three Year Recovery Plan would:

- Confirm SVHN's role within the NSW health system;
- Set an agreed service level and mix based on modelled demand across the system;
- Set appropriate and agreed efficiency measures and dividends;
- Outline new areas for innovation and improvements, including virtual and home care, to further contribute to efficiencies and sustainability;
- Establish corresponding operational and capital funding.

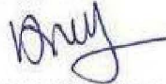
The SVHN Three Year Recovery Plan would be designed to meet both St Vincent's Health Australia's and NSW Health's long-term strategic priorities and the needs of the NSW community. This would be a strong contribution to the rich shared history that we have and reflect the innovations and changing trends of health care.

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SVHN values our enduring partnership with NSW Health and the NSW Government and is committed to robust financial stewardship to enable us to meet the needs of the people of NSW into the future.

I look forward to your response.

Regards



Anna McFadgen
Chief Executive Officer
St Vincent's Health Network Sydney

NSW Health



Ref: HA-2024-0000655

Anna McFadgen
Chief Executive Officer, St Vincent's Health Network SCHN

By email: anna.mcfadgen@svha.org.au

Re: Response to St Vincent's Health Network Financial Support 2023-24

Dear Anna

Thank you for your letter dated 19 February 2024 outlining St Vincent's Hospital Network's efficiency improvement program, planned Recovery Plan and request for financial support from the final quarter of 2023-24.

Having carefully reviewed the Network's proposed initiatives aimed at reducing future costs, the Ministry is prepared to provide an additional subsidy of \$30 million (one off) towards supporting these efforts in the current fiscal year. In doing so the Ministry expects that St Vincent's Health Australia (SVHA) will contribute toward this program of work in various aspects around the Recovery Plan, structural reforms and innovation whilst balancing Group needs with NSW health system opportunities to advance long term sustainability.

It is a condition of this payment that:

- the financial support provided will facilitate the realisation of the anticipated savings.
- a Financial Recovery Plan developed by SVHN and approved by SVHA will be submitted to the Ministry by end of March 2024 that clearly articulates the cashflow of future savings.
- transparent and itemised information in respect to St Vincent's Health Network's financial performance and cashflow on a monthly basis to NSW Health Deputy Secretary Financial Services and Asset Management and CFO. Details should include performance on efficiency strategies and Recovery Plan, charges imposed by the SVHA Group or other Group Entities, Other Income Received, income and expenditure transfers with Restricted Financial Assets and transactions with the Trustees of St Vincent's Hospital.
- sufficient progress is made with initiatives that will lead to a corresponding \$30 million amount recouped by the Ministry across 2024-25 from the 2024-25 Service Agreement subsidy.

Please inform us of your decision regarding this offer before **29 February 2024**.

If you have any other questions, please contact Alfa D'Amato, Deputy Secretary, Financial Services and Asset Management and CFO at alfa.damato@health.nsw.gov.au.

Yours sincerely

Susan Pearce AM
Secretary, NSW Health

28/2/24