



SVHA Board Finance and Investment Committee

Matter for Information

Matter for Tabling	St Vincent's Health Network Sydney December Results and Financial Sustainability Plan
Date of Meeting	31 January 2024
Executive Sponsor(s)	Anna McFadgen, CEO, St Vincent's Health Network Sydney Abbas Alibhai, Interim 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) December results and financial sustainability plan.

Recommendation

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

Mission Imperative

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

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.

At that time Management commenced implementation of a \$24m program of efficiency improvement initiatives and initiated discussions with NSW Health regarding support for addressing the 'structural deficit' of \$20m.

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.

Acknowledging the context of broader system challenges and unprecedented budget deficits across the NSW Health system, the Board agree 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.



Analysis – Financial and Risk

1. December 2023 results summary

The reported December EBITDAR result was a deficit of \$5.3m, \$3.1m unfavourable to the budgeted deficit of \$2.2m. Year to date the deficit is \$36m, \$13.2m unfavourable to budget.

The December YTD EBITDAR result is driven by:

- YTD revenue is \$2.9m favourable to budget, driven by a \$2.8m favourable variance in Facility Fees which was driven primarily by a catch up in Pathology billing from August. November YTD NWAU is 2% above target. Ongoing focus on activity and coding continues to impact favourably on revenue capture.
- YTD Expenses were \$15.2m unfavourable to budget driven by salaries which were \$9.9m unfavourable. FTEs were 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 \$4.1m 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 November, activity was 2.0% above target driven primarily by successful embedding of activity capture and coding practices into business-as-usual practice. 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 238 lower than budget (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 is in the final stages of planning and will be launched in February 2024. This will include a major organisational restructure and FTE savings across non-patient facing roles to right size the workforce for scope and scale of clinical services.

Trust fund results were \$1.1m unfavourable for December and are \$3.8m unfavourable YTD. The December result is driven by the low activity period and resulting lower than budgeted private practice, clinical trial and donation revenue. YTD results reflect phasing of endowment, special grant revenue and donation revenue.

3. 2023-24 Forecast

SVHNS received the final Service Level Agreement from NSW Health on 3 November. Based on the final FY24 SLA and reconciliation of changes in funding and cost profiles from FY23 SVHNS is forecasting a full year deficit of \$71m against the target EBITDAR of \$5m. The key movements between FY23 and FY24 are outlined below:



FY23 Actual to FY24 Budget Reconciliation	Amount
2022/23 Operating EBITDA (Actual)	34,559
MOH Funding Reduction	19,984,506
OSR Revenue Reduction	16,111,520
FY24 Known Expense increases	12,765,406
Funding reduction through SLA	5,700,778
Shortfall on S&W and G&S escalation	7,455,597
Unfunded leave liability increase	4,480,000
2023/24 Budgeted Operating EBITDA	-66,463,248
SVHA Board Surplus Expectation	5,000,000
Turnaround Target	-71,463,248

This forecast is driven by the following key factors:

- Funding reductions from MOH, including one-off funding in FY23 not continued and savings passed through via SLA (\$25.7)
- Own Source Revenue generated in FY23 not continued in FY24 (\$16m)
- Other known expense increases (\$13m)
- S&W expense increases not funded through SLA (\$12m)

A cash flow forecast has been prepared on the basis of known expense and revenue trajectories. This forecast indicates a cash deficit commencing in April 2024. Further to advice provided at the December Board meeting, Management has confirmed a cash advance from NSW Health of \$30m (funding brought forward from Q4) to support the cash position for Q2 and Q3. This advance is designed to support hospital operations and commitments pending resolution of the full year financial support negotiations with NSW Health which are ongoing (see Section 5).

4. Turnaround Strategy

Efficiency Improvement Initiatives

In response to the forecast deficit position, SVHNS has commenced a robust Efficiency Improvement Program (EIP), with a target totalling \$24m across key streams: Revenue, Operational Efficiency, Workforce, Service Optimisation and Procurement. As of December 2023, stream targets have been confirmed and built into the forecast and activity is well progressed to realise efficiencies.

The key areas these EIPs are targeting are outlined below:

1. **Revenue:** focusing on the optimisation of coding and own source revenue; target of \$2.5m.
2. **Operational:** focusing on enhanced bed management and operational efficiencies; target of \$4m.
3. **Workforce:** enhanced rostering, improved overtime & leave management; target of \$14.3m.
4. **Procurement:** focusing on purchasing efficiencies to be implemented; target of \$3.2m.

The phasing of the EIPs throughout the year are outlined below:

EIP Category	Amount	Q1	Q2	Q3	Q4
Revenue	2,500,000	-	-	1,250,000	1,250,000
Procurement	3,200,000	-	570,803	1,160,625	1,468,572
Operational Efficiency	4,000,000	-	1,004,115	1,497,942	1,497,942
Workforce	14,300,000	-	2,060,000	5,720,000	6,520,000
EIP Targets Uploaded to MoH	24,000,000	-	3,634,918	9,628,567	10,736,514

Workforce Reform



The size of the forecast deficit requires further actions to be taken in addition to the EIP and aligned to this Management is finalising a significant program of structural reform focused on reduction in non-front line FTE and workforce right sizing to the scope and scale of clinical activity. The part year FY24 and full year FY25 ongoing budget impact is currently being finalised with a view to.

These changes have been informed by detailed workforce benchmarking analysis across all craft groups and classifications. This benchmarking included two elements: (1) Deloitte Workforce Diagnostic which benchmarked SVHNS workforce against a group of peer hospitals nationally and (2) internal analysis using MOH data benchmarking SVHNS workforce against peers within the NSW system.

5. MOH Engagement Strategy

Acknowledging that the size of the forecast deficit exceeds the savings that could reasonably be achieved with the aforementioned actions, Management has commenced formal engagement with NSW Health to address the 'structural deficit' derived from the current funding agreement for SVHNS.

A meeting was held with the NSW Health Chief Financial Officer in December 2023 and subsequently on 23 January 2024 to commence this engagement. The aim of these initial meetings were two-fold: (1) seek immediate support from NSW Health to address the forecast FY24 deficit and cash risk and (2) to understand the initial position and information required from NSW Health to inform future discussions regarding the long-term funding agreement. There were two agreed outcomes of those meetings:

1. SVHNS to make a formal request of NSW Health for financial support required to meet obligations to 30 June 2024. A letter will be sent to the NSW Secretary for Health from the SVHNS CEO reflecting this request by end January 2024.
2. SVHNS to work with MOH to prepare a 3-5yr plan reflecting proposed role, service level and funding requirements to inform discussion with key NSW Health stakeholders regarding a sustainable funding model.

6. Supporting Actions

Contextually relevant to the information outlined in this paper are observations and supporting actions being taken in relation to the SVHNS Finance function. Notably this includes:

- Refreshed leadership with a new Chief Financial Officer and Financial Controller currently being recruited
- Restructure and capability assessment of the Finance Team to better align functions for optimum effectiveness
- Implementation of new systems and processes to facilitate closer engagement with business operations and improve transparency and visibility of financial information for decision making. This includes the implementation of a revised budget process for FY25.

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. The immediate next step is preparation and submission of the formal correspondence to NSW Health and finalisation of the 5yr Plan to inform further discussion with NSW Health.