

7 Finance & Performance Management

7.1 Financial and Performance Management Obligations

Organisation performance monitoring and review of financial management form a key part of the system of internal controls for public health organisations. Chief executives and Boards are responsible for putting into place appropriate arrangements to:

- ensure the efficiency and effectiveness of resource utilisation by public health organisations; and
- regularly review the adequacy and effectiveness of organisational financial and performance management arrangements.

7.1.1 Budget allocations and conditions of subsidy

The State Budget is handed down in June each year reflecting the culmination of budget planning and negotiation between agencies and NSW Treasury, and decisions of Government over the preceding months to meet the costs of both ongoing services and also new services.

The Minister for Health approves initial cash allocations to public health organisations in accordance with s127 of the *Health Services Act 1997*. The Ministry issues budgets on or around State Budget day as detailed within Schedule C of the annual Service Agreement between the Ministry of Health and public health organisations.

It is a condition of subsidy payment to all public health organisations that the allocation of funds are expended strictly in accordance with the Minister's approval, as specified in the annual Service Agreement. The Financial Requirements and Conditions of Subsidy (Government Grants) a supporting document to the Service Agreement outlines NSW Health policy and expectations in relation to financial matters including accountability, budget and liquidity management, budget devolution, Auditor-General compliance, taxation, superannuation and leave. Section 2.2 of the of the Conditions of Subsidy requires Chief Executives to report monthly to the Ministry of Health's Finance Branch and to the Board of Board governed organisations.

Schedule C of the Service Agreement issued to public health organisations sets out the base budget, ABF and block funding and specific enhancements funded by the Commonwealth, NSW Government or internal to NSW Health.

When reviewing and monitoring the financial aspects of the administration of their organisation, the LHD Chief Executives and Boards must ensure:

- arrangements are in place to enable the proper conduct of the public health organisation's financial affairs and to monitor the adequacy and effectiveness of these arrangements;
- arrangements are in place so that the public health organisation's financial affairs are conducted in accordance with the law and relevant regulations;
- the financial standing of the public health organisation is soundly based and complies with statutory financial requirements, financial obligations, relevant codes and guidelines, level of reserves and provisions, financial monitoring and reporting arrangements, and the impact of planned future policies and known foreseeable future developments on the organisation's financial position;

- proper arrangements are in place to monitor the adequacy and effectiveness of the public health organisation's systems of internal controls including systems of internal financial control;
- adequate arrangements are in place to maintain proper standards of financial conduct, and to prevent and detect fraud and corruption;
- systems of internal controls are in place to ensure the regularity of financial transactions and that they are lawful;
- the maintenance of proper accounting records; and
- preparation of financial statements that give a true and fair view of the financial position of the health organisation and its expenditure and income.

7.1.2 Finance and Performance Committee

7.1.2.1 Establishment

The Model By-Laws provide that local health districts must establish a Finance and Performance Committee to assist the board and the Chief Executive to ensure the operating funds, capital works funds and service outputs required of the organisation are being managed in an appropriate and efficient manner, and consistent with the requirements of the LHD's Service Agreement with the Secretary, NSW Health.

The Finance and Performance Committee is required to be established as a subcommittee of the board, or the board itself may act as the Finance and Performance Committee. Where the full board fulfils the role of the committee, financial reports should be received and discussed at each ordinary meeting of the board (i.e. they must not be noted or deferred).

7.1.2.2 Membership

Where a Finance and Performance Committee is established as a sub-committee of the board it should include the Chief Executive as a member and provide for attendance of the Director of Finance. Under the By Laws, the chair of the Audit and Risk Management (ARM) committee cannot also be appointed as the chair of the finance and performance committee.

7.1.2.3 Meeting and procedures

Minutes

Where the Finance and Performance Committee is established as a sub-committee of the board, its deliberations and minutes must be submitted to the board for approval.

Reporting

Reporting processes must be in place to allow the Finance and Performance Committee to review the efficiency and effectiveness of the organisation in delivering its strategic objectives and in meeting its accountabilities as prescribed in the annual Service Agreement.

The main purpose of reporting is to provide relevant information to enable the committee to understand the organisation's performance against service and activity levels and the management of resources applied for the delivery of these services set out in the Service Agreement. This indicates but is not limited to budget consideration, use of staff resourcing and other inputs used in service delivery. Identification of any exposure to financial risks and the extent to which they are being effectively managed are key considerations when assessing the impact of these risks on the overall performance of the organisation.

**Key elements of
monthly financial
reports**

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Reports prepared for the Finance and Performance Committee must represent a fair and true view of the performance of the organisation, and should include effective strategies which the Chief Executive proposes to utilise to mitigate and resolve risks. All reports to the Finance and Performance Committee should include advice from management which reconciles the information within any report to the committee with monthly reports provided to the Ministry of Health.

Reports to the Finance and Performance Committee should be succinct and focus on key issues that require attention, in a narrative style rather than voluminous pages of detailed figures. They should be prepared in accordance with accounting standards and statutory requirements as well as guidelines issued from time to time by the Ministry of Health.

An executive summary should be included in the Finance and Performance Committee report to highlight key financial and performance issues requiring the attention of the Committee.

The Finance and Performance Committee should ensure it receives monthly reports that include the following information as a minimum:

- year to date and end of year projections regarding the financial performance and financial position of the organisation;
- financial performance of each major cost centre;
- any mitigation strategy to resolve financial performance issue in order to achieve budget;
- liquidity performance;
- the position of Special Purpose and Trust funds;
- the financial impact of variations to activity targets;
- advice on any investments;
- bad debts and write-offs;
- activity performance against indicators and targets in the service agreement for the organisation;
- advice on the achievement of strategic priorities identified in the service agreement for the organisation;
- year to date and end of year projections on capital works and private sector initiatives; and
- year to date and end of year projections on expenditure; and achievements against efficiency improvements and other savings strategies;
- progress against targeted strategies in Financial Recovery Plans required under the NSW Health Performance Framework (where the LHD/SHN has been escalated to Performance level 2 or above).

A copy of the monthly narrative report and supporting documentation provided to the Ministry of Health is to be tabled by management at the next Finance and Performance Committee following month end.

Letters to management from the Auditor-General, Minister for Health, and the NSW Ministry of Health relating to significant financial and performance matters should be tabled at the next meeting of the Finance and Performance Committee.

Treasury Managed Fund results – both at premium and hindsight – for workers' compensation, motor vehicle, property, liability and miscellaneous insurance policies must be considered by the Finance and Performance Committee on, at least, a quarterly basis.

Attendance

The Chief Executive and Director of Finance should attend all meetings of the Finance and Performance Committee unless on approved leave.

7.2 National Health Funding Reform

7.2.1 Health Reform Agreement

The National Health Reform Agreement is referenced in the National Health Reform Act 2011 and all jurisdictions passed legislation to establish the National Health Funding Pool and Funding Administrator.

The Agreement, existing legislative instruments and national agencies remain in place until the Commonwealth negotiates changes.

The 2014-15 Federal Budget foreshadows that the Commonwealth will fund states through a combination of CPI and population growth from 2017-18.

7.2.2 Activity Based Funding

NSW continues to be committed to Activity Based Funding. The funding model incorporates activity based funding (ABF)- a funding approach based on a unit price for the number and types of services provided. It is a way of allocating funds based on the activity or services provided.

Using ABF helps make public health funding more effective because health service management can allocate their share of available State and Commonwealth funding based on real levels of patient care.

This ensures greater accountability for expenditure. The ABF approach allows public health planners, administrators, consumers and clinicians to see how and where taxpayer funding is being allocated.

ABF aims to fund the actual work performed within agreed targets. Essential elements are:

- *Targets* to specify level of activity to be undertaken by each LHD/SHN
- *A classification system* to group activity into classes with similar clinical profiles and resource use
- *Weighting* of activity-to indicate relative resource intensity of patients treatment
- *A price* at which the weighted activity will be paid

7.2.3 Activity Based Management

Activity Based Management (ABM) is an evidence based management approach that focuses on patient level data to inform strategic decision making. Through clinical costing results and other activity data, ABM allows clinicians and managers to identify areas for improvement and make informed decisions relating to patient care through the optimisation of resource allocation. It is a system for continuous improvement and it provides a link with service Key Performance Indicators (KPIs) where activity, cost and performance information is used to attain strategic and operational objectives.

ABM is underpinned by:

- Counting and reporting the services provided (timely and accurate coding and classification)
- Improving the accuracy and timeliness of costing services
- Understanding the relationship between price and cost, in order to make more informed decisions on services within the available funding parameters

7.2.4 The funding models in practice

Local Health Districts (LHDs) and Specialty Networks (SHNs) are funded on the basis of meeting local needs within agreed activity targets since 2012/13 when implementation of activity based funding (ABF) commenced. Initially ABF was applied to acute inpatients, emergency departments and non-admitted services.

In 2013/14, the second year of funding reform in NSW, ABF was extended to apply to sub and non-acute services and admitted mental health services. It was also the first time payments were made to LHDs with small rural and regional hospitals, on the basis of the NSW Small Hospitals Model.

The principles of ABF remain unchanged in 2014/15 with the focus now on embedding the ABF process as part of mainstream operational strategy and shifting to ABM, improving quality of data which informs funding allocation and using the available data to refine and improve funding allocation.

However, there are services that are not suitable for this type of funding such as teaching, training and research, population health and other activities not easily classified, these will continue to be funded as a total program or “block” funded until suitable funding mechanisms are decided.

NSW Health Performance Framework

Engagement of Local Health Districts and Specialty Networks with the NSW Health Performance Framework (PF) contributes to the realisation of NSW Health's CORE values – Collaboration, Openness, Respect and Empowerment.

The Performance Framework provides a clear and transparent outline of how performance is assessed and how responses to performance concerns are structured. It applies to the following Health Services: the 15 NSW geographical Local Health Districts, the Ambulance Service NSW, Sydney Children's Hospitals Network, the Justice Health and Forensic Mental Health Network and the St Vincent's Health Network. In addition, from 2013/14, the Framework also applies to the following Support Organisations: the Agency for Clinical Innovation, Bureau of Health Information, Cancer Institute NSW, Clinical Excellence Commission, Health Education and Training Institute, HealthShare NSW, NSW Kids and Families, and NSW Health Pathology.

The Framework and its Key Performance Indicators are also relevant to clinical networks, units and Health Service teams within each Health Service.

The key attributes of the Framework are:

- **Transparency** clear agreed performance targets and responses to performance issues
- **Accountability** clear roles and responsibilities of the Ministry and Health Services.
- **Responsiveness** performance issues are identified early and responses are timely.
- **Predictability** Health Services will know what constitutes good performance and when a performance concern arises, the response that is required.
- **Recovery** the focus is on having a clear and practical path of recovery.
- **Integrated** the Framework incorporates NSW Health Strategic Priorities and links the objectives of safe, effective, patient centred and efficient health service delivery.
- **Consistency** responses to poor performance are proportionate to the issue being addressed.
- **Recognition** sustained and/or superior performance is appropriately recognised.
- **Informed Purchasing** The Framework provides the basis for clear communication and dialogue on policy and resources to support state and local planning and decision making.

The Performance Framework outlines the performance expected of Health Services and Support Organisations to achieve the levels of health improvement, service delivery and financial performance as set out in their Service Agreements or Service Compacts, respectively. The Framework, and the associated Key Performance Indicators (KPIs) listed in each organisation's Service Agreement or Service Compact, apply at both whole of Health Service or Support Organisation level and at facility/service levels, promoting and supporting a high performance culture.

The Framework also sets out the performance improvement approaches, responses to performance concerns and management processes that support the achievement of these outcomes in accordance with Government policy.

Service agreements and compacts

Service Agreements support the devolution of decision-making, responsibility and accountability for the provision of safe, high quality, patient centred care to Health Services by setting out the service and performance expectations for the funding and other support provided to these organisations. The objectives of Local Health District Service Agreements are:

- To enable the Local Health District to deliver high quality effective services that promote, protect and maintain the health of the community, and provide care and treatment to sick and injured people.
- To promote accountability to Government and the community.
- To ensure NSW Government and national health priorities, services, outputs and outcomes are achieved.
- To establish with the Local Health District a Performance Management and Accountability System that assists in the achievement of effective and efficient management and performance.
- To provide the framework for the Chief Executive to establish service and performance agreements within the Local Health District.
- To outline the Local Health District's roles and responsibilities as a key member organisation of a wider NSW public health network of services and support organisations.
- To facilitate the progressive implementation of a purchasing framework incorporating activity-based funded services.
- To develop formal and ongoing partnerships with Aboriginal Community Controlled Health Services, ensuring that all health plans and programs developed by the Local Health District consist of measurable objectives that reflect Aboriginal health priorities as identified by Aboriginal services and communities.
- To provide a framework from which to progress the development of partnerships and collaboration with Medicare Locals.
- To address the requirements of the National Health Reform Agreement in relation to Service Agreements.

Service Agreements for the other Health Services listed above, and Service Compacts for the Support Organisations, are individualised to reflect each organisation's functions and their legal status under Health legislation.

Performance requirements

Health Services are to meet the performance requirements as set out in the Service Agreements, within the allocated budget, and specifically:

- Successfully implement agreed plans that address the Strategic Priorities and Governance requirements;
- Meet activity targets within the set tolerance bands; and
- Achieve Key Performance Indicator targets. The KPIs and their contextual Service Measures are grouped under the current five performance domains:
 - Safety and Quality
 - Service Access and Patient Flow
 - Finance and Activity
 - Population Health
 - People and Culture

Key Performance Indicators (KPIs) have been established with related targets and performance thresholds. Performance against these indicators is reported in the monthly Health System Performance Report prepared by the NSW Ministry of Health and is assessed as follows for each KPI:

- **Performing:** Performance at, or better than, target
- **Underperforming:** Performance within a tolerance range
- **Not performing:** Performance outside the tolerance threshold

Each KPI has been designated into one of two categories:

- **Tier One:** Will generate a performance concern when the Health Service performance is outside the tolerance threshold for the applicable reporting period.
- **Tier Two:** Will generate a performance concern when the Health Service performance is outside the tolerance threshold for more than one reporting period.

In addition to KPIs, a range of Service Measures are included in the Health System Performance Report. They have been included to assist the Health Service or to improve the safety and efficiency of patient care through the provision of contextual information against which to assess performance.

In addition to the KPIs and Service Measures, the NSW Ministry of Health continues to monitor a broad range of measures for a number of reasons including strategic priorities, emerging health issues, implementation of new service models, reporting requirements to NSW Government central agencies, to the Commonwealth and participation in nationally agreed data collections with which the Health Service needs to comply.

Should a performance issue emerge with one or more of the monitoring measures, the issue is discussed with the Health Service. If the performance issue continues, the NSW Ministry of Health may determine to notify the Health Service of a transfer of the Measure(s) to become a KPI(s) until the performance issue is resolved.

Performance Review

A range of performance considerations are made to assess whether escalation/de-escalation is required. A performance concern does not always trigger an escalation in a Health Service's Performance level under the Framework (refer section below for a description of each Performance Level).

The performance of a Health Service is assessed in terms of whether it is meeting the performance targets for individual KPIs and, where applicable, is on track against agreed Recovery Plans. Response to performance concerns within the Performance Framework are not escalated or de-escalated solely on the basis of KPI results. Rather, KPI performance concerns act as signals that are viewed in the context of the Health Service's overall performance.

The level of performance concern in each case will be determined by the particular indicator(s), the seriousness of the issues, the speed with which the situation could deteriorate further and the time it would take to achieve turnaround. Whether or not an indicator is on trajectory to meet target within a reasonable and agreed time frame will also influence the level of performance concern.

Escalation and De-escalation processes

The following processes are undertaken to determine whether the performance of the Health Service warrants escalation/de-escalation. The NSW Ministry of Health monitors performance and:

- For Health Services with no existing performance concerns, if a performance concern arises, the Ministry will:
 1. Discuss the issue with the Chief Executive of the Health Service.
 2. If appropriate to the issue, formally request the Health Service to respond (Level 1 response).
 3. Based on the response from the Health Service, determines whether there is a need to escalate the performance review (to Level 2 or 3) and initiate a meeting with the Health Service to consider the proposed recovery plan and then continue to meet with the Health Service to monitor the implementation of the recovery plan.

Recovery plans are written plans prepared by the Local Health District, other Health Service or Support Organisation, signed off by the respective Board and submitted to the Ministry for agreement. The Ministry has the discretion to escalate the response to higher levels, based on assessment of progress with the recovery plan.

- For Health Services with an existing performance concern, assess whether sufficient progress has been made or whether performance escalation is required to a higher level of response.

The Ministry also assesses overall performance at quarterly meetings with all Health services and progress with addressing Strategic Priorities six-monthly.

Following a Performance Review meeting, the Ministry advises the Health Service chief executive of the proposed performance rating. Chief Executives advise their Boards of this advice. Where escalation to level 3 or 4 is proposed, the Ministry advises the Board Chair directly as well as the Chief Executive.

If there is a differing assessment of performance status by the Health Service to that proposed by the Ministry, the issue is discussed by the Deputy Secretary, System Purchasing and Performance and the Health Service Chief Executive.

If the matter is not resolved at that level, the issue is referred to the Secretary, NSW Health for resolution. The Secretary, NSW Health will consult with the Board Chair in determining the matter.

The performance rating of a Health Service and/or the level of response can be escalated or de-escalated at any time. When it is proposed to change a performance rating, the reasons for the change will be clearly explained in writing. In the case of an escalation, a clear summary of actions required to improve performance will also be provided.

The following table summarises the steps that guide a decision to escalate or de-escalate.

Point of Escalation	Point of De-escalation	Response
Level 1: “Under review” – Assessment and advice		
Performance issue identified	The issue is satisfactorily resolved.	<p>The Ministry notifies the Health Service Chief Executive of escalation to Level 1.</p> <p>The Health Service Chief Executive advises the Board of performance rating.</p> <p>The Health Service chief executive will be required to provide formal advice on:</p> <ul style="list-style-type: none"> • The reasons that led to the performance issue. • Whether any action is required and if so the intended action and timeframe.
Level 2: “Underperforming” – Recovery Plan required		
The Ministry considers that the original performance issue that triggered a Level 1 response warrants a formal recovery plan and/or other performance issue(s) emerge warranting Level 2.	The performance issue is resolved and does not reemerge for at least one more reporting period (month/quarter as appropriate).	<p>The Ministry notifies the Health Service chief executive of escalation to level 2</p> <p>The Health Service chief executive advises the Board of performance rating.</p> <p>The Health Service will be required to:</p> <ul style="list-style-type: none"> • Undertake an in-depth assessment of the problem and identify options to address the problem • Provide a detailed recovery plan and a timetable for resolution. The plan is signed off by the Board. • Meet with the Ministry to formally monitor the recovery plan. <p>The time frame for recovery will be as agreed with the Ministry.</p>
Level 3: “Serious underperformance risk” – Additional support and involvement of the Ministry		
The recovery plan is not progressing well and is unlikely to succeed without additional support and input from the Ministry. A revised recovery strategy has been developed.	The revised recovery strategy has succeeded and the performance issue shows no indication of reemerging in the ensuing three months.	<p>The Ministry will meet with the Health Service chief executive and Board Chair to formally advise of escalation to Level 3.</p> <p>The Health Service is to develop a recovery strategy satisfactory to the Ministry of Health. The Ministry may require the strategy to include:</p> <ul style="list-style-type: none"> • Assigning staff identified by the Ministry to work collaboratively with the Health Service to develop and implement the Strategy; and/or • Assigning staff identified by the Ministry to have a more direct involvement in the operation of the Health Service. <p>Progress will be formally monitored over a time frame agreed with the Ministry.</p> <p>The Minister may appoint a representative for the specific purpose of assisting the Board to effectively oversee necessary performance improvements including attending Board meetings for that purpose.</p> <p>The timing and scope of any action will be determined by the nature of the performance issues.</p>

Point of Escalation	Point of De-escalation	Response
Level 4: “Health Service challenged and failing” – Changes to the governance of the Health Service may be required		
The recovery strategy has failed and changes to the governance of the Health Service may be required.	The performance issue has improved and there is demonstrable evidence that the Health Service now has the capability to have full responsibility for the operation of the service.	<p>The Secretary, NSW Health will meet with the Health Service chief executive and Board Chair to formally advise of escalation to Level 4. The timing and scope of any action will be determined by the nature of the performance issues.*</p> <p>These may include:</p> <ul style="list-style-type: none"> • the Secretary, NSW Health commissioning an independent review of Health Service governance and management capability; and/or • the Minister: <ul style="list-style-type: none"> – requiring the Board Chair to demonstrate that the chief executive is able to achieve turnaround within a reasonable time frame;* – determining to change the membership of the Board and/or appointing an Administrator.* <p>NOTE * Nothing in this document is to be taken as affecting or limiting the discretion to exercise powers under sections 29, 52 or 121N of the Health Services Act.</p>

Escalation and de-escalation may not be sequential. The initial level of escalation and response is based on the seriousness of the performance issue, the likelihood of rapid deterioration and the magnitude of the issue. For example, there may be circumstances where the seriousness of the situation calls for an escalation from Level 2 directly to Level 4.

In assessing recovery plans and monitoring progress, the Ministry is assisted by the Clinical Excellence Commission and/or the Agency for Clinical Innovation, where relevant, to consider the performance issues of concern.

Finance & Performance Management – Resources & References

Funding Reform – NSW Health Performance Framework

<http://www.health.nsw.gov.au/Performance/pages/frameworks.aspx>

NSW Health, Accounts and Audit Determination for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounts-audit-determination.aspx>

NSW Health, Accounting Manual for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounting-manual-pho.aspx>

NSW Health, Fees Procedures Manual for public health organisations:

<http://www.health.nsw.gov.au/policies/manuals/Pages/fees-manual.aspx>

NSW Health, Goods and Services Procurement Policy Manual:

<http://www.health.nsw.gov.au/policies/manuals/Pages/goods-services-procurement.aspx>

NSW Health Policy Directive, *Episode Funding Policy 2008/2009 – NSW* (PD2008_063)

http://www.health.nsw.gov.au/policies/pd/2008/PD2008_063.html

NSW Health, Accounting Manual for the Ministry of Health:

<http://www.health.nsw.gov.au/policies/manuals/Pages/accounting-manual-for-moh.aspx>

NSW Health, Goods and Services Tax and Fringe Benefits Tax Manuals:

<http://internal.health.nsw.gov.au/finance/taxissues.html>

NSW Ministry of Health, Finance and Business Management Branch intranet site:

<http://internal.health.nsw.gov.au/finance/index.html>

NSW Public Sector, Community of Finance Professionals:

<http://www.finacc.net.au/>

Council of Australian Governments (COAG) National Health Reform Agreement:

<http://www.coag.gov.au/node/96>

Local Documentation

Service Agreement – annual agreement between the public health organisation and the Ministry of Health.

Individual Performance Agreements – Chief Executive and Tier 2 of Local Health District and the Ministry of Health

Recovery plans (if needed). A Recovery plan is generally an agreed strategy and timeline to address a specific performance concern.