
AT A GLANCE

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DIRECTOR-GENERAL'S YEAR IN REVIEW 2011-12

This year saw the implementation of the comprehensive governance review of the NSW public health system as outlined in my *Future Governance Arrangements for NSW Health Report* released in August 2011. These changes implement NSW Government policy on the devolution of decision-making to the local level and the need for increased clinician engagement and empowerment across the NSW Health system.

To support local decision-making, 15 Local Health Districts (LHDs) and three Specialty Health Networks (SHNs) have been established, supported by local boards. Greater control of operational matters and planning for service delivery now rests with them and we have provided tools to assist them in exercising these roles. The three Health Reform Transition Organisations have been abolished, removing a middle layer of administration with these resources transferred to the LHDs.

To support more active engagement of clinicians, the 'Pillar' organisations comprising the Agency for Clinical Innovation (ACI), the Bureau of Health Information (BHI), the Clinical Excellence Commission (CEC) and the Health Education and Training Institute (HETI) have been strengthened, with resources and functions transferred from the Department of Health. Initiatives such as Clinical Redesign and the Chronic Care program are now located with the ACI. The CEC has responsibility for clinical quality and safety matters and HETI is the system leader for the development of education and training to support the public health workforce.

The Department of Health has been restructured to form a smaller and more strategic central agency, renamed the NSW Ministry of Health. Eliminating duplication of functions and stepping back from operational matters has allowed the Ministry to focus on its role as system manager, purchaser and regulator, coordinating the public health function and on its executive role providing policy, planning and funding advice to Government.

New funding and performance model for NSW Health

A key focus for the year has been the introduction of a new funding model that incorporates Activity Based Funding (ABF). The introduction of ABF – under which budgets are built up from consideration of the costs of individual episodes of patient care – provides important information for District Boards, management, clinicians, staff and communities to plan and deliver better health care.

NSW Health has played a key role in negotiating with the Commonwealth and also in informing the Independent Hospital Pricing Authority with respect to the operation of this new funding model, which came into effect on 1 July.

ABF presents an opportunity to provide an unparalleled level of transparency to our funding arrangements, which will highlight resource allocation and costs across the system. This is the first time that NSW Health services have been funded on the basis of ABF, which in this first year covers 70% of LHD expenditure including admitted patients, emergency department attendances and outpatient services. Mental health and subacute services, which are block funded in 2012-13, will also move to ABF in 2013-14.

For the first time, Local Health District Service Agreements include budgets which clearly relate funding to patient volumes and service levels using ABF and block grants for specific service streams. Each LHD has published their Service Agreement so that their staff and communities can better understand what health care services are provided and how they are funded.

For 2012-13 financial year, notwithstanding the current tight fiscal environment, all LHDs received significant growth funding to support higher levels of patient activity. This includes:

- 1.2m acute patient admissions, an increase of 2.6% or 30,000 additional acute inpatient episodes
- 2.6m ED attendances, an increase of 2% or 50,000 attendances.

LHDs have also received specific enhancements within the budget for new services and facilities. These have included enhancement for statewide services such as adult and neonatal intensive care beds and funding to meet commitments to increase the nursing workforce.

Within the Service Agreements, growth in patient activity levels takes into account factors such as population growth, patient flows and other factors which are specific to each LHD.

This year has also seen the introduction of a new collaborative performance management framework. The performance management framework operates in conjunction with the revised funding and purchasing model for NSW Health in which the Ministry fulfils the role of system manager. This framework actively engages the LHDs and SHNs in the management of performance and more clearly articulates the responsibilities of the Ministry of Health, the Pillar organisations and the LHDs and SHNs. The Boards of the LHDs play a major role in the performance management framework, and are actively involved in critical stages, including meeting performance measures for quality, access, financial management and population health.

Budget and the Capital Program

The 2011-12 Budget saw a record \$17.3 billion invested in NSW public health care, with \$1 billion of this budget allocated to capital works to expand and support our health infrastructure. Health achieved an on budget (combined operating and asset) result in 2011-12 against the revised budget. This was achieved while delivering 53,113 more patient separations than in 2010-11.

A range of capital initiatives were commenced and completed across the state including:

- the completion of the new car park at Wagga Wagga Base Hospital, signalling the start of the main capital works for the \$270 million redevelopment at the hospital
- the official opening of the new \$1.69 million Cessnock Ambulance Station, where 15 paramedics are based and provide 24 hour coverage, together with a fleet of four ambulances
- release of concept plans for the redevelopment of Hornsby Ku-ring-gai Hospital
- successful tender announced for construction of the new \$6.6 million mental health facility at Broken Hill
- building on last year's applications, coordination and management of five more successful applications for funding under the Regional Priority Round of the Health and Hospitals Fund. These included: Lismore Base Hospital redevelopment; Hillston Multipurpose Service; Kempsey Hospital redevelopment; Peak Hill Multipurpose Service; and Yamba Community Health Service.

Delivering on our commitments

The past year has seen a concerted effort across the system to deliver against the two NSW Health led targets in the NSW 2021 Plan – to keep people healthy and out of hospital and to provide world-class clinical services with timely access and effective infrastructure. Key achievements include:

- 5,186 more elective surgery procedures have been performed above the 2010-11 level of activity
- Aboriginal infant mortality rates have fallen from 6.8 (2007-2009) to 4.5 (2009-2011) deaths per 1,000 live births
- *Staphylococcus aureus* bloodstream infection rates remain well below the national benchmark of 2 per 10,000 occupied bed days.

Health has also delivered on a range of key government priorities.

The NSW Pain Management Plan was released in July 2012, outlining a blueprint for developing pain management services across the state. An additional \$26 million over the next four years has been committed to support the development of new pain management services in regional areas, to enhance existing teaching hospital services, and to support research into chronic pain.

The Office of Health and Medical Research has been established, which will be driving the implementation of the Ten Year NSW Health and Medical Research Strategic Plan developed by the taskforce chaired by Mr Peter Wills AC. Medical research will be further supported through the Medical Devices Fund, which has been established as a competitive technology development and commercialisation program.

The Mental Health Commission commenced operations on 2 July 2012 as an independent statutory organisation. The Commission will be central to better managing the experience of people with mental illness, their families and carers. The inaugural Commissioner Mr John Feneley commenced on 1 August 2012.

This year also saw the opening of the Office of Preventive Health in Western Sydney, which will oversee the NSW Government's \$120 million Preventive Health Fighting Fund.

A 10-Year Health Professionals Workforce Plan has also been developed and released to guide the development of our health workforce into the future.

NSW now has one of the most progressive tobacco reforms in Australia, with the passing of landmark legislation to ban smoking in playgrounds, public sports grounds, swimming pools, public transport stops and the entrances to public buildings. This reinforces the commitment to keeping people healthy and out of hospital.

Once again, a special thank you to all those who work within the NSW public health system, whether at the frontline or in supporting roles, for your continued dedication and hard work over the past year as we implemented considerable reform across the system. I look forward to the twelve months ahead as we shift our focus to implementing new models of care, continuing devolution beyond the LHDs to the facilities and developing a more integrated and innovative health care system.

Dr Mary Foley
Director-General

FINANCIAL HIGHLIGHTS

2011-12

The NSW Health Statement of Comprehensive Income reports a net result of \$89 million favourable compared to the initial budget result of \$365 million. Information detailing the reasons for this variance is contained in the 2011-12 audited financial statements (Note 39).

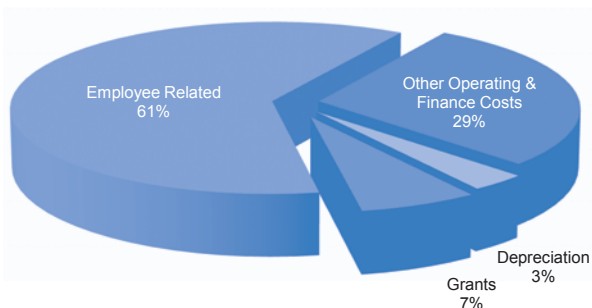
In respect of NSW Health's financial performance against NSW Treasury's revised 2011-12 Net Cost of Service, NSW Health recorded a \$58 million favourable to revised budget result. With respect to capital works NSW Health full year result was \$17 million more than the revised budget estimates largely due to better than expected performance in the delivery of elements within the Council of Australian Governments (COAG) sub-acute building program and early receipt of major equipment from overseas ahead of expectations.

Based on the combined operating and asset results above, NSW Health has been assessed by NSW Treasury as achieving its overall budget responsibilities in 2011-12.

Expenses

The following chart provides a breakdown of NSW Health's expenses by major categories:

NSW Health Expenses by Category for the Year 2011-12



Overall, expenditure incurred during 2011-12 followed a similar expenditure pattern historically incurred.

As NSW Health is a provider of patient related health services, around 61% or \$10.1 billion in costs during 2011-12 were employee related. Of these, more than \$7.7 billion were for salary related costs to employees of the NSW health system.

Other operating costs included \$633 million attributable to contract fees paid to Visiting Medical Officers providing clinical services across Local Health Districts and Specialty Networks in multiple clinical disciplines. Other significant costs within this category included drug, medical and surgical supplies of over \$1.3 billion in 2011-12.

Grants to third parties providing a range of public health related services were over \$1.1 billion in 2011-12, with more than \$540 million of operating grants being paid to Affiliated Health Organisations.

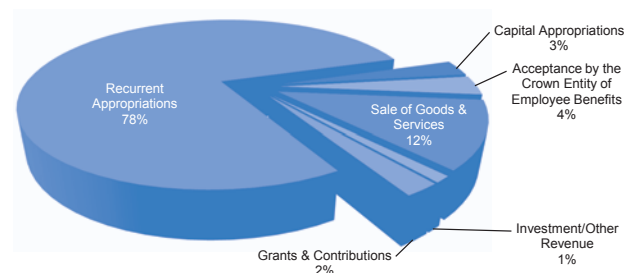
On average, each month during 2011-12, NSW Health:

- spent \$1.37 billion
- processed 208,000 invoices received from suppliers of goods and services
- paid \$340 million to suppliers of goods and services
- made 375,000 payroll payments to Health staff.

Revenue

Retained user revenue of \$2.5 billion – largely from private and compensable patient fees – was received by reporting entities during 2011-12. NSW Treasury introduced a change in the treatment and recognition of Government appropriations and Crown accepted liabilities for the 2011-12 financial statements for Budget sector agencies. This change requires NSW Health to recognise \$14.1 billion of Government contributions comprising recurrent allocations, capital allocations and Crown acceptance of employee benefits as revenue to NSW Health. The reporting format used in preparing NSW Health's 2011-12 Statement of Comprehensive Income is consistent with the reporting format adopted by NSW Treasury when preparing the 2012-13 State Budget papers.

NSW Health Revenue by Category for the Year 2011-12



Details of revenue received from the Sale of Goods and Services are at Note 8 of the 2011-12 audited financial statements. Key items included recovery of patient fees from private health funds for privately insured patients (\$580 million), Department of Veterans' Affairs for the provision of services to entitled veterans (\$334 million), recoup of costs from the Commonwealth through Medicare for high cost drugs (\$209 million) and compensable payments received from motor vehicle insurers for the hospital costs of persons hospitalised or receiving treatment as a result of motor vehicle accidents (\$93 million).

Net Assets

The net assets of NSW Health as at 30 June 2012 are \$9.8 billion. This is made up of total assets of \$13.1 billion partly offset by total liabilities of \$3.3 billion. The net assets are represented by accumulated funds of \$7.3 billion and an asset revaluation reserve of \$2.5 billion.

The consolidated audited financial statements for NSW Health are provided in this report. Audited financial statements have been prepared in respect of each of these reporting entities. These statements have been included in a separate volume of the *2011-12 Annual Report*.