

Hospital Circular

Distribution: Public Hospitals

Subject: Hospital Superannuation Distribution 1994/95

Purpose: This circular provides an explanation of the approach used by the Department to allocate additional superannuation funding to hospitals in 1994/95

1. BACKGROUND

1.1 Up until June 1993, cash costs of superannuation incurred by hospitals for H&CS programs were reimbursed by the Department each year.

1.2 The introduction of program budgets and Casemix in 1993/94 required that funding in hospitals be separated into several components. The Hospital and Charities (H&C) Fund budget has been separated into the following components since July 1993.

<i>Outpatients (306)</i>	→	<i>based on historical expenditure levels</i>
<i>Training and Development (306)</i>	→	<i>formula based</i>
<i>Fixed Overhead (306)</i>	→	<i>formula based</i>
<i>Throughput (306)</i>	→	<i>formula base, variable</i>
<i>Specified (306)</i>	→	<i>some formula based</i>
	→	<i>some based on historical expenditure</i>
<i>Specified (320)</i>	→	<i>based on historical expenditure levels</i>
<i>Specified (321)</i>	→	<i>based on historical expenditure levels</i>
<i>Aged Care (308)</i>	→	<i>based on historical expenditure levels</i>
<i>Psychiatric (307)</i>	→	<i>based on historical expenditure levels</i>
<i>Business Units</i>	→	<i>deduced historical expenditure levels</i>

Funded separately from Casemix and therefore excluded from the GOC, are:

- * Visiting Nursing Services,
- * Home and Community Care (HACC),
- * Psychiatric Services (where these are funded from Vote rather than through specified grants and includes the National Mental Health Strategy - NMHS),
- * Some Day Hospital Services and Community Health Services ,
- * Grants received from other State Government Departments and the Commonwealth Government.

- * All services supported by hospital and the community (ie Community Service Initiatives).

Where Commonwealth funded Hostels were in part financially supported by H&CS that amount was included in the GOC, otherwise they were excluded (H&CS withdrew this support in 1994/95).

- 1.3 In 1993/94 each hospital received an amount of superannuation funding in each component of its budget. While the amount was not separately identified, it can be deduced that for :
 - (a) *Historical budget components*, the superannuation amount provided is equal to the same proportion of the component funding as the base superannuation amount was of the GOC (i.e. individual hospitals average superannuation rate x component funding).
 - (b) *Formula budget components*, the superannuation amount provided is equal to the total of all hospitals superannuation amounts in the GOCs, less all superannuation amounts identified in (a) above; divided by the total of all agency GOCs less the expenditure budgets identified in (a) above.
- 1.4 The "base superannuation amount" as specified in the 1993/94 Health Service Agreement (HSA) reflected a hospitals 1992/93 actual payments to the HSB. The base amount provided a ceiling above which hospitals would not have to bear additional superannuation costs for 1993/94, and was distinct from and generally greater than the amount provided for superannuation as calculated in accordance with 1.3 above.
- 1.5 In 1993/94, where a hospitals' expenditure on superannuation for services included in the GOC was greater than the HSA base amount, the 1993/94 fixed grant was increased to cover the difference. Conversely where hospitals spent less on superannuation than the base amount, hospitals were entitled to keep the savings.
- 1.6 In most cases hospital superannuation costs in 1994/95 are expected to be lower than in 1993/94 because of:
 - Reduction in hospital personnel.
 - Change to superannuation benefits for existing members of the contributory scheme resulting in an average annual employer cost reducing from 10.2% to 9.4% from 1 January 1994.
 - The closure of the HSB contributory scheme to new members from the 30 December 1993.

2. SUPERANNUATION DISTRIBUTION FOR 1994/95

- 2.1 All hospitals will receive funds approximating their HSB superannuation expenditure for services included in the GOC (excluding Business Units). Each hospitals HSB superannuation costs have been estimated by obtaining HSB Billings from 1 January 1994 to 30 November 1994 and extrapolating for the last month.

This will provide hospitals with sufficient funds to enable them to meet their superannuation liability in 1994/95. Many hospitals will achieve a surplus given that the base data for the estimates is from a period prior to the latest round of VDPs, and that contributory scheme numbers are likely to have reduced during the year and Hosfund numbers increased.

- 2.2 Unfunded superannuation liability for the *BASIC* scheme is currently funded via the one percent surcharge on employer contributions. This amount has been included in the HSB billings amount to each Hospital. The approach outlined below therefore includes in the hospital payments sufficient funds to pay the annual cost of the unfunded liability as prescribed by the super board for 1994/95.

- 2.3 As specified in the 1994/95 Funding Guidelines:

- (a) The Department will meet additional liability for VMOs for 1993/94 and prior years arising from the Commonwealth Superannuation Guarantee Act (Clause 1.2.4)
- (b) 1994/95 adjustments are based on costs of Operating Fund salaried staff (Clause 2.19.3). The details of VMO contractual arrangements will not impact on 1994/95 or future years adjustments.

- 2.4 In brief, the method used to determine the additional funds to be provided to each hospital involved:

- (a) Identifying the proportion of each budget component which is attributable to superannuation.
- (b) Identifying the proportion of HSB billings attributable to Funded Services by assuming that proportion of each hospitals billings is due to;

- * Visiting Nursing Services,
- * Home and Community Care (HACC),
- * Psychiatric Services funded from Vote (rather than through specified grants), including the National Mental Health Strategy - NMHS,
- * Day Hospital Services and Community Health Services,
- * Commonwealth funded Hostels,
- * Services Supported by Hospital and Community Service Initiatives, and making a pro rata allocation to these services.

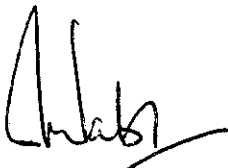
- (c) The difference between the sum of available moneys as identified in (a), and the relevant costs as identified in (b) is the total amount of additional funds to be provided by the Department in 1994/95.
- (d) That part of the additional funds attributable to Acute Health are paid as an addition to the Fixed Grant. Additional funds for Primary Care and Psychiatric Services are paid as an addition to the relevant specified grant. Aged Care GOC has also been adjusted to reflect the superannuation figure.

3. HOSPITALS SUPERANNUATION RESPONSIBILITIES

- 3.1 The additional payment identified in the Attachment for your hospital represents the additional superannuation payment for 1994/95 referred to in Clause 2.19.3 of the Funding Guidelines. Following the additional payment, hospitals are required to manage all Superannuation liabilities within the total funds available through their Casemix payments.
- 3.2 No further adjustments to budgets will be made for 1994/95. Any surplus (deficit) achieved by the hospital will be retained (absorbed) by the hospital.
- 3.3 Hospitals are reminded that, in accordance with the provisions of the Superannuation Guarantee Act, staff are entitled to choose the superannuation fund to which employer contributions are to be made.

4. FUTURE ADJUSTMENTS

- 4.1 While the 1994/95 superannuation adjustment payment has for convenience been paid as part of the fixed grant, it is anticipated that the additional funds will be allocated partly to other budget components as part of the construction of next years base budget.
- 4.2 Variations to the funds available to the Department for hospital superannuation costs will be negotiated with Government each year. It is anticipated that variations will be conveyed to hospitals as adjustments to the purchase price of services, without direct reference to the actual costs of individual hospitals.



DR MICHAEL WALSH
Director
Acute Health Services