# Group Services/Commercialisations Policy - Revenue Policy, Revenue Standard

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<thead>
<tr>
<th><strong>Document Number</strong></th>
<th>PD2005_522</th>
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<tr>
<td><strong>Publication date</strong></td>
<td>03-Mar-2005</td>
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<tr>
<td><strong>Functional Sub group</strong></td>
<td>Corporate Administration - Finance</td>
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<tr>
<td><strong>Summary</strong></td>
<td>Accepted and non-acceptable practices in collecting revenue in public health organisations.</td>
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<td><strong>Author Branch</strong></td>
<td>Finance</td>
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<tr>
<td><strong>Branch contact</strong></td>
<td>Finance 9391 9158</td>
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<td><strong>Applies to</strong></td>
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<td>93/49</td>
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<td>02-Jun-1993</td>
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**Director-General**

This Policy Directive may be varied, withdrawn or replaced at any time. Compliance with this directive is **mandatory** for NSW Health and is a condition of subsidy for public health organisations.
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Policy Manual Not applicable
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Status Active

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Revenue Policy, Revenue Standard and Policy on Group Services/Commercialisations

The Revenue Policy, the Revenue Standard and the Policy on Group Services/Commercialisations are now officially issued.

The final content and format is the product of wide consultation with Areas and Regions and with Treasury following the issue of draft discussion papers on Revenue Standards and Group Services/Commercialisations issued with the 1992/93 Allocation Letter in August, 1992. The purpose of the documents was to promote discussion within the Health system with the object of developing standards and procedures which would encourage compliance with good financial practices and meet Treasury requirements on accountability and the new requirements of Government Financial Statistics (GFS).

As a result of the consultative process a number of amendments were made to the original papers, the most significant of these is the change to a net operating cost system which provides subsidy to Areas and Regions on the basis of Gross Operating Payments less Total Revenue.

The principal benefit in such a system is that it provides incentive for management to maximise revenue sources by allowing retention of additional income earned through local initiatives while retaining Treasury underwriting provisions in relation to decreases in patient fee revenue caused by shifts in the public/private patient mix. In addition the integrity of donations, proceeds of fundraising and trust monies is safeguarded by being held in the Special Purpose and Trust Fund until expended.

The attached implementation schedule gives a timetable of the requirements to effect the changes and to achieve a smooth transition process. The Department is making separate arrangements to issue a Circular covering the new policy and standards.

I also take this opportunity to thank you and your officers for their participation in the discussions which have led to the final formulation of these policies.

Enquiries should be directed to Christine Kibble, Associate Director Finance (02) 391 9175 or David Seale, Financial Controller, Revenue (02) 391 9162.

Ross Wraight
Acting Director-General
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DEPARTMENT OF HEALTH

REVENUE POLICY

The principal sources for Health Funding are:

- Government
- Patient fees and other revenue
- Local initiatives
- Donations, bequests, grants and contributions by hospital auxiliaries

The Government contribution is the largest representing in excess of 87% of the Health budget and one third of the State Budget. Commitment of Public Funds to this extent requires a high level of responsibility and accountability. Treatment of Health revenue in accordance with Statutory and Regulatory requirements is a condition of government subsidy.

Funding from other sources although marginal has a significance far greater than suggested by the monetary amount when measured in terms of community commitment, caring and dedication.

This policy is therefore formulated to promote the responsibility and accountability required by government while at the same time retaining sufficient flexibility to maintain a climate which encourages development of operational initiative through a system of rewards and protects the integrity of fundraising, donations and bequests which form part of the vital interaction between the hospital and the community.

All activities of health organisations subject to the provisions of the Accounts and Audit Determination for Area Health Services and Public Hospitals are to be accounted for through the General Fund unless specified as Special Purpose and Trust Fund by the Director General of Health.
The Special Purposes and Trust Fund shall contain funds from:

- Donations, legacies and bequests other than those designated as General Fund
- Proceeds of fundraising activities
- Trust Funds held on behalf of third parties i.e. patients and hospital auxiliaries.
- Private practice trust funds
- Other items as scheduled by the Director General of Health.

Income earned on the above, apportioned and credited to the applicable account.

All funds received or credited shall be accounted for in the General Fund with the exception of those approved for inclusion in Special Purpose and Trust Fund.

**Definitions and guidelines for the operation of Revenue Policy are contained in the Revenue Standard.**

The Health Budget is prepared in four segments:

1. Gross Operating Payments
2. Patients Fees Revenue
3. Other Revenue
4. Capital Works

As advised in the 1992/93 Allocation letter Treasury has given recognition to the fact that the current downward trend in chargeable bed days is outside the control of the Health system and they have agreed to underwrite the effect on Patient's Fees of reduced chargeable bed days by 100% for 1992/93.

Surpluses or deficiencies in meeting other revenue budgets will be borne 100% by the health organisation.

**For the year ended 30 June, 1993 all health organisations are required to conform with the above policy.**
From 1 July, 1993 subsidy (Government Cash Payments; GCP) shall be provided on the basis of a Net Operating Cost system.

\[ \text{Gross Operating Payments} - \text{Revenue} = \text{Government Cash Payments} \]

The policy enables health organisations to benefit immediately from revenue raising initiatives and permit use of additional revenue raised to be applied to the cost of raising that additional revenue or to any other local priority. GCP will be paid net of revenue which will be retained. Additional other revenue collections will permit a corresponding GOP budget adjustment. Shortfalls will produce a reduction in funds made available for expenditure. In the case of a decrease in Patient Fee Revenue due to a decline in the Public/Private Patient mix budget adjustments will be made on a quarterly basis to alleviate any possible liquidity problem.

**Transitional Arrangements**

For the year ended 30 June, 1993 transitional arrangements apply and Areas and Regions will have a choice of making application for current year or current year and annual year adjustments to be made which will give them access to additional revenue earned or leaving any other revenue favourabilities to be dealt with as rollover into 1993/94.

Finance and Budget staff are available to provide assistance with the solution of any interim difficulties which may arise. Negotiated positions in relation to past practices should be completed before the end of May, 1993.

There are some minor amendments required to the Accounts and Audit Determination and the Accounting Manual to regulate the policy, particularly with regard to the treatment of Capital Works and Group Services and Commercialisations.
INTRODUCTION
This standard is an appendix to the Department of Health Revenue Policy and should be read in conjunction with it. It has been prepared from a number of sources including:

- Reports of the 1991 Survey of Accounting Controls
- The Revenue Standards Committee established by the Directors of Finance
- Response to a Department request for information on Public Hospital Revenue - Accounting Arrangements dated 1 October, 1991
- Seminar on Accountability, Integrity, Control & Corruption, 5 June, 1992
- The Accounts and Audit Determination for Area Health Services and Public Hospitals
- The Accounting Manual for Area Health Services and Public Hospitals
- Circulars and Directions issued by the Department of Health
- Classification of User Charges in the Public Sector - document issued by Treasury and revenue practices as promulgated by the Treasurer and Treasury from time to time.

The purpose of the document is to achieve an improvement in the level of compliance with directions issued by the Department for the treatment of receipts. The document is in five principal parts:

1. **The Standard.** The Standard embodies the overall principle relating to treatment of revenue.

2. **Future Directions in Revenue Treatment.** Two major changes to the treatment of Other Revenue which have been negotiated with Treasury to ensure that local initiatives in obtaining additional revenue are appropriately rewarded and that maximum flexibility is achieved by permitting immediate use of all Other Revenue receipts. In addition a review will be undertaken of all other revenue base budgets.
3. **Statutory and Regulatory Requirements.** This section contains the principal Statutory and Regulatory requirements in relation to receipts and also details some of the most common exceptions.

4. **Correcting Errors of the Past.** This section contains details of the corrections needed to bring practices up to standard and the specific measures taken including negotiations with Treasury to facilitate the procedure.

5. **Examples of Compliance and Non Compliance.** This section cites a number of instances of non compliant practices which were found in Areas and Hospitals during the course of the 1991 Survey of Accounting Controls.

The document is intended as an aid in receipt and revenue administration. It is intended in due course to amend the requirements of the Accounts and Audit Determination to reflect the specifics of this document.

A new Revenue Incentive Scheme by which 100% of Other Revenue favourabilities will be returned to Areas and Regions has been introduced for revenue received after 1 July, 1992. This measure allows expenditure budget variations to be aligned to revenue performance and eliminates the need for previous local strategies which saw a diversion and understatement of General Fund revenue.

In addition Treasury have agreed that as from 1 July, 1993 subsidy will be paid net of the Revenue Budget and that all Revenue may be retained. This will permit greater flexibility and allow immediate benefit to be obtained for extra funds earned. Treasury will continue to underwrite 100% of any Patient Fee unfavourability caused by a decline in the Public/Private Patient mix. It is intended that quarterly adjustments to the revenue budget will be made to take account of any such decline. This measure will alleviate possible liquidity problems which may arise.

1. **THE STANDARD**

Receipts of all activities of health organisations subject to the provisions of the Accounts and Audit Determination for Area Health Services and Public Hospitals are to be accounted for through the General Fund unless scheduled as Special Purpose and Trust Fund by the Director General of Health.
2. FUTURE DIRECTIONS IN REVENUE TREATMENT

There has been concern expressed that the revenue system as it existed stifled initiative by failing to provide appropriate rewards for above budget performance. The following measures have been instituted to overcome this and to provide additional incentive.

2.1 Revised Revenue Incentive Scheme.
The Revenue Incentive Scheme negotiated with Treasury which commenced 1 July, 1992 provides that 100% of Other Revenue favourabilities will be returned to Areas and Regions. The object of this was to ensure that Areas and Regions received the full benefit of local initiatives taken to raise additional funds.

2.2 Revised Health Funding Model for Areas/Regions and Hospitals
The object of the model is to give Areas/Regions maximum flexibility with Other Revenue while ensuring that there is no financial penalty for a declining public/private patient mix.

The model provides for a full NOC Budget. Quarterly adjustments for any decrease in patient fees due to a decline in the Public/Private Patient mix will be made to alleviate possible liquidity problems. All revenue will be retained by the Area/Region and subsidy will be paid net of Revenue. Additional other revenue collections will permit a corresponding increase in GOP. On the other hand failure to achieve the Other Revenue Budget will require a corresponding reduction in GOP expenditure.

Health Funding Model for Areas/Regions and Hospitals

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<td>Other Revenue Budget</td>
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<td>Fixed NOC</td>
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<td>GOP</td>
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<td>less: Patients Fees</td>
<td>10</td>
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<tr>
<td>Other Revenue Budget</td>
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<tr>
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<td>11</td>
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<td>Government Cash Payment (Subsidy)</td>
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Future Reporting and Funding Arrangements
Assume due to local initiative Other Revenue will achieve $5

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<th>Budget</th>
<th>Reporting to DOH</th>
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<td>GOP (GFS Outlays)</td>
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<td>Less revenue</td>
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<tr>
<td>Government Cash Payment</td>
<td>989</td>
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The Area/Hospital will internally retain Revenue within the General Fund and apply as a source of GOP. That is revenue will not form part of remittances to the Department of Health. In addition shortfalls in Patients Fees will be adjusted on a quarterly basis.

The Area/Hospital will have the option of deciding on the nature of the GOP/Revenue adjustment required. That is whether they are a one off current year adjustment or a current year/annual adjustment or whether the amount is to be treated as a rollover at the end of year. Budget adjustments to effect this will be made in response to requests from Areas or Regions.

Significant matters arising from the adoption of the GCP Model.

1. Efficiency gains will be calculated on the GOP, less Commonwealth, less RMR and less Other Revenue.

2. Details of staffing transferred from SP & T, Group Services/commercilisations etc to the General Fund will need to be advised to the Department for inclusion in the staff profile.
3. STATUTORY AND REGULATORY REQUIREMENTS

In considering revenue practices, the following requirements must be observed and appreciated.

3.1 Statutory Basis of the Accounts and Audit Determination
The monies received by Area Health Services and Public Hospitals are public monies. The Accounts and Audit Determination is the means by which the Government, through the Minister and the Director General, seeks to ensure proper accountabilities and controls of expenditure and administration of these public monies. The Determination is also intended to provide probity and equity in the administrative procedures within Health organisations. Accordingly, Area Health Services and Public Hospitals are required to undertake their obligations under the Determination with the same scrupulousness with which the Department of Health is required to undertake its obligations pursuant to the Public Finance and Audit Act and the Treasurer's Directions.

Compliance with the Accounts and Audit Determination has been determined by the Director-General, as delegate of the Minister, to be a condition of the subsidy received by Public Hospitals and Area Health Services from the Consolidated Fund.


3.2 Direction Contained in the 1991/1992 allocation letter to CEO'S and Regional Directors in respect of Accounting Practices

Departures from good accounting practices, bad internal control policies and a failure of management to observe proper practices will not be tolerated.

Accordingly Chief Executive Officers and Directors of Finance are to ensure that none of the identified practices exist in Area and hospital financial accounting units under their control, that the requirements of the Accounts and Audit Determination are being observed and that sound internal control practices exist. In addition, Internal Auditors are, as part of audit programmes, to test check procedures to ensure compliance with the Accounts and Audit Determination and other accounting/financial policies issued by the Department.

Future departures from these principles will result in disciplinary action.
3.3 **Accrual Accounting Standards and Procedures Manual**

Area and hospital Financial Statements are to be prepared in accordance with the requirements of the Public Hospitals Act, 1929, its Regulations and the NSW Health Departments's Accounts and Audit Determination and Accrual Accounting Standards and Procedures Manual. Statements of Accounting Concepts and Australian Accounting Standards are to be applied except to the extent that they differ from the requirements of the Accrual Accounting Standards and Procedures Manual.

3.4 **Accounts and Audit Determination - the definition of receipts will be changed to read:**

**RECEIPTS** in respect of the General Fund are:

"the total of all monies received during the accounting period, unless specified as Special Purpose and Trust Fund by the Director General of Health:

Special Purpose and Trust Fund Receipts shall include:

(a) donations, legacies and bequests other than those designated as General Fund
(b) Proceeds of fundraising activities (as defined in the Revenue Policy)
(c) Trust Funds held on behalf of third parties i.e. patients and hospital auxiliaries.
(d) Private practice trust funds net of facilities charges.
(e) Other items as scheduled by the Director General of Health.
(f) Income earned on the above, apportioned and credited to the applicable account.

3.5 **Examples of Other Specific Exceptions**

There are a number of specific exceptions in the treatment of General Fund receipts which include the following:

(a) **Accounting for Services within Area Health Services and to other Area Health Services or Public Hospitals.** In this case the Accounting Manual Page 3.5/6 prescribes that receipts are to be credited against the particular expense account or accounts when payment is received. The Manual also states "No other income can be offset against expenditure without specific written approval of the Director-General of the Department of Health."
(b) Direct recredits such as refunds, salary overpayment recredits, workers' compensation recredits, supplier refunds and rebates.

(c) Authorised Group Services/Commercialisations. In this instance receipts are credited to the separate financial entity in accordance with Accounts and Audit Determination Section 6 and the Group Service Guidelines

Note: All group services and commercialisations are to be brought back to the General Fund as at 1 July, 1992 and are to be included in General Fund monthly reports as from 1 July 1993. Refer to separate correspondence or contact Tim Cheeseman (02) 391 - 9164.

(d) Public Hospital Charges for Prostheses. Circular 93/32 is the most recent giving the list of prostheses charges. Revenue from these charges is to be paid into a separately identifiable account within the Special Purposes and Trust Fund and are to be used solely for the purchase of other prostheses.

Note: As from 1 July, 1993 this item is to be brought back into the General Fund. Any balance remaining in the account is to be transferred to the General Fund at 30 June, 1993 and from that date revenue from Public Hospital Charges for Prostheses will be treated as General Fund User Charge Revenue. The appropriate circular will issue in the near future.

(e) Shoulder Splints and Crutches. The Fees Procedures Manual section 2.64 requires that these are to be loaned free of any hiring charge to inpatients upon discharge but deposits are chargeable and should be paid into a special account in the SP&T Fund from which refunds are to be made.

(f) Brain Injury Rehabilitation Program. In this instance receipts are to be credited to the separate financial entity established within the SP &T Fund in accordance with the Department's letter issued in May 1991 except that as from 1 July, 1993 this item is to be brought back into the General Fund. Any balance remaining in the account is to be transferred to the General Fund at 30 June, 1993. From that date although overall accounting treatment and reporting requirements will be similar to the May, 1991 letter, the receipts of the Brain Injury Rehabilitation Program will be treated as General Fund User Charge Revenue. The appropriate circular will issue in the near future.
(g) **Superannuation.** Treatment of the collection and payment of employee contributions through the SP&T Fund in accordance with instructions contained in the Department's letter dated 21 February, 1992. This exception has been permitted to facilitate reconciliation of accounts with the State Authorities Superannuation Board.

Note: This practice was an interim measure only to facilitate a backlog reconciliation problem. The practice will cease as at 30 June, 1993 and all funds will be returned to the General Fund at that date. Formal advice will issue shortly.

(h) **Adoption Information Act - Search Fees.** Circular 91/120 states: "It has been determined that revenue received as a result of applications under the Adoption Information Act is to be re-credited to the appropriate expenditure item (usually Salaries and Wages) to assist hospitals to defray additional costs that may be incurred."

Note: With retention of 100% of additional revenue earned there is no longer any reason for accounting for miscellaneous charges such as this outside the General Fund. All such funds and charges should be accounted for in the General Fund. Formal advice of this will issue shortly.

3.6 **Summary**

Directions, manuals, policy, procedures, regulations and rules exist to ensure a high standard of integrity and accountability in financial dealings, accounts and reports within the Health system. Failure to observe these requirements is a breach of the conditions of subsidy and could result in disciplinary action being taken against the responsible officer and a report of possible corrupt conduct to ICAC.

4.**CORRECTING ERRORS OF THE PAST**

It is the responsibility of the Area CEO, the Regional Director and/or the Hospital CEO to ensure that a thorough investigation is carried out of General Fund records and SP&T Fund records to ensure that all incorrect practices are identified and suitable corrective action taken. In particular, where revenue which should have been credited to General Fund Revenue has either been diverted, understated or unrealised the credit due must be ascertained.
4.1 **Moratorium:** It is considered reasonable that some limit be placed on how far back adjustments need to be made. In the case of interest, patient fees and scheduled fees restitution is required back to 1 July, 1988. This is the date which has already been applied to a number of Areas who had been found to withhold interest or who had devised schemes by which interest which should have been earned was either understated or unrealised. In the case of other types of revenue the moratorium date is 1 July, 1990.

4.2 **Equity of Treatment:** The Revenue Standards Committee found that while some of the practices such as diversion of interest on the General Fund Account to the Special Purposes and Trust Fund Account were quite clear breaches of the rules, other breaches had arisen due to a change in circumstances such as a canteen which had formerly been run by voluntary labour evolving into an unauthorised commercialisation as the hospital gradually took over operational functions. It is the intention of the Department to treat each case fairly while at the same time ensuring future compliance with the rules. Correction in some cases will require adjustments for both Revenue and G.O.P. and in other cases adjustment will be made for the Revenue Budget only.

4.3 **Patient Fees and other charges:** Apart from the exceptions stated in the definition of receipts and fees for services provided between health organisations all Patient Fees and other charges are General Fund Revenue. The only exceptions to this rule must have the written approval of the Director General of Health. Examples of schemes which have from time to time been given individual approval include the Brain Injury Program, authorised Group Services and Commercialisations, Prosthesis Accounts and deposits on crutches etc.

Note: In view of changed requirements as stated in section 3.5 only Deposits on crutches etc, of those listed above, will continue to be accounted for outside the General Fund.

4.4 **Facilities Charges and Staff Specialist Trust Accounts.** It is essential that these accounts be kept strictly in accordance with Section 6 of the Accounting Manual for Area Health Services and Public Hospitals and issued Circulars including 77/15, 79/274, 80/18, 83/141. It has been noted that in a number of cases the facility charge % of the scheduled fee is not in accordance with the Circulars. Action must be taken to correct any errors in these accounts. Health organisations are to deduct facility charges from fees collected on behalf of visiting diagnostic medical practitioners or salaried medical specialists (exercising rights of private practice) for the use of hospital facilities and/or staff. On a monthly basis facility charges are to be transferred to revenue as a first charge against the Private Practice Trust Fund.
4.5 **Rewards for Initiatives Taken:** Some Areas have expressed the concern that a return to revenue compliance may stifle initiative in those who are resourceful enough to create money making schemes for the Area. This can not be accepted as a valid excuse for non compliance and in future will not be tolerated particularly in view of recent successful negotiations with Treasury as a result of which **Areas and Hospitals will be able to benefit from the return of 100% of Other Revenue favourabilities commencing 1 July, 1992.** In addition as from 1 July, 1993 subsidy will be allocated on an NOC basis which will permit the retention of all other revenue enabling those who earn additional other revenue to obtain immediate benefit from the extra income.

4.6 **Authorised Group Services/Commercialisations:** Group Services/commercialisations were created to promote managerial efficiency. Treasury laid down a number of conditions for their establishment and operation. Breaches of these conditions include failure to remit reserves to Treasury, failure to attribute all costs and the practice of seconding staff to the Group Service/Commercialisation or paying Group Service staff through the Area/hospital payrolls to avoid provision for long service and payment of superannuation.

Group Services/Commercialisations are financial entities but not separate legal entities and form part of management accountability for the Area/Region/Hospital. CEOs and Regional Directors must ensure that Group Services/Commercialisations are operated with integrity and within the rules and guidelines.

Recent requirements by Treasury which will progressively bring all Government Group Services and Commercialisations to a "level playing field" with the private sector by bringing charges to compensate for items such as superannuation, rates and taxes, cost of capital and dividends will place a charge against the Health Budget for which there is no benefit. Such charges would be in addition to the current disadvantages suffered by Group Services who must maintain reserves and while they are not subject to efficiency gains targets they must bear the increased costs of awards and escalation. All Group Services and Commercialisations are to be brought back into the General Fund where they may be accounted for as a unit of a hospital or as a separate units in the same manner as Hospitals.

Refer also to the separate document "Group Services/Commercialisations Policy"
4.7 **Unauthorised Group Services and Commercialisations:** The 1991 Survey found that some Areas/Regions had developed a means by which revenue due to the State was removed from the system and at the same time escaped the Departmental requirements relating to Group Services and Commercialisations. This could be by simply paying revenue into SP&T, as repayment to vote or a myriad of other schemes. Where the investigation of practices indicates schemes of this nature which exist without Departmental written approval, action should be taken to gain the necessary authority for continuation or the scheme should cease and action be taken to restore the situation to what it would have been without the unauthorised arrangement. In many cases restorations will not be a simple matter and consideration will need to be given to matters such as SP&T input and previous Departmental Guidelines. Details of departures from acceptable practice should be advised to the Department together with an assessment of the financial implications as soon as possible.

4.8 **Application of Special Purpose and Trust Funds:** Section 6 of the Accounting Manual prescribes the manner in which SP &T Accounts are to be operated. SP &T Funds are to be used strictly in accordance with the terms of the Trust or grant. They can not acquire conditions more restrictive than those set by the donor. Until the purpose of the special purpose or trust is satisfied investment of the funds can only be in accordance with the terms specified or where none have been specified then in accordance with the provisions of the Trustee Act or the Public Authorities (Financial Arrangements) Act 1987. As a general rule, application of SP&T Funds in a manner permitted by the Special Purpose or Trust satisfies the Trust. For example where SP&T Funds have been used for maintenance on a building or for the purchase of equipment the trust is satisfied and the benefit has passed to the Area or Hospital. This is also the case where within the provisions of the special purpose or trust, constructions such as tennis courts or parking areas are built on Hospital land. Unless specific approval has been given by the Department or in the case of residences that are held for the purpose of SP&T Fund investment, revenue earned on assets or enhancement to assets provided from the application of SP&T Funds is General Fund Revenue.

4.9 **Contracting in:** Where excess capacity and resources in an Area or Hospital are used to provide services to organisations outside the NSW Public Health System the gross revenue from such operations is General Fund Revenue. Great care should be taken when "contracting in". This is to ensure that Treasury procedures are adhered to in respect of User Charge activities and in particular with regard to the concept of "the level playing field". Treasury policy states that access to private sector clients is
not available where goods or services in question are readily available in a competitive market environment except with the approval of the Minister for the Department and the Treasurer.

4.10 **Interest on Capital Works Accounts:** Section 11 of the 1992/93 Allocation Letter determines, with effect from 1 July, 1992:

* the accounting arrangements to be followed with regard to Capital Works Advances
* the procedure to be followed in respect of interest earned on Capital Works advances.
* the action to be taken to remedy incorrect past practices where moneys are still to hand.

This clause deals with the correction of incorrect past treatment of Capital advances and interest when Capital Works Accounts formed part of the SP & T Fund and moneys were expended prior to 30 June, 1992, other than in accordance with the original purpose.

Firstly it should be noted that Capital Works Accounts, as part of the SP & T Fund are entitled to an equitable share of interest earned from investment of the SP & T Fund Assets (Clause 4.23 of the Accounts and Audit Determination).

Secondly, you are reminded that no authority exists under the Accounts and Audit Determination to divert Capital moneys or interest thereon to projects other than the specific project to which the original advance relates. It is understood that practices have developed which have seen a diversion of such moneys to various local capital works projects such as information technology and general Building and Equipment Accounts.

No corrective action is proposed on such diversions provided that the diversion was to other capital works projects and the moneys were expended prior to 30 June 1992.

However, where moneys were applied to projects of a non capital nature it will be necessary to furnish full details to the Department of Health, Finance Branch in order that the necessary corrective action can be determined.

Unspent interest and capital advance funds as at 30 June, 1992 are to be treated in accordance with Section 11 of the 1992/93 allocation letter.

**As from 1 July, 1992 all capital works accounts and interest thereon are to be accounted for through the General Fund.**
5. EXAMPLES OF COMPLIANCE AND NON COMPLIANCE

5.1 Patient Fees and other charges.
Fees for hospital services provided to chargeable inpatients and non inpatients are collected and accounted for by the hospital in accordance with the policies and procedures described in the Fees Procedures Manual for Area Health Services and Public Hospitals. The 1991 Survey of Accounting Controls noted that there were instances where charges which should have been paid into the General Fund were diverted to the SP&T Fund. These included receipts from migrant x-rays, receipts from private hospitals for the treatment of patients in the public hospital and receipts from compensable patients for rehabilitation services. Notable exceptions which have been approved are the Brain Injury Program, receipts and expenditure for prostheses and deposits for shoulder splints, crutches, etc.

Unless specifically exempted by the Director General of the Department of Health charges for hospital services to patients are General Fund Revenue and must be collected and accounted for in accordance with the Fees Procedure Manual for Area Health Services and Public Hospitals.

5.2 Recredits

5.2.1 Recredits of income against expenditure. Apart from the exceptions listed in the definition of Receipts the only circumstances in which recredits of income against expenditure are allowed without the specific written approval of the Director-General of the Department of Health are in the case of refunds or rebates and in accounting for services within the Area Health Service to other Area Health Services or Public Hospitals. (Section E 3.5 Accounting Manual for Area Health Services and Public Hospitals). During the course of the 1991 Survey a number of unauthorised recredits to vote were found such as recredit to expenditure of canteen receipts.

With the exception of instances cited in 3.4 and 3.5 of this document income other than that generated for provision of services between Area Health Services and Public Hospitals can not be offset against expenditure without specific written approval of the Director-General of the Department of Health.
5.2.2 Recredits of income from the provision of infrastructure services to other service providers. The rules as stated above take no account of the particular circumstances in which local hospitals provide services to other service providers such as nursing homes, and Hostels for the aged and disabled.

In future such services should be treated as separate entities with a separate matching revenue and expenditure budget within the General Fund. This may be on a hospital, Area or Regional basis.

5.2.3 Lump sum returnable grants. As a general rule all operations of an Area/Region or Hospital should be carried out through the General Fund. This has particular significance in relation to activities which employ staff, as staff employed outside the General Fund attract additional oncosts such as employer contribution to superannuation. Where research is funded in advance through a returnable grant from a third party and the donor is reluctant to have the grant paid into the General Fund the activity may continue to take place within the SP & T.

This concession should be seen as the exception rather than the rule and on no account is this treatment to be used for commercial transactions such as receipt of monies for Drug Testing and preparation of specialist videos where funds received are to be treated as General Fund Revenue.

5.3 Interest

5.3.1 General Fund Interest
As a condition of subsidy interest attributable to the investment of General Fund money is revenue returnable to the State. This has been the case since before the inception of the Area Health Boards and also with interest earned on revenue since the 1 July, 1991.

Accounts and Audit Determination clause 4.18. states:-
"General Fund interest earned on a General Fund bank account or invested General Fund money is to be credited to the General Fund as non-user charge revenue, and all General Fund bank charges are to be debited to Goods & Services."

Actions taken to divert interest from the General Fund constitute breaches of this requirement. Examples of breaches found during the course of the 1991 Survey of Accounting Controls include:

* Payment of General Fund Interest into the SP&T Fund either through the Bank Account or by transfer into the SP&T Bank Account.
* Payment of General Fund Interest into a Bank Account outside the system. *Both instances are a clear breach of the Accounts and Audit Determination. clause 4.18

* Payment of SP&T Fund Accounts through the General Fund with subsequent reimbursement some days or weeks later. *The Accounts and Audit Determination clauses 4.2 and 4.3 require that accounts for the General Fund and the SP&T Fund be separately maintained. It is appreciated that difficulties may arise where computerised creditors and cheque payments systems exist. In such a case it may be permissible to draw cheques for payment of SP&T accounts provided that a simultaneous reimbursement was made to the General Fund Bank Account from the SP&T on the same day.

* Transfer of General Fund Accounts to SP&T e.g. PAYE Tax deductions. The effect of this is to increase the interest earning potential of the SP&T Account to the detriment of the General Fund. *This is a clear breach of section 4 of the Accounts and Audit Determination - Distinguishing Between Funds.

5.3.2 Special Purposes and Trust Fund Interest

Accounts and Audit Determination clause 4.23 states:-

"Interest earned from the investment of Special Purpose and Trust Fund assets shall be apportioned to each respective account in a timely and equitable manner but not later than 30 June in each financial year."

All accounts in the SP&T Fund are essentially Trust Funds whether they were obtained by way of donation from a benefactor or through special or capital allocations from the Department or the Government. This position was confirmed in recent advice from the Crown Solicitor and the Attorney General. It is clear from this advice that each account must receive an equitable share of the interest earned by the SP&T.

Practices which would not be considered to provide an equitable distribution include:

* Any scheme which treated one class of SP&T accounts in a manner unlike that used for other SP&T accounts e.g. payment of interest on Specialists' Trust Accounts at the going rate of say 10% less one i.e. 9%, while other SP&T accounts receive a share of the remainder.
* Any scheme which permitted debit balances to exist in the SP&T Fund.

* Any scheme which did not require interest to be paid on debit balances in the SP&T to compensate for the interest foregone by SP&T accounts with credit balances. (Whilst all senior financial officers have a clear personal responsibility to ensure no SP&T account goes into debit, it is noted, albeit reluctantly, that from time to time accounts go into debit. This is a most serious situation and should be monitored by the Board. However, all such accounts in debit must pay interest on such a balance.)

* Any scheme which excluded an account from receiving a just share of income.

* Any scheme which paid interest on only a portion of an account.

* Any scheme which did not make an equitable apportionment of interest over all SP&T funds with regard to the varying balances of those funds throughout the year.

* Any scheme which credited the interest related to one SP&T account into another account.

5.4 * Accommodation and Property Income*

5.4.1 **Non-inpatient and Relative Accommodation:** Accommodation provided to relatives and to persons attending hospital for treatment on an outpatient basis can be distinguished from that provided for inpatients on the basis that the service provided is limited and does not include provision of nursing or medical services on the premises. There is a prescribed fee for this which includes meals and accommodation. **These charges are General Fund Revenue** and are not to be recredited to vote or paid into the SP&T Fund. Some Areas have expressed the view that adherence to this rule will place them at a disadvantage as their current arrangement provides them with a source of funds to meet costs and refurbishments which will be lost.

*Receipts for accommodation provided are General Fund Revenue. The only exception is where land and buildings are part of a Trust or are held as an investment of the SP&T Fund in which case the receipts and all expenditure in relation to the property must be brought to account in the appropriate SP&T Fund Account.* (ref. page 2.70 Fees Procedure Manual)
5.4.2 **Staff Accommodation** A number of hospitals have been treating revenue from this source as recredit to expenditure or crediting the amount to an SP&T Account.

*Charges for Staff Accommodation should be in accordance with page 3.8 of the Accounting Manual and paid into the General Fund as Revenue except in instances where the residence is held as an investment of the SP&T Fund in which case the receipts and all expenditure in relation to the property must be brought to account in the appropriate SP & T Fund Account.*

5.4.3 **Other Property Income:** Income earned from assets or activities which are not self contained or separate from the core activities of the operation of the health organisation is General Fund Revenue. Treasury have defined Government Service Activities in the case of Health as including:

"Hospital bed day charges and incidental hospital charges (e.g. parking fees)."

Incidental hospital charges include parking fees, collections from telephones, rental of meeting rooms, halls, premises, advertising space income.

*Treatment of this revenue as a recredit or diversion to the SP&T Fund is not permitted by the Accounts and Audit Determination.*

5.5 **Meals on Wheels.** Receipts from meals on wheels are General Fund Receipts and must not be treated as recredits or diverted to the SP&T Fund.

*Treatment of this revenue as a recredit or diversion to the SP&T Fund is not permitted by the Accounts and Audit Determination.*

5.6 **Half-Hearted Commercialisations:** During the course of the 1991 Survey of Accounting Controls a number of instances were found where units credited income from the profitable part of their operation to the SP&T Fund. For example some Staff Development Units charged for part of their services and had the proceeds of these services credited to an SP&T Fund Account with minimal or no expenditure debited to the account. Where the services were provided to operations within the Area or to other Areas or hospitals, fees received should be credited to the appropriate General Fund expenditure account which bore the cost of the service. Where fees are received from others such as private hospitals or other government organisations, the gross fees should be credited to General Fund Revenue. There are other examples of this type which generally have one feature in common i.e. diversion of General Fund receipts to the SP & T Fund while expenses are met from Gross Operating Payments in the General Fund.
5.7 **Sponsorships:** In all cases sponsorships must be regarded most carefully before acceptance to ensure that they in no way compromise the organisation or the government. Sponsorships, scholarships, etc., which are offered in the process of tendering should be discouraged because they may be seen as unfair inducement by other tenderers, confuse the assessment process and are generally irrelevant to the purchase of the product involved. Full disclosure of sponsorships must be made to the Board and approval for their application should be contained in the Board Minutes with a clear indication if the sponsorship includes research, overseas travel or addressing seminars/conferences. In instances where the sponsorship is to be applied to overseas travel the prior approval must be obtained from the Director General.

*Area CEO’s, Regional Directors and Hospital CEO’s must take great care to ensure that sponsorships do not compromise the organisation or the government. They must also ensure that sponsorships are not simply being used as a means of diverting refunds, rebates and other supplier credits from the General Fund.*

5.8 **"Donations" from suppliers:** Where receipt of money from a supplier is in any way linked to the supply of goods it is General Fund money and in most cases should be treated as a recredit against the cost of purchase of the supplies. In cases where the "donation" is for rent of premises or advertising it is General Fund Revenue. Where the "donation" is consideration for trial of equipment or drugs etc this is also General Fund Revenue.

*Area CEO’s, Regional Directors and Hospital CEO’s must take care to ensure that "Donations" from suppliers do not compromise the organisation or the government. They must also ensure that donations are not simply being used as a means of diverting refunds, rebates and other supplier credits from the General Fund.*

5.9 **Cremation Fees and similar types of receipts:** During the course of the 1991 Survey of Accounting Controls a number of instances were found where minor receipts such as cremation fees were credited to SP&T Accounts and utilised as source funding for items such as "Staff Education".

*Treatment of this type of revenue as a recredit to expenditure or a diversion to the SP&T Fund is not permitted by the Accounts and Audit Determination.*
5.10 **Reserves created from the General Fund.** During the course of the 1991 Survey of Accounting Controls a number of instances were found where unit heads had created reserves in the SP&T Fund accounts by transferring funds from the General Fund or diverting revenue from the General Fund Revenue.

*Diversion of General Funds to the SP&T Fund is not permitted without the specific written permission of the Director - General of the Department of Health.*

5.11 **Teaching Hospital Grant:** Expenditure for this item is covered in the Gross Operating Payments funding to the Area and therefore the Teaching Hospital Grant must be accounted for as part of General Fund Revenue.

*Retention of the Teaching Hospital Grant is a breach of the conditions of subsidy.*

5.12 **Fundraising ventures and commercial activities.** The effort of many Areas and Hospitals in active fundraising is generally applauded for not only does this provide additional funds but it brings the community into closer contact with the work of the Area or Hospital. However during the course of the Survey in 1991 a number of schemes were drawn to attention which purported to be fundraising schemes but which were in fact commercial ventures involving use of government resources and or the lease of government land. An example of this was lease of hospital land for weekend markets. In this case the only contribution made by the stallholders was in the form of rent and there was no question of voluntary or community participation in the venture. In another example the entrance to a hospital was leased to a local Art Gallery in consideration of which an amount equivalent to a percentage of sales was paid. This was clearly a commercial proposition on the part of the Gallery.

Where the situation may become unclear is where there is a combination of hospital and voluntary work. For example a kiosk which is managed by an employee of the hospital but otherwise staffed by volunteers. In such a case it would be expected that the payment into the SP & T Fund would be net of the cost of employing the manager and any other costs incurred by the Hospital such as electricity. If the situation changed and a majority of persons operating the kiosk were hospital employees it would be expected that the hospital would review the situation.
Area CEO's, Regional Directors and Hospital CEO's are required to carefully examine all fundraising schemes to ensure that they are bona fide and not just thinly disguised commercialisations using hospital resources with little or no voluntary or community input.

Receipts from fundraising or charitable undertakings may be accounted for as part of SP&T Funds. Receipts from ventures based on use of government resources with little or no community or voluntary input are not to be treated as fundraising ventures but as part of General Fund Revenue. In cases where receipts from fundraising or charitable undertakings are credited to the SP&T Funds all expenditure associated with the venture must also be charged against the account.

Generally speaking rental of government property and resources or revenue from commercial ventures is considered to be revenue and should be paid into the General Fund. Proceeds of genuine fundraising by volunteers, auxiliaries and benefactors which is community based may be paid into the SP&T Fund.

NOTE: Commercial activities such as lease of hospital entrances to Art Galleries and lease of vacant land for market days may continue to be undertaken in accordance with existing authority of Areas and Regions. The revenues from these activities would assist in achieving an overbudget situation for Other Revenue which could be used to meet local initiatives. Activities of this type should not be stifled simply because accounting is in the General Fund rather than the SP & T.

5.13 Application of Moneys According to the Conditions Attaching to them. During the course of the 1991 Survey instances were found where Areas had retained unexpended Capital Works grants and Special Purpose grants after the completion of the purpose of the grant. Page 6.8 of the Accounting Manual covers this circumstance.

"In the case of unexpended balances of capital works grants or other grants from the Department of Health, the health organisation should refund the unexpended balance to the Department of Health NSW or obtain its approval for its expenditure on some other purpose."
INTRODUCTION:
In 1984 and 1985 the Department issued advice concerning the establishment of Group Services which, in summary, required:

1. Head Office approval prior to establishment
2. Accounts to be maintained on an accrual basis
3. Rates/charges to be set at a breakeven level after providing for employee and equipment reserves
4. Cash reserves for employee and equipment items to be remitted to the Department for deposit to Treasury holding accounts
5. The funding of services from the charges raised with no separate injection of Government funding to supplement charges.

Following the issue of these instructions a number of new services have been established as group services (e.g., laundry, pathology) and "commercialised" services (e.g., accommodation).

During this period the Department's financial reporting/management policies have also been subject to substantial change due to Government and Departmental initiatives with such policies impacting directly and indirectly the situation as it existed in 1985. (Further reforms will occur in 1993/94 with monthly accrual and GFS reporting).

During the course of the 1991 accounting controls review, it also became apparent that, whilst the majority of group services/commercial activities did have Head Office approvals, some did not. As well some "commercial" activities had a mix of income/expenditure between the Special Purpose Fund and the General Fund.

REVISED POLICY, BUDGET SECTOR ENTITIES
1. It is expected that services will be accounted for as On Budget activities unless exceptional circumstances exist.

On Budget activities relate to services which rely on over 50% of income from the NSW Health system and/or the activities of the service are not self contained or separate from the core activities of the organisation (e.g., charges/services provided to public hospitals, areas, ambulance, etc.)
In categorising services, it needs to be recognised that scope may exist for the more efficient provision of services by the private sector and, therefore, contracting out opportunities must be identified (e.g., review of the provision of laundry services may highlight this fact in certain cases).

2. From 1 July, 1992, the "Other Revenue" line item will operate a 100% incentive scheme, therefore, enabling retention of excess collections over budget.

3. Unless it can be satisfactorily demonstrated that a venture is primarily concerned with the generation of revenues from outside the Health system it is the Department's expectation that each service will operate "on budget" to avoid the passing on of non budget sector charges to the public health sector e.g. payroll tax, sales tax, superannuation and dividend returns.

4. All of the NSW Health system will be required to produce accrual based annual financial statements from 1992/93.

In respect of Group Services/Commercialisations, it is held that, at the latest, accounts should have been maintained on an accrual basis from 1 July, 1992 and will form part of the monthly GFS reporting system to the Department from 1 July, 1993. (Previously reports were produced by many sites on a four weekly cyclical basis only).

5. Treasury has indicated that retention of cash, equivalent to employee provisions and reserves may continue for all existing group services. At this point no approval exists to establish reserves for new services.

The cash equivalent of reserves is to be managed by Group Services in General Fund accounts with action taken to ensure that:

1. the reserve equivalent is to be separately identified and maintained in cash accounts and interest is to be calculated on the amount of the reserve and applied to keep rates/charges low.
2. the level of reserves maintained is consistent with replacement needs. No reserves are to be maintained for expansion purposes unless the express approval of the Department is obtained prior to the initiation of such accumulations.
3. reserve funds may only be used for the purpose for which they are set aside - borrowing from reserve funds or their use in any other manner is not permitted.
4. authority to expend funds from discrete cash reserves is restricted to the Chief Executive Officer/Board.
6. Group Service Accounts are to be kept which provide for separate expenditure and revenue budgets. Within the Group Service Accounts there should be no recredit to expenditure of other Health organisation revenues. Elimination to be effected for the purpose of the Consolidated Accounts should only take place at the Area or Regional level.

In accordance with the Department’s revenue policy which specifies the adoption of a revised formula for Government Cash Payments based on Net Appropriations revenues are to be retained locally to provide the cash needed to meet expenses. However in the case of Group Services or services established to efficiently provide centralised services to hospitals and health units the revenue may only be used to meet the expenses of the Group Service. **On no account must the operation of a Group Service which provides services principally to other sectors of the Health Service in a captive market situation use pricing above costs to secure funds for transfer to other activities.**

7. Where a Group Service/Commercialisation entity is to be returned to "on budget" employer superannuation expense should not be incurred beyond 30 June 1993 and even then should be restricted to the equivalent of employee contributions as opposed to the higher rate of 1.9 times the employee contribution charged on commercial entities from 1 July 1992.

When the service returns to "on budget" all employer’s superannuation costs revert to a Treasury responsibility, hence, for those presently incurring such a cost, a reduction in the charge/rate will be possible unless the Treasury directs that budgetary reductions are to be effected to cover their additional payment responsibilities.

Other than the 0.9 multiple added from 1 July, 1992 no superannuation accounts are to stand unpaid as at 30 June 1993.

8. Advice is required on the staff numbers associated with the transfer as the movement in staffing needs to be reported to Treasury. Group Service staff should be included in future staff profiles to ensure that funding for award increases is provided in the normal manner.

9. Concerns expressed at the possible loss of "corporate/management identity" through absorption of services by Area Health Services and Hospitals may be allayed by the recognition of Group Services as budget units on DOHRS with accounting treatment as detailed in 6. above.
10. As a principle Group Services must operate on a cost neutral basis. Where a Group Service operating in an open competitive market generates a profit after all costs, and provisions are expensed the following options will exist to local management to use such accumulated profit.

- it may be applied against overexpenditures or channelled towards identified area priorities including Capital projects
- it may be carried forward as savings to the next year and used to benefit the users of the Service (which may extend to other Areas/Regions) through the adoption of reduced charges for that year.

However, where a Service caters for a captive market where alternative sources are clearly not available or not permitted by the Department, the only avenues available are to utilise the surplus towards service improvements within the Group Service activity or, alternatively reduce the charges subsequently raised on hospital users.

11. Where an area wishes to establish a new service, Departmental approval must be obtained through the submission of a business case which identifies the benefits as opposed to the separate contracting of services.

12. Group Services in country hospitals which are not specifically linked to any one hospital are to produce separate audited annual financial statements which include a note indicating that cash is held equivalent to the level of Group Service reserves.

13. In respect of other services operated as on budget (i.e., those without an express approval as a non budget entity issued by the Department on or after 18 January 1993 or those Group Services that are not operated by country hospitals), the Department will only require that the notes to the accounts specify that cash is held equivalent to the level of Group Service reserves. Audited statements will form part of the annual consolidated financial statement process as stipulated in the Accounts and Audit Determination.

**REVISED POLICY, NON BUDGET SECTOR ENTITIES**

1. Only in exceptional circumstances will the Department authorise Group Services/Commercialisations to operate off budget.

2. Prior to any approval being given it would be necessary to demonstrate that the activities have strong commercial potential or are currently engaged in active competition with the private sector.
3. Those services established as commercial in addition to satisfying the income criteria will also need to be able to operate on a level playing field. In this respect, they will, in all likelihood be required to pay payroll tax, sales tax, and dividend returns to Treasury (to provide a return on equity invested by the State) in addition to superannuation liability.

4. In respect of superannuation liability all commercial services are now expected to assume the unfunded employer liability in their financial statements and take action to extinguish that liability with the superannuation authority.

5. It should be noted that the services operated previously have been quasi commercial at best and it is understood that in some instances the level playing field charges were deliberately avoided by practices such as meeting all employee costs from Area/Hospital payrolls on a recoup basis to ensure that superannuation accounts were not separately rendered. These actions cannot be countenanced and, if it is maintained that a service should continue to operate off budget all such costs must be absorbed by the service without adversely impacting the cost charged to NSW public hospitals.

6. The Department will maintain a register for all such services and will require the receipt of annual financial statements including a specific statement on cash reserves for those services accepted as non-budget activities.