Explanatory Notes for 2025–26 Funding and Performance Supplement: Section 1 - Budget

For the period 1 July 2025 to 30 June 2026

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1. Budget Schedules

State Budget Schedule: Part 1 - Annual Budget Allocation

The State Budget Schedule: Part 1 sets out types of services split by allocation method. In line with the devolved health system governance, Districts have the flexibility to determine the application and reconfiguration of resources between services that will best meet local needs and priorities and meet agreed key performance indicators.

Table 1: Budget Schedule section description

Section	Detail
A	Budget for episodic stream A services – Acute Admitted, Emergency Department, Sub-Acute Services and Non Admitted Services (including Dental Services), Mental Health Admitted, Teaching, Training and Research and Home Vent. The amounts have been allocated using both an activity based and block basis.
B	Budget Stream B services – including Mental Health Non Admitted, Community Health including Primary Health, Population Health, Aboriginal Health are allocated funding on a block basis. Other Services are funded through a combination of methodologies, depending on the nature of the initiative.
C	This section of the Schedule identifies expenses relating to 'restricted' funds. The delineation between 'restricted' and 'unrestricted' funds refers to the NSW Treasury classification of cash held in specified accounts. For NSW Health, all funds held in Restricted Financial Assets and Custodial Trust Fund accounts are considered 'restricted'. Monies held in a General Fund account are considered 'unrestricted'.
D	This section of the Schedule identifies expenses relating to depreciation amounts. Depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life, where the depreciable amount is defined as the cost of an asset or other amount substituted for cost, less its residual value. For Right-of-Use assets, depreciation reflects the allocation of the cost of the leased asset across the lease term.
E	This section of the schedule provides the total expense amount.
F	This section of the Schedule provides other gains or losses on disposal of assets etc
G	This section of the Schedule identifies the revenue, split by ABF Commonwealth Share, Block Commonwealth Share and all other revenue excluding these amounts.
H	This section of the Schedule provides the net result.

Figure 1: Budget Schedule example

2025-26 Budget Schedule: Part 1

		Initial Budget	
XXX Local Health District		**Target Volume** (NWAU)	**2025-26** ($000)
State Price $6,081 per NWAU 25			
Stream A			
Acute Admitted		-	-
Emergency Department		-	-
Sub-Acute Services		-	-
Non Admitted Services - Incl Dental Services		-	-
Mental Health - Admitted		-	-
Teaching, Training and Research		-	-
Home Vent		-	-
Total Stream A	**A**	-	-
Stream B			
Mental Health - Non Admitted		-	-
Community Health - Incl. Primary Health		-	-
Population Health		-	-
Aboriginal Health		-	-
Other Services		-	-
Total Stream B	**B**	-	-
Restricted Financial Asset Expenses	**C**		-
Depreciation (General Funds only)	**D**		-
Total Expenses (E = A + B + C + D)	**E**	-	-
Other - Gain/Loss on disposal of assets etc	**F**		-
Total Revenue	**G**		-
GF Revenue - ABF Commonwealth Share			-
GF Revenue - Block Commonwealth Share			-
Own Source Revenue			-
Net Result (H = E + F + G)	**H**		-

See allocation methodology and other budget considerations for more detailed budget information.

State Budget Schedule: Part 2 - Revenue

The 2025-26 Revenue Budget for each District results from trend growth and volume increases as well as a performance factor and other adjustments. There are also specific amendments for High Cost Drugs, revenue attributable to compensable patients and for certain other items.

Own source revenue includes all revenue generated directly by Districts from its own services and resources.

Figure 2: Revenue Budget Schedule example

2025-26 Budget Schedule: Part 2 - Revenue

	XXX Local Health District	2025-26 ($000)
	Government Grants	
A	Subsidy* - In-Scope ABF State Share	
B	Subsidy - In-Scope Block State Share	
C	Subsidy - Out of Scope State Share	
D	Capital Subsidy	
E	Crown Acceptance (Super, LSL)	
F	**Total Government Contribution (F=A+B+C+D+E)**	
	Own Source Revenue	
G	GF Revenue	
H	GF Revenue - ABF Commonwealth Share	
I	GF Revenue - Block Commonwealth Share	
J	Restricted Financial Asset Revenue	
K	**Total Own Source Revenue (K=G+H+I+J)**	
L	**Total Revenue (L=F+K)**	
M	Total Expense Budget - General Funds	
N	Restricted Financial Asset Expense Budget	
O	Other Expense Budget	
P	**Total Expense Budget as per Schedule Part 1 (P=M+N+O)**	
Q	**Net Result (Q=L+P)**	
	Net Result Represented by:	
R	Asset Movements	
S	Liability Movements	
T	Entity Transfers	
U	**Total (U=R+S+T)**	
Note:		

State Budget Schedule: Part 3 - NHRA Clause A95(b) Notice

This section represents the initial estimate of activity provided by the Ministry of Health as a system manager to the National Health Funding Body (NHFB) to enable the calculation and payment of the Commonwealth contribution into the Pool.

The Schedule reflects both the Commonwealth and the State's contribution to the funding of health services both in scope for Commonwealth contributions as well as those services for which the Commonwealth does not contribute.

Figure 3: Commonwealth Contribution Budget Schedule

2025-26 Budget Schedule: Part 3

National Health Funding Body Service Agreement

XXX Local Health District	In-Scope services (NWAU)	Out-of-scope services (NWAU)	Total Services (NWAU)	State Price ($)	Total Funding ($000)	Total Funding for In-scope services ($000)	C'wealth Funding for In-scope services ($000)	State Funding for In-scope services ($000)	Funding for out-of-scope services ($000)
ABF Allocation									
Emergency Department	-	-	-	-	-	-	-	-	-
Acute Admitted	-	-	-	-	-	-	-	-	-
Admitted Mental Health	-	-	-	-	-	-	-	-	-
Sub-Acute	-	-	-	-	-	-	-	-	-
Non-Admitted	-	-	-	-	-	-	-	-	-
Community Mental Health	-	-	-	-	-	-	-	-	-
Total ABF Allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Block Allocation									
Teaching, Training and Research	-	-	-	-	-	-	-	-	-
Small Rural Hospitals	-	-	-	-	-	-	-	-	-
Other Mental Health	-	-	-	-	-	-	-	-	-
Non-Admitted Home Ventilation	-	-	-	-	-	-	-	-	-
Other Non-Admitted Services	-	-	-	-	-	-	-	-	-
Other Public Hospital Programs	-	-	-	-	-	-	-	-	-
Highly Specialised Therapies	-	-	-	-	-	-	-	-	-
Total Block Allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public Health	-	-	-	-	-	-	-	-	-
Non-NHRA Block	-	-	-	-	-	-	-	-	-
Total Non-NHRA Block Allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Grand Total Funding Allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

State Budget Schedule: Part 4 - Capital Program

This section represents the 2025-26 capital program, including capital projects managed by Health Infrastructure and Ministry of Health. The schedule reflects a health service's total Capital Expenditure Authorisation Limit (CEAL) and the funding sources supporting the program expenditure is detailed in State Budget Schedule: Part 2 – Revenue.

Figure 4: Capital Budget Schedule

Capital Budget Schedule

2025-26 Capital Budget Schedule: Part 1 (Total Capital Works Program)

XXX Local Health District

Project Description	Project Code	Reporting Silo	Estimated Total Cost	Estimated Expenditure to 30 June 2025	Budget Allocation 2025-26	Balance to Complete
Projects managed by Health Entity						
2025-26 Major New Works						
Total Major New Works			-	-	-	-
Works in Progress						
Total Works in Progress			-	-	-	-
Total Capital Program managed by Health Entity			-	-	-	-
Projects managed by Health Infrastructure						
2025-26 Major New Works						
Total Major New Works			-	-	-	-
Works in Progress						
Total Works in Progress			-	-	-	-
Total Capital Expenditure Authorisation Limit managed by Health Infrastructure			-	-	-	-
Projects managed by Ministry of Health						
2025-26 Major New Works						
Total Major New Works			-	-	-	-
Works in Progress						
Total Works in Progress			-	-	-	-
Total Capital Expenditure Authorisation Limit managed by Ministry of Health			-	-	-	-

Notes:
- Expenditure should not exceed to the approved limit without prior authorisation by Ministry of Health.

- P51069 Minor Works & Equipment >$10k<$250k allocations represent the initial annual allocations to be applied from 2025-26 to 2028-29 (4 years). Health Entities may seek to vary budget as part of the MWE Quarterly review process.

2. Allocation Methodology

State Price

The NSW State Price for 2025–26 for growth activity has been set at $6,081 per NWAU25 This price is based on the 2023–24 District and Network Return (DNR) clinical costing results submitted by all Local Health Districts and Specialty Health Networks, expressed in NWAU25.

The 2024–25 State Price and State Efficient Price was derived from 2022–23 DNR data expressed in NWAU24. As such a direct comparison between the 2024-25 and 2025-26 price is not possible.

The DNR process remains underpinned by strong quality assurance and improvement strategies, which continue to focus on ensuring data accuracy in activity reporting and cost allocation across the system.

The following notes relate to the specific elements of the Budget Schedule in Section 4 of the Service Agreement.

Activity Based Funded Services

The activity based funded (ABF) services budget has been set by multiplying the respective year ABF growth target (NWAU25) against the State Price. Note: Contractual arrangements are excluded and managed through specific funding adjustments.

The ABF activity targets have been set for Acute Admitted, Emergency Department, Sub-Acute Services, Non-Admitted Services (including Dental) Mental Health Admitted Services. This amount also includes allocation linked to certain specific initiatives with activity targets (refer below).

For Regional & Rural Districts with recognised structural costs (RSC) that result in a Projected Average Cost (PAC) that exceeds the State Price an RSC allocation will be provided, detailed below.

Recognised Structural Cost

The 2025–26 NSW Health budget includes a Recognised Structural Cost (RSC) component in the funding allocation to acknowledge the persistent barriers faced by individual Districts and Networks in achieving operational efficiencies.

These barriers include diseconomies of scale and fluctuating service demand which can lead to a higher fixed cost base and are often beyond the control of local management. The RSC provision aims to counterbalance these structural challenges.

Small Hospitals Funding Model

The 2025–26 NSW Small Hospitals Funding Model provides targeted support to rural and regional hospitals with lower patient volumes and diseconomies of scale where other funding models such as activity-based funding are not fit for purpose. The model is based on a fixed and variable cost methodology, designed to enhance funding certainty and support the delivery of patient-focused outcomes.

For 2025–26, NSW Health has refreshed the model to better reflect the structural and operational realities of rural health service delivery. A Modified Monash Model (MMM) grouping has been introduced to apportion the fixed cost component, acknowledging the varying needs and challenges faced by facilities in different rural and remote settings.

Fixed and variable components have been determined through linear regression analysis. The variable price for activity delivered by small hospitals has been set at $6,081 per National Weighted Activity Unit (NWAU25).

Residential Aged Care and Teaching, Training and Research are excluded from this model calculation and continue to be funded separately as detailed below.

Aged Care Services

2025–26 NSW Health budget uses the respective Commonwealth aged care funding models to align state allocations with national funding frameworks, ensuring consistency in service delivery across aged care programs.

NSW recognises cost variations across districts and provides additional funding to support the delivery of aged care services.

Block Funded Services

This allocation in the 2025-26 State Budget has been informed by the 2023-24 DNR, clinical costing study plus escalation.

- Baseline funding for existing community mental health services will be block funded to reduce volatility and enhance funding stability for existing services. Growth funding will be subject to ABF targets as the service transitions to an ABF model.
- The NSW State-wide Teaching, Training, and Research (TTR) cost allocation methodology continues to be applied in 2025–26.
- Other block funded services in 2025-26 include Population Health, Aboriginal Health and funding for home ventilation clinics.

Specific Initiatives

The specific initiatives amounts have been allocated across both ABF and Block in line with their service profile.