

## **OUTPUT BASED FUNDING MODEL PRINCIPLES**

**(Financial Years 2016-17 to 2018-19)**

### **Background and purpose**

All Australian Governments have agreed to continue to meet the fair and reasonable costs of the Australian Red Cross Blood Service (**Blood Service**), to allow the Blood Service to meet its supply and quality obligations, in accordance with the arrangements under the Deed and the Funding and Services Agreement. This commitment is limited to paying the Blood Service for the cost of products and services provided in accordance with arrangements established under the National Blood Agreement and consistent with policy determined by Australian Governments.

Australian Governments also require adequate accountability and transparency in the application of funding provided to the Blood Service and that the Blood Service appropriately manages its affairs and associated financial risks within the resources provided by the Australian Governments.

Consequently, the National Blood Authority (**NBA**) on behalf of Australian Governments, and the Blood Service have agreed to the high level funding principles set out in this document. These Principles cover the funding cycle consisting of the following financial years:

- 2016-17 (**Year 1**)
- 2017-18 (**Year 2**)
- 2018-19 (**Year 3**)

## OBFM PRINCIPLES

TOPIC	ITEM	OBFM PRINCIPLE
Product Prices, Grants, Specified Payments and Other Payments	1.1.	<p>NBA will make the following four types of payments under the Deed in accordance with these Principles:</p> <ul style="list-style-type: none"> <li>• Product (including operating and capital costs);</li> <li>• Grants;</li> <li>• Specified Payments; and</li> <li>• Other Payments</li> </ul>
	1.2.	A funding cycle consists of three consecutive financial years (Year 1, Year 2 and Year 3).
	1.3.	<p>Product Prices in the Base Year reflect the Actual Cost of Production for the products in Year -1 (2014-15).</p> <p>For the purposes of determining Product Prices, the Actual Cost of Production is determined in accordance with the Cost Attribution Rules (see Item 4 of these Principles).</p> <p>In Years 1, 2 and 3 of this cycle, Product Prices are subject to indexation (net of efficiency dividend) in accordance with Item 5 of these Principles.</p> <p>In Year 0 (2015-16) of this cycle, Product Prices are subject to indexation (net of efficiency dividend) in accordance with Item 5 of the previous cycle Principles.</p>
	1.4.	Product Prices include all activities within the Scope of Activities associated with providing those products, including any Value Added Services that the Blood Service may provide in relation those products (e.g. irradiating red blood cells) as agreed in the Cost Attribution Rules.
	1.5.	The activities funded by Grants, Specified and Other Payments are not included in the determination of Product Prices (see Items 2 and 3 of these Principles for further information about Grants, Specified and Other Payments).

TOPIC	ITEM	OBFM PRINCIPLE
	1.6.	Subject to these Principles, Product Prices, Grants, Specified and Other Payments are fixed for each financial year and will not change other than in accordance with Item 19 of these Principles and in accordance with the Deed.
Grants and Other Payments	2.	<p>A Grant is as defined in the regulations of the <i>Public Governance, Performance and Accountability Act 2013</i> (PGPA Act) as amended from time to time, as at the date of these Principles being an arrangement for the provision of financial assistance by the Commonwealth or on behalf of the Commonwealth:</p> <ul style="list-style-type: none"> <li>(a) under which relevant money or other CRF money is to be paid to a recipient other than the Commonwealth; and</li> <li>(b) which is intended to assist the recipient achieve its goals; and</li> <li>(c) which is intended to help address one or more of the Australian Government’s policy objectives; and</li> <li>(d) under which the recipient may be required to act in accordance with specified terms of conditions.</li> </ul> <p>Grant payments will be paid to the Blood Service monthly no later than the 5<sup>th</sup> Business Day of the month provided that the NBA has received from the Blood Service a Correctly Rendered Invoice in respect of that month no later than 10 days prior to that 5<sup>th</sup> Business Day of the month.</p> <p>Other Payments may be made under the Deed other than for Product and Specified Payments. The NBA may after consultation with the Blood Service notify the Blood Service of an Other Payment and the conditions applying to such a payment. Other Payments will be payable and may be invoiced by the Blood Service in accordance with a schedule determined by the NBA after consultation with the Blood Service.</p> <p><u>Red Cross Society Oversight fee</u></p> <p>The Red Cross Oversight Fee in accordance with the Deed is the amount required to reimburse the reasonable cost of the Red Cross in the oversight of the Blood Service operations. The estimate of the oversight fee is provided at the beginning of each cycle by the Red Cross, based on the audited actual expenditure for Year -1 (2014-15). The Red Cross must have an independent external audit undertaken for that financial year and the outcomes of the audit must be provided to the NBA in support of the amount. The oversight fee will be funded based on the Year -1 (2014-15) audited actual expenditure and will be adjusted annually by indexation at 2.95% in accordance with Item 5 of these Principles.</p>

TOPIC	ITEM	OBFM PRINCIPLE
Specified Payments	3.	<p>Specified payments are those payments to the Blood Service that are for a specific purpose to support the operations of the Blood Service in the supply of the blood and blood products.</p> <p>The Specified Payments are categorised as:</p> <ol style="list-style-type: none"> <li>1. Specified Payment for Research and Development (R&amp;D)</li> <li>2. Specified Payment for Group 3 and 4 distribution costs; and</li> <li>3. Specified Payments agreed as a result of a Business Case approved by the NBA, including:               <ul style="list-style-type: none"> <li>○ Specified Payments for Sample Archiving Business Case;</li> <li>○ Specified Payments for SPC Loan; and</li> <li>○ Specified Payments for MPC.</li> </ul> </li> </ol> <p>Without limiting any other obligation in these Principles, the Blood Service must ensure that any Specified Payments made by the NBA in accordance with this principle are only used for the purposes for which the Specified Payment was made.</p> <p>Specified Payments will be paid to the Blood Service monthly no later than the 5<sup>th</sup> Business Day of the month following provided that the NBA has received from the Blood Service a Correctly Rendered Invoice in respect of the previous month 10 Business Days prior to that 5<sup>th</sup> Business Day of the month. Unless otherwise agreed below the amount payable will be one twelfth of the Specified Payment annual amount. The method for calculating Specified Payments is detailed in Item 26.</p>
Product Prices - Cost Attribution Rules	4.	<p>The Blood Service to advise the NBA of material changes in the cost attribution rules as part of the Guidance Letter process at the beginning of each cycle. The Cost Attribution Rules will be agreed by the parties prior to each new funding cycle.</p> <p>The Cost Attribution Rules will determine how the Blood Service's operating costs (which must be based on the</p>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>Blood Service’s audited financial accounts for Year -1 (2014-15)) are allocated against each Product and Service required to be provided by the Blood Service. The Scope of Activities to be included in the Blood Service costs for the provision of Products and Services and for which Payment under these principles apply is set out in NSR&amp;S 1 - Schedule C – Scope of Activities of the Funding and Service Agreement.</p> <p>The agreed Cost Attribution Rules for the current funding cycle are set out in <b>Attachment A</b> to these Principles.</p>
Indexation	5.	<p>Product Prices will be indexed annually at 2.95% which is net of a 1.15% efficiency dividend. Any indexation on new business proposals will be negotiated on a case by case basis.</p> <p>The Indexation rate for Capital Costs has been agreed at 2.95% per annum.</p> <p>All other Grants, Specified and Other Payments will also be indexed at 2.95% annually unless otherwise agreed. The following have been set under other agreements:</p> <ul style="list-style-type: none"> <li>• Specified Payments for SPC and MPC have separate agreed indexation rates as per their funding agreements. See <b>Attachment B</b> for SPC and MPC Calculations.</li> </ul>
Product Prices - Product orders and payment	6.	<p>The optimum goal for the basis of payment for products is payment upon receipt of products by an Australian Health Provider (AHP) for Groups 1 and 2 products as defined in the Deed. However, until an agreed system supported by the Substitution and Payment Rules and the National Service Requirements and Standards (both yet to be agreed) is implemented, payment will be based on product issued by the Blood Service (but adjusted in relation to recalls as described in Item 8 of these Principles).</p> <p>The Blood Service must invoice the NBA at the end of the month by submitting a Correctly Rendered Invoice. A Correctly Rendered Invoice is an invoice which:</p> <ul style="list-style-type: none"> <li>• complies with any relevant law;</li> <li>• is in the format set out at <b>Attachment C</b>;</li> <li>• is accompanied by the dataset files listed in Data Set 6 to 14; and</li> <li>• contains any other requirements agreed by the NBA and the Blood Service.</li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>Unless there is a dispute in relation to a specific item or number of items within an invoice, the NBA must pay the Blood Service within 10 Business Days from receipt of a Correctly Rendered Invoice.</p> <p>In the event that NBA disputes a specific item or number of items, within an invoice, the NBA will, within 3 Business Days of receipt of that invoice, request that the Blood Service withdraw the invoice and issue separate invoices for the disputed and non-disputed amounts. The NBA must pay the Blood Service within 5 Business Days of receipt of a Correctly Rendered Invoice for the non-disputed amount.</p> <p>In relation to the invoice for the disputed amount, the NBA and the Blood Service will each nominate a person within their organisation with responsibility for investigating the dispute and endeavouring to resolve it. If those persons agree that the disputed invoice should be cancelled and a new invoice for the correct amount issued to the NBA, the Blood Service will promptly do so and the NBA will pay the new Correctly Rendered Invoice within 5 Business Days of receipt. If those persons agree that the disputed invoice should be paid, the NBA will do so within 5 Business Days of that agreement. If those persons are not able to resolve the dispute within a reasonable time, the dispute will be escalated to the Blood Service and NBA Chief Executive Officers and if it is still unresolved then the dispute resolution processes in the Deed will apply.</p>
Product Prices - cash advances	7.	<p>The NBA has provided a cash advance of \$76 million to the Blood Service (\$75.4 million in 2010-11 and \$0.6 Million in 2011-12), excluding capital and this is to be retained by the Blood Service during this OBFM cycle 3. The advances are liabilities of the Blood Service for the purposes of the Deed, including the Handover provisions.</p>
Product Prices - Recalls	8.	<p>For Group 1 and 2 products described under the Deed, if a product issued by the Blood Service is recalled or otherwise has to be discarded for any reason other than as a result of a mistake, error, action or omission of the AHP (for example, incorrect ordering), the NBA will not be required to pay for that recalled or discarded product. An appropriate adjustment will be made in the next monthly invoice in respect of the recalled or discarded product. The payment and supply processes that the Blood Service must follow, in relation to recalls is at <b>NSR&amp;S 17</b>.</p> <p>The Substitution and Payment Rules, when agreed, will reflect the Principles in this Item 8.</p> <p>For Group 3 and 4 products described under the Deed:</p>

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		<ul style="list-style-type: none"> <li>• if a product issued by the Blood Service is recalled by the Supplier of the Group 3 or 4 product then the Blood Service may be required to assist in the recall process as agreed with the NBA, provided that, if the Blood Service reasonably considers that the cost of assisting in the recall process is significant, it may decline to assist unless the NBA agrees to provide appropriate funding for such costs; and</li> <li>• in any other circumstances, if a product <b>issued</b> by the Blood Service is recalled or otherwise has to be discarded as a result of a mistake, error, action or omission of the Blood Service (or any subcontractors or third parties engaged by the Blood Service) the NBA and AHPs will not be required to pay for that recalled or discarded product. An appropriate adjustment will be made in the next monthly invoice in respect of the recalled or discarded product;</li> <li>• in any other circumstances, if a product in inventory at the Blood Service has to be discarded as a result of a mistake, error, action or omission of the Blood Service (or any subcontractors or third parties engaged by the Blood Service) the NBA will not be required to pay for that recalled or discarded product.</li> </ul>
Volumes	9.	<p><b>Group 1</b> - Annual Jurisdictional Estimates (<b>AJE</b>) based on State and Territory demand volumes for Group 1 Products as listed in <b>NSR&amp;S 3</b> as updated from time to time by the NBA, will be provided to the Blood Service by the NBA each financial year in accordance with the timetable in <b>Attachment D</b>.</p> <p>The Blood Service will then review the AJE and provide their Annual Supply Estimates (<b>ASE</b>) to the NBA in accordance with the timetable in <b>Attachment D</b> which will specify an estimated volume of product to be supplied in that financial year. The ASE will be included in the Guidance Letter and will be used as the basis for calculating the Product Price.</p> <p><b>Group 2</b> – For Group 2 products as listed at <b>NSR&amp;S 3</b> the annual kg target for the 2016-17 is 631 tonnes and each subsequent year’s target for this cycle will be at a 5% growth.</p> <p><b>Group 3 &amp; 4</b> - The NBA will provide estimated Group 3&amp;4 volumes, in accordance with the timetable at <b>Attachment D</b>. The annual volumes will be reviewed by JBC and a volume agreed in accordance with the timetable at <b>Attachment D</b>. The list of Group 3&amp;4 products are provided at <b>NSR&amp;S 3</b>.</p>

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Guidance Letter	10.	<p>The Blood Service will provide to the NBA an annual Guidance Letter in accordance with the timetable at <b>Attachment D</b>. The Guidance Letter will provide details of the proposed annual budget including:</p> <ul style="list-style-type: none"> <li>(a) ASE for all products;</li> <li>(b) the following amounts calculated in accordance with these Principles: <ul style="list-style-type: none"> <li>○ Product Prices;</li> <li>○ capital amount;</li> <li>○ indexation;</li> <li>○ Group 3 and 4 distribution cost per unit;</li> <li>○ Grant payments; and</li> <li>○ Specified Payments; and</li> <li>○ Other Payments</li> </ul> </li> <li>(c) matters for approval by the JBC including: <ul style="list-style-type: none"> <li>○ new Grant payments;</li> <li>○ new Specified Payments;</li> <li>○ new Other Payments; and</li> <li>○ any business cases the Blood Service submits.</li> </ul> </li> </ul> <p>The NBA will review the annual Guidance Letter and provide a recommendation to JBC on the annual budget and the JBC will approve an annual budget as part of the National Supply Plan and Budget process as per the timetable at</p>

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		<p><b>Attachment D.</b></p> <p>The NBA will provide a response to the Blood Service Guidance Letter in accordance with the timetable at <b>Attachment D</b>. The response will set out the JBC approved annual budget for the Blood Service for the relevant financial year and include the items listed above.</p>
National Service Requirements and Standards	11.	Once agreed, the Blood Service must provide the Products and Services in accordance with agreed National Service Requirements and Standards (NSR&S) which specify the relevant requirements and standards (including quality standards) for the Products and Services provided by the Blood Service.
No cross subsidisation	12.	<p>Unless otherwise agreed by the NBA and the Blood Service, the Blood Service must:</p> <ul style="list-style-type: none"> <li>• use payments paid in accordance with the Deed only for the purposes of fulfilling its obligations under the Deed;</li> <li>• not use any payment under the Deed or any assets or resources paid for in accordance with the Deed for the purposes of an activity that is not required or permitted under the Deed (<b>non-Deed activities</b>); and</li> <li>• provide services to other entities only where those services are not funded from amounts provided under the Deed and do not impact negatively on the Blood Service's ability to meet its Deed obligations.</li> </ul> <p>However, the parties acknowledge that some assets or resources paid for under the Deed may be used in an incidental manner in respect of non-Deed activities.</p> <p>Non-Deed activities include:</p> <ul style="list-style-type: none"> <li>• <b>National Transplantation Services</b> (relevant jurisdictions have agreed that they will fund cross-subsidies as requested in the Guidance Letter for each financial year);</li> <li>• <b>External services</b> (i.e. services rendered by the Blood Service to third parties, including testing services and tissue typing services); and</li> </ul>

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		<ul style="list-style-type: none"> <li>• <b>Humanitarian activities</b> other than those covered by the Deed.</li> </ul> <p>In circumstances where the NBA and the Blood Service agree that assets and resources paid for under the Deed may be used for the purposes of non-Deed activities (in addition to incidental use) the Blood Service will ensure recovery or coverage of the costs of such non-Deed activities in accordance with the following (or any other process agreed by NBA and the Blood Service):</p> <ul style="list-style-type: none"> <li>• recovery of assets and resources paid for under the Deed will be prescribed as a percentage of the direct costs of operating the non-Deed activity;</li> <li>• 6.2% to 15% of the costs of undertaking that non-Deed activity as a contribution to the Main Operating Program (MOP) overheads depending on the nature of the activity as detailed below and agreed between the parties; and</li> <li>• 10% of the costs of undertaking that non-Deed activity as a contribution to Capital for use of infrastructure. If the costs and the recovery of these costs from an externally provided service are recorded outside of MOP, this 10% recovery will not be required.</li> </ul> <p>The Blood Service must provide to the NBA details and rationale for the overhead costs recovery percentage proposed for each non Deed activity cross-subsidisation. The 6.2% to 15% corporate overhead recovery is made up of the following components:</p> <ul style="list-style-type: none"> <li>• Components that will always be included in the overhead costs recovery are: <ul style="list-style-type: none"> <li>○ Strategy &amp; Insurance 2%</li> <li>○ Finance (includes Payroll) 3.2%</li> <li>○ Corporate &amp; Executive 1%</li> </ul> </li> <li>• Components that will determined on a cases by case basis as agreed between the parties and included in the overhead costs recovery are:</li> </ul>

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		<ul style="list-style-type: none"> <li>○ Human Resources 2% - to apply where staff need to be specifically recruited for an activity</li> <li>○ Information Services 6.4% - to apply when the activity requires development of a new system, or modification of an existing system, or routine IT support where there are 10 or more staff working on a project or system</li> <li>○ Administration (includes rent and utilities) 0.4% - to apply when the activity is undertaken in Blood Service facilities and when a separate rental recovery is not already being charged and returned to MOP</li> </ul>
Benchmarking	13.	The Blood Service must ensure that where reasonable and relevant to do so, data and information are maintained in a manner that facilitates international comparison and benchmarking of the Blood Service's costs.
Product Prices - Estimated Capital Costs associated with Products	14.	<p>100% of the Blood Service's Estimated Capital Costs associated with the provision of Products (i.e. not capital costs associated with activities funded by Grants or Specified Payments) will be paid by the NBA either through Product Prices or in advance in accordance with Item 15 of these Principles.</p> <p>Estimated Capital Costs associated with Products for Year 1 (2016-17) are 10% of total estimated operating costs for all Products less interest revenue (agreed at \$960,000 to be provided by the Blood Service in a financial year) as set out in the agreed ASE in the annual Guidance Letter for the relevant financial year. The Estimated Capital Cost will be allocated to Product Prices as per the Cost Attribution Rules. Year 2 and 3 will be based on Year 1 (2016-17) Estimated Capital Cost and will be adjusted annually by indexation at 2.95%.</p> <p>The amount of Estimated Capital Costs agreed in the annual guidance letter with the Blood Service is a guaranteed amount, and does not change irrespective of the volumes issued within the financial year. An annual reconciliation process will be undertaken and if the actual Tier 1 product volumes across product groups do not meet 85% of the ASE Tier 1 volumes the Blood Service agrees to invoice the NBA for the capital costs.</p>
Advance Payment of Capital	15.	<p>If requesting an advance on Capital the Blood Service must provide a monthly cash flow for that financial year to the NBA in accordance with the Capital Plan as at <b>NSR&amp;S 28</b>.</p> <p>The Blood Service may request that the Estimated Capital Costs associated with products be paid in a quarterly</p>

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		<p>advance rather than as part of Product Prices.</p> <p>The NBA may pay the Estimated Capital Costs associated with products in advance at its discretion and subject to funding being available at the NBA to make such advance payments.</p> <p>If requested by the Blood Service (and subject to funding being available for the NBA to make a quarterly advance), capital cost advances under this Item 15 will be made quarterly in advance. If sufficient funding is not available for the NBA to make a quarterly advance, then subject to funding being available, a monthly capital cost advance will be provided to the Blood Service.</p> <p>The Blood Service must reconcile and acquit any advance under this Item 15 with its monthly invoices for products.</p>
Reviews	16.	<p>The NBA and the Blood Service will appoint independent experts during the third cycle (2016-19) of this OBFM model to undertake the following reviews:</p> <ol style="list-style-type: none"> <li>1. Capital – An independent expert will be engaged to undertake an external capital program review to be completed in year 2 of each OBFM funding cycle to agree the method for calculation for the next cycle.</li> <li>2. OBFM – An independent expert will be engaged to undertake a review of the Output Based Funding model and compare it to better practice OBFM models to ensure that the current model is sound or identify better models that maybe implemented. Any recommendations from this review will be incorporated into the OBFM principles for cycle 4 to be completed in Year 2 of this cycle.</li> <li>3. Corporate Risk Reserve – The Blood Service will engage an independent expert in Year 1 of this cycle to review the Corporate Risk Reserve. Pending the outcomes of the independent review adjustments may be made to item 23 of these principles to reflect the outcomes.</li> </ol>
Product Prices - Calculation of Tiered Product Prices and definitions of major products and Fixed Costs and Variable	17.	<p>In accordance with the Cost Attribution Rules, the prices of products to be supplied by the Blood Service will be split into tier one, tier two and non-tier prices. Tier one and tier two prices apply to major products, and non-tier prices apply to all other (minor) products.</p> <p>Major Group 1 products for Tier pricing are:</p>

TOPIC	ITEM	OBFM PRINCIPLE
Costs		<ul style="list-style-type: none"> <li>• 2b Whole blood red cells – leucodepleted;</li> <li>• 3b Whole blood platelets – leucodepleted;</li> <li>• 3d Apheresis platelets – leucodepleted;</li> <li>• 4b Clinical fresh frozen plasma; and</li> <li>• 4d Apheresis Clinical FFP.</li> </ul> <p>Group 2 products for Tier pricing are:</p> <ul style="list-style-type: none"> <li>• 8 Plasma for fractionation – whole blood derived; and</li> <li>• 9 Plasma for fractionation – apheresis derived.</li> </ul> <p>Product costs as determined under the agreed Cost Attribution Rules are converted to Tier Prices based on the definitions of Variable Costs and Fixed Costs below.</p> <p><b>Variable Costs</b> are:</p> <ul style="list-style-type: none"> <li>• all Consumables; and</li> <li>• Variable Overheads comprising: <ul style="list-style-type: none"> <li>○ 5% of operating unit overhead less rent and rates; and</li> <li>○ 3% of collection centres salary and statutory costs.</li> </ul> </li> </ul> <p><b>Fixed Costs</b> are all other costs.</p> <p>Price tiering methodology:</p>

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		<ul style="list-style-type: none"> <li>• 100% of Fixed Costs as defined above and 100% of the estimated Capital Costs are allocated to 85% of the ASE for each of the five major Group 1 products and Group 2 products.</li> </ul> <p>Tier Prices:</p> <ul style="list-style-type: none"> <li>• Tier One Prices comprise Capital, Fixed Costs and Consumables for major group 1 &amp; 2 products supplied up to 85% of the ASE; and</li> <li>• Tier Two Prices comprise Consumables and Variable Overheads for major group 1 &amp; 2 products supplied above 85% of the ASE.</li> </ul> <p>Non-Tier Prices comprise Consumables and Variable Overheads for all minor products supplied.</p> <p><b>Fixed cost recovery</b></p> <p>If:</p> <ul style="list-style-type: none"> <li>• a product is included in one of the following product categories;</li> <li>• the aggregated volume of all products in the applicable product category equals or exceeds 85% of the aggregated volume of all products in the applicable product category as specified in the ASE (<b>the threshold</b>); and</li> <li>• the products were supplied by the Blood Service, and the threshold was met, during the applicable financial year to which the ASE relates,</li> </ul> <p>then the Blood Service will be paid 100% of the fixed cost for all the products included in the applicable product category in accordance with these principles.</p> <p>The product categories are:</p> <ul style="list-style-type: none"> <li>○ <b>Product Category 1 - 2b Whole blood red cells – leucodepleted;</b></li> </ul>

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		<ul style="list-style-type: none"> <li>○ <b>Product Category 2</b> - 3b Whole blood platelets – leucodepleted, 3d Apheresis platelets – leucodepleted;</li> <li>○ <b>Product Category 3</b> - 4b Clinical fresh frozen plasma, 4d Apheresis Clinical FFP; and</li> <li>○ <b>Product Category 4</b> - 8 Plasma for fractionation – whole blood derived, 9 Plasma for fractionation – apheresis derived.</li> </ul> <p>This reconciliation will be undertaken at the end of the financial year by the NBA and agreed with the Blood Service prior to making a Payment for the difference. The process for calculation of the amount is included at <b>Attachment A</b>.</p>
Requests for changes to the payments or Additional Payments for Additional Activities	18.	<p>The Blood Service may request Additional Payments or funding within a financial year or at the end of the financial year following the acquittal only if the Actual Costs of Production or the actual cost of activities funded by a Payment, Specified Payment or Other Payment have changed as a result of any of following Additional Activities:</p> <ul style="list-style-type: none"> <li>• a major change in government policy or regulatory change that affects the provision of the products and/or services;</li> <li>• the actual volume supplied of a particular product being 85% or less of the estimated volume of that product as specified in the ASE;</li> <li>• the actual volume supplied of a particular product being 110% or more of the estimated volume of that product as specified in the ASE;</li> <li>• the proposed provision of Value Added Services resulting in activity growth and/or costs associated with providing the Value Added Service increasing the Actual Cost of Production of a product in the relevant financial year by 10% or more;</li> <li>• changes to the TG Registration or TG Listing requirements of the Products;</li> </ul>

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		<ul style="list-style-type: none"> <li>• changes required under the Continuous Improvement clause in the Deed;</li> <li>• compliance with the Acknowledgement of Government Funding clause in the Deed;</li> <li>• changes to security requirements under Security clauses in the Deed;</li> <li>• compliance with the requirements of the Public Governance, Performance and Accountability Act 2013 (Cth) in respect of the disposal of Deed Assets in accordance with the Deed;</li> <li>• NBA initiated changes to the Product and Service List (Schedule B)</li> <li>• a Government Instruction requested by the Blood Service, or where a Government Instruction is issued by the NBA;</li> <li>• compliance with Insurance and Reserves clause in the Deed; or</li> <li>• extraordinary circumstances.</li> </ul> <p>Nothing in these Principles requires the NBA to agree to any request for Additional Payments or funding. Without limiting this, the NBA will not agree to such a request for Additional Payments or funding within a financial year unless:</p> <ul style="list-style-type: none"> <li>• the necessity for funds is demonstrated to the NBA's satisfaction by a business case as specified below;</li> <li>• the overall costing structure of the Blood Service does not support the Additional Activities (including without limitation any extraordinary circumstances or government regulatory changes, policy changes, volume increase or provision of Value Added Services); and</li> <li>• the Blood Service has appropriately managed and mitigated any costs associated with the extraordinary circumstances or government regulatory changes, policy changes, volume increase or provision of Value Added Services.</li> </ul> <p>The Blood Service must, regardless of any request for Additional Payments use Best Endeavours to manage and</p>

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		<p>mitigate any costs associated with the circumstances referred above including seeking to offset/absorb increased costs against savings, Corporate Reserves or using project funds not yet committed (MOP Projects).</p> <p>Without limiting any requirement for a submission of a business case under the Deed, if the Blood Service requests any Additional Payment or funding under this Item 18 or any Additional Payment or funding under Item 24, the Blood Service must provide the NBA with a comprehensive business case supporting the request.</p> <p>Payments for which the Blood Service may be required to provide a business case include requests for Additional Payments for projects and initiatives that cannot be funded within the Payments for Products and Services under the Deed or from any surplus reinvestment.</p> <p>All business cases should take into account applicable government timeframes for approving new funding as notified to the Blood Service from time to time.</p> <p>Unless and until the NBA provides any Additional Payments or funding requested the Blood Service is not obliged to perform the activity related to the business case supporting the request to the extent that such performance is not funded by Payments under the Deed.</p>
Method of payment for agreed changes or additional payments	19.	<p>Any agreed change to any amount payable to the Blood Service in respect of Product Prices, Specified Payments, Other Payments or agreed request for additional payments (under Item 18 or 24) will be separately payable to the Blood Service and will not be incorporated into the calculation of Product Prices, or Specified Payment for any products and services during the term of the funding cycle in which the change or amount was agreed.</p> <p>However, any change or amount payable to the Blood Service that applies beyond the term of the funding cycle in which it was agreed may be incorporated into the Product Prices for the next funding cycle.</p>
Changes in the required services	20.	<p>The NBA will provide reasonable notice to the Blood Service of its intention to increase or reduce any Services funded by the NBA where that funding has been provided to the Blood Service for the purposes of the Blood Service conducting a specific service. This includes services funded under Product Prices, and Specified Payments</p> <p>The NBA will pay the Blood Service's reasonable costs in respect of any unavoidable costs that the Blood Service can</p>

TOPIC	ITEM	OBFM PRINCIPLE
		demonstrate are directly attributable to the increase or reduction in those Services provided that the Blood Service takes all reasonable steps to minimise or avoid any costs or losses resulting from the increase or reduction in those Services.
Policy developments	21.	Where reasonable and permissible, the NBA will advise the Blood Service of any applicable policy developments in relation to the prices paid by jurisdictions for blood products.
OBFM Risk Reserve	22.	<p>The Blood Service must establish and maintain an OBFM Risk Reserve. The Blood Service must:</p> <ul style="list-style-type: none"> <li>• ensure that the OBFM Risk Reserve contains \$5 million (excluding interest earned);</li> <li>• ensure that the OBFM Risk Reserve amount is reported to the NBA as part of the monthly CFO Report and is retained in a reserve account by the Blood Service;</li> <li>• ensure that all interest earned on, or in relation to, amounts in the OBFM Risk Reserve is paid into, or otherwise credited to, the OBFM Risk Reserve; and</li> <li>• use the OBFM Risk Reserve to meet any loss suffered or incurred (or which would otherwise be suffered or incurred) by the Blood Service associated with Dealing with Losses as defined in Item 24 and substantiate the use of the OBFM Risk Reserve by providing to the NBA details of the reasons for the loss, how the loss was incurred and how it was mitigated.</li> </ul>
Corporate Risk Reserve	23.	<p>The Blood Service must establish and maintain a Corporate Risk Reserve. The Corporate Risk Reserve is to provide funding cover for the Blood Service in the event of material adverse impact from significant corporate risks that cannot be managed within the scope of the OBFM Risk Reserve, insurances or the requirements of the Deed. The Corporate Risk Reserve should also include an amount to a level agreed between the Parties from time to time, for potential payments to meet or mitigate Losses, including Losses which are indemnified by the NBA, in accordance with the Deed.</p> <p>The Blood Service must:</p>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <li>• ensure that the Corporate Risk Reserve contains \$29.3 million (including interest earned) as at the end of 2014-15, interest earned during the cycle, any surplus retained as per Item 25 and any funds drawn down as per this principle for the term of this OBFM funding cycle, to be reviewed at the end of the funding cycle;</li> <li>• ensure that the Corporate Risk Reserve amount is reported to the NBA as part of the monthly CFO Report and is retained in a reserve account by the Blood Service;</li> <li>• ensure that all interest earned on, or in relation to, amounts in the Corporate Risk Reserve is paid into, or otherwise credited to, the Corporate Risk Reserve;</li> <li>• use the Corporate Risk Reserve to meet any loss suffered or incurred under the Deed (or which would otherwise be suffered or incurred) by the Blood Service arising from or in relation to extraordinary events, including but not limited to:             <ul style="list-style-type: none"> <li>○ Business disruption due to an industrial dispute;</li> <li>○ Failure of critical IT and business systems and facilities;</li> <li>○ Business Disruption due to failure of Consumable suppliers;</li> <li>○ Significant changes in the external operating environment that have not been planned;</li> <li>○ Inability to balance donor safety responsibility with sufficiency of blood and blood products;</li> <li>○ Sub optimal product and safety decisions (eg based on public perception rather than scientific fact);</li> <li>○ Patient Safety event resulting in major or extreme outcome from commission or omission from Blood Service;</li> <li>○ An adverse donor event;</li> <li>○ Ability to urgently manage emerging diseases without full funding;</li> </ul> </li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <li>○ Risk of transmission of disease from transplanted organs prior to July 2009 and from stem cells;</li> <li>○ Loss of building -principal sites;</li> <li>○ Australian Red Cross Society reputational risk, if approved by the NBA, and only in relation to risks arising in connection to the Deed, which are beyond the reasonable control of the Australian Red Cross Society;</li> <li>○ Payments to meet or mitigate Losses, including Losses which are indemnified by the NBA, in accordance with the Deed (noting that the use of the Corporate Risk Reserve for this item must not diminish the Corporate Risk Reserve below \$10 million or such other amount as is agreed from time to time);</li> <li>○ Inability to fund ongoing capital needs of the Blood Service; and</li> <li>○ Unrecoverable deficit on Main Operating Program.</li> </ul> <ul style="list-style-type: none"> <li>● substantiate the use of the Corporate Risk Reserve by providing to the NBA details of the reasons for the loss, how the loss was incurred and how it was mitigated.</li> </ul> <p>The NBA must not unreasonably refuse a request under Item 23 provided that the Blood Service has provided the information and complied with the requirements of this item.</p>
Dealing with losses	24.	<p>Although it is at the discretion of the Blood Service whether to request any change to any Payments or Additional Payments, before the Blood Service seeks any changes or Additional Payments it must:</p> <ul style="list-style-type: none"> <li>● appropriately manage and mitigate all costs and losses; and</li> <li>● assess the level of funds available to the Blood Service and the level of financial risk associated with any request.</li> </ul> <p>This Item 24 of these Principles applies to a situation where the Blood Service suffers a loss equal to or greater than \$1.5 million in a relevant financial year or \$4.5 million over the 3 year funding cycle (not including any losses caused as a result of differences between the estimated volume of a particular product in the ASE and the actual volume of that</p>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>product supplied, which can be the subject of a request under Item 18 of these Principles.)</p> <p>In such situations:</p> <ul style="list-style-type: none"> <li>• the Blood Service must appropriately manage and mitigate its loss;</li> <li>• the Blood Service must use the OBFM Risk Reserve and/or OBFM Corporate Reserve to meet all or part of the loss as permitted or required under Items 22 and 23 of these Principles; and</li> <li>• after complying with the above dot points and subject to the Deed, the Blood Service may, at the conclusion of the relevant financial year or 3 year funding cycle, approach the NBA and seek to be paid for that loss.</li> </ul> <p>If the Blood Service seeks to be compensated under this Item 24 the audit type will depend on the amount of the loss and the related compensation claim received by the NBA from the Blood Service. The audit will be in accordance with <b>Attachment E</b>.</p> <p>In this event, and subject to no impropriety by the Blood Service, the NBA agrees to maintain its existing commitment to meet the fair and reasonable costs of the Blood Service. If the Blood Service seeks to be compensated under this Item the process identified in Attachment L will be followed.</p> <p>Nothing in this Item 24 requires the NBA to agree to any changes to the Payments or Additional Payments for products and services.</p>
Dealing with surpluses	25.	<p>Subject to any resultant ongoing costs being absorbed by the Blood Service within the Payment provided for Products, the Blood Service will be able to reinvest operational efficiencies (surplus) of up to \$5 million in any year to allow reinvestment in line with government policy including for the purposes of:</p> <ul style="list-style-type: none"> <li>• complying with regulatory changes;</li> <li>• improving the safety and security of the blood supply;</li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <li>• developing and implementing strategies to achieve efficiencies in the Blood Service;</li> <li>• improving achievement of national consistencies;</li> <li>• reducing the product cost;</li> <li>• providing for an OBFM Risk Reserve and the Corporate Risk Reserve (pools within agreed levels); and</li> <li>• adding to the Corporate Risk Reserve Pool within agreed levels.</li> </ul> <p>The first call on surplus up to \$5 million will be any regulatory or government policy changes and new Business Cases approved by JBC provided any ongoing costs can be absorbed in existing funding.</p> <p>If the annual surplus is more than \$5 million in any year then the surplus over that amount will be returned to the NBA unless otherwise agreed between the Blood Service and the NBA.</p>
Calculating Specified Payments	26.	<p>Specified Payments payable by the NBA will be calculated in accordance with the following processes:</p> <p><i>1. Calculating Specified Payments for Research and Development</i></p> <p>Research and Development (R&amp;D) will be funded based on the Year -1 (2014-15) actual operating costs and will be adjusted annually by indexation at 2.95% plus the addition of 10% capital (calculated post indexation adjustment).</p> <p>The R&amp;D annual amount for 2016-17 that will be provided to the Blood Service in response to its Guidance Letter for 2016-17 is the amount determined by the Jurisdictional Blood Committee in December 2015. In accordance with requirements below, one twelfth of the R &amp; D annual amount will be payable each month.</p> <p>The R&amp;D Specified Payment will be administered through an agreed R&amp;D Framework, included at <b>NSR&amp;S 31</b>, and all funding provided for R&amp;D must meet the terms outlined in the agreed R&amp;D Framework.</p>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>2. <i>Calculating Specified Payments for Group 3 and 4 Distribution</i></p> <p>Specified Payment for Group 3 and 4 distribution costs are based on the agreed unit cost from the Time and Motion Study completed in 2014-15 and the volume of Group 3 and 4 products issued by the Blood Service. The Specified Payment for Group 3 and 4 distribution unit cost will be adjusted annually by indexation at 2.95% plus the addition of 10% capital.</p> <p>3. <i>Specified Payments agreed as at the date of these Principles a result of a Business Case approved by the NBA, including:</i></p> <p>a. Specified Payments for SPC Loan;</p> <p>The annual amounts are set in the New South Wales/ACT Processing Site (now the Sydney Processing Centre (SPC)) Business Case Proposal as per the Deed of Indemnity. The amount payable will be one twelfth of the annual amount. The date of that payment is determined by Item 3 of these Principles. Item 5 of these Principles does not apply to Specified Payments for the SPC Loan.</p> <p>b. Specified Payments for MPC;</p> <p>The annual amounts are set in the Victoria/Tasmania Processing Site (now the Melbourne Processing Centre (MPC)) Business Case Proposal indexed by the annual indexation rate as per clause 1.3 of the VTPS Funding Agreement. Item 5 of these Principles does not apply to Specified Payments for MPC.</p> <p>The amount payable each month will be one twelfth of the annual amount.</p> <p>c. Specified Payments for New Business Cases;</p> <p>If:</p> <p>i. the Blood Service has submitted a Business Case to the NBA for additional Specified Payments greater than \$2 million (for example, as a result of unforeseen matters which occurred after the setting of the Product Prices at the beginning of a three-year OBFM cycle); and</p>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <li>ii. the NBA, after considering the Business Case in accordance with the Deed, has agreed to make additional Specified Payments; then</li> <li>iii. the NBA will make the Specified Payments for that Business Case in accordance with the arrangements agreed between the Parties (including in relation to timing and payment schedules).</li> </ul> <p>The agreed amounts of, and other arrangements for, Specified Payments for Business Cases agreed as at the date of these Principles are set out above.</p> <p>The amount payable each month will be one twelfth of the annual amount.</p>

### Acronyms and Definitions

Actual Cost of Production	of a product means the actual cost of producing the product by the Blood Service as determined by the Cost Attribution Rules.
Annual Jurisdictional Estimate or AJE	means the jurisdictional demand planning estimates of that name prepared in accordance with the Deed as prepared by the NBA in response to consultations with jurisdictions in setting the National Supply Plan and Budget
Annual Supply Estimate or ASE	means the supply planning estimates of that name prepared in accordance with the Deed as prepared by the Blood Service in response to the AJE and provided in the Guidance Letter.
Base Year	means Year – 1 and is 2014-15
Blood Service	Australian Red Cross Blood Service
Business Day	means Monday to Friday except for days which are public holidays in the Australian Capital Territory or Victoria
Consumables	means the components of an end product that are used up or permanently altered in the process of manufacturing
Correctly Rendered Invoice	means an invoice that complies with the Deed and the requirements of Item 6 of these Principles
Cost Attribution Rules	means the rules described in Item 4 of these Principles
Estimated Capital Costs	means the estimate calculated in accordance with Item 14 of these Principles.
Fixed Costs	is defined in Item 17 of these Principles.
FFP	Fresh Frozen Plasma

<b>Acronyms and Definitions</b>	
Grant	means a Grant payment as described in Item 2 of these Principles.
Guidance Letter	is the letter referred to in Item 10 of these Principles.
AHP	Australian Health Provider
JBC	Jurisdictional Blood Committee
MOP	Main Operating Program
MPC	Melbourne Processing Centre (formerly known as Victoria/Tasmania Principal Site)
National Service Requirements and Standards	means the requirement and standards agreed by the parties from time to time that describe the scope of the Blood Service's obligations in relation to the products and services.
NBA	means the National Blood Authority
NTS	National Transplantation Service
Principles	means the OBFM principles set out in this document.
Product Price	means the price of each product provided under the Deed, calculated in accordance with the Cost Attribution Rules, these Principles and the Deed.
SPC	Sydney Processing Centre (formerly known as New South Wales/Act Principal Site)
Specified Payments	means those payments to the Blood Service that are for a specific purpose to support the operations of the Blood Service in the supply of the blood and blood products, as described in Item 3 of these Principles.
Substitution and	means the rules agreed by the parties from time to time that determine when and how the payments are made to the Blood

<b>Acronyms and Definitions</b>	
Payment Rules	Service and the agreed product substitution rules.
TMS	Transfusion Medicine Services
Value Added Service	means an additional service, as agreed by the parties from time to time, which the Blood Service will provide in relation to an existing product or service under the Deed
Variable Costs	is defined in Item 17 of these Principles
Variable Overheads	is defined in Item 17 of these Principles
Year -1	the 2014-15 financial year
Year 0	the 2015-16 financial year
Year 1	the 2016-17 financial year
Year 2	the 2017-18 financial year
Year 3	the 2018-19 financial year

For the purposes of these Principles, references to the 'Deed' are to be interpreted as references to that document as amended or replaced from time to time.

Attachment A - Cost Attribution Rules and Blood Service SOP:

- A1 – HCPM Methodology
- A2 – OBFM Funding Cycle
- A3 – Constructing Prices FY1415
- A3 – Constructing Prices FY1516
- A3 – Constructing Prices FY1617

Note: This is a selection of the Blood Service SOPs as they are relevant to the OBFM calculations. These SOPs have been developed by the Blood Service and are intended to demonstrate how the application of these Principles (including worked examples of the applicable calculations to derive Product Prices) is undertaken. To the extent of any inconsistency between Attachment A, and these Principles, these Principles will prevail.

Attachment B – SPC and MPC Calculations

Attachment C – Invoice Format

Attachment D – Timetable

Attachment E – Scope and Terms of Reference for a Full Disclosure Audit

	29/02/2016		29/2/16
_____	_____	_____	_____
NBA	Date	Blood Service	Date