

## OUTPUT BASED FUNDING MODEL PRINCIPLES

(Financial Years 2019-20 to 2021-22)

### 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:

- 2019-20 (**Year 1**)
- 2020-21 (**Year 2**)
- 2021-22 (**Year 3**)

#### Edited version for publication on NBA website

The Output Based Funding Model Principles (OBFM) provided here has been edited, and is not in the form as executed. In addition, certain parts of the contract are not disclosed.

The OBFM is provided for information only and should not be relied on by any person. The NBA is not liable for any reliance upon the contract herein which results in loss or damage to any person.

### OBFM PRINCIPLES

TOPIC	ITEM	OBFM PRINCIPLE
<p>Product Prices, Grants, Specified Payments and Other Payments</p>	<p>1.1.</p>	<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 Price (including operating costs);</li> <li>• Grants;</li> <li>• Specified Payments (including capital costs); and</li> <li>• Other Payments.</li> </ul>
	<p>1.2.</p>	<p>A funding cycle consists of three consecutive financial years (Year 1, Year 2 and Year 3).</p>
	<p>1.3.</p>	<p>Product Prices in the Base Year reflect the Actual Cost of Production for the products in Year -1 (2017-18).</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 (2018-19) of this cycle, Product Prices are subject to indexation (net of efficiency dividend) in accordance with Item 5 of the previous cycle Principles.</p>
	<p>1.4.</p>	<p>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 to those products (e.g. irradiating red blood cells) as agreed in the Cost Attribution Rules.</p>

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	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).
	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 17 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 Commonwealth Consolidated Revenue Fund (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 1st 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 Business Days prior to that 1st Business Day of the month.</p> <p>Other Payments may be made under the Deed other than for Grant, 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>

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		<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 (2017-18). 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 (2017-18) audited actual expenditure and will be adjusted annually by indexation (net of an efficiency dividend) as follows:</p> <ul style="list-style-type: none"> <li>• In Years 1, 2 and 3 of this cycle, the Red Cross Oversight Fee is subject to indexation (net of efficiency dividend) in accordance with Item 5 of these Principles.</li> <li>• In Year 0 (2018-19) of this cycle, the Red Cross Oversight Fee is subject to indexation (net of efficiency dividend) in accordance with Item 5 of the previous cycle Principles.</li> </ul>
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 Capital Costs;</li> <li>2. Specified Payment for Research and Development (R&amp;D); 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 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>

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		<p>Specified Payments will be paid to the Blood Service monthly no later than the 1st 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 Business Days prior to that 1st Business Day of the month. Unless otherwise agreed the amount payable will be one twelfth of the Specified Payment annual amount. The method for calculating Specified Payments is detailed in Item 24.</p>
<p>Product Prices - Cost Attribution Rules</p>	<p>4.</p>	<p>The Cost Attribution Rules will be agreed by the parties prior to each new funding cycle. The Blood Service will advise the NBA of material changes in the Cost Attribution Rules as part of the Guidance Letter process at the beginning of each year.</p> <p>The Cost Attribution Rules will determine how the Blood Service's operating costs (which must be based on the Blood Service's audited financial accounts for Year -1 (2017-18)) 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 National Service Requirements and Standards (<b>NSR&amp;S</b>) I - <b>Schedule C – Scope of Activities</b> 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>
<p>Indexation</p>	<p>5.</p>	<p>Product Prices will be indexed annually at 1.95% which is net of a 1.45% 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 1.95% per annum.</p> <p>All other Grants, Specified and Other Payments will also be indexed at 1.95% 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>

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Volumes	6.	<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 E</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 E</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 2019-20 is 773.1 tonnes at standard agreed prices which is a 5% growth on the agreed volumes for 2018-19 of 736.3 tonnes. The Blood Service will also provide at tier 2 prices, 7.4 tonnes being an additional plasma supply on the previous year’s maximum tonnage as agreed in cycle 3; and</p> <p>[Not disclosed. This paragraph contains details about plasma volume targets that are yet to be finalised by the Jurisdictional Blood Committee.] <b>Group 3 &amp; 4</b> - The NBA will provide estimated Group 3&amp;4 volumes, in accordance with the timetable at <b>Attachment E</b>. The annual volumes will be reviewed by JBC and a volume agreed in accordance with the timetable at <b>Attachment E</b>. The list of Group 3&amp;4 products is provided at <b>NSR&amp;S 3</b>.</p>
Product Prices – Products and Services issued to AHPs and payment	7.	<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 9 of these Principles).</p> <p>The Blood Service must invoice the NBA by the 5<sup>th</sup> working day of the month for the previous month issues to AHPs by submitting a Correctly Rendered Invoice. A Correctly Rendered Invoice is an invoice which:</p>

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		<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> <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 on the 1st Business Day of the month following the 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 review the disputed item(s) and respond to the NBA within 3 Business Days. If it is agreed that an error has been made, the Blood Service will withdraw the invoice and re-issue an invoice with the correct information. If the dispute has not been resolved by the 20<sup>th</sup> calendar day of the month, the Blood Service will withdraw the invoice and re-issue an invoice for the monthly advance payment only. A separate invoice or credit note will be issued upon resolution of the dispute.</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 the nominated 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>
<p>Product Prices - Prepayments for Products and Services</p>	<p>8.</p>	<p>The NBA provided a cash advance of \$76 million to the Blood Service (\$75.4 million in 2010-11 and \$0.6 Million in 2011-12) and this will be repaid to the NBA on 1 July 2019.</p> <p>The final invoice for products and services for June 2019 will be paid by the NBA to the Blood Service by the 10th business day from receipt of the Correctly Rendered Invoice as per item 7.</p>

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		<p>The NBA and the Blood Service will agree budget for Group 1 and 2 products (based on the ASE) each financial year by 31 May. 1/12<sup>th</sup> of this budget will be known as the monthly <i>Prepayment Forecast</i> for products and services.</p> <p>The Blood Service will provide an invoice to the NBA for each monthly prepayment 10 business days prior to the next month. Each invoice from the Blood Service will include the words <i>Prepayment for products and services for MMM (where MMM is month)</i>. On the first business day of each month the NBA will prepay the Blood Service the amount as per the <i>Prepayment Forecast</i> for that month. This will be offset by a reversal of the prepayment paid two months prior and the Product Price actual invoice for the same month. See <b>Attachment D</b> for schedule of expected payments and an example of the prepayment calculations.</p>
Product Prices - Recalls	9.	<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 a 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 9.</p> <p>For Group 3 and 4 products described under the Deed:</p> <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</li> </ul>



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		<p>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 a monthly invoice in respect of the recalled or discarded product;</p> <ul style="list-style-type: none"> <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>
Guidance Letter	10.	<p>The Blood Service will provide to the NBA an annual Guidance Letter in accordance with the timetable at <b>Attachment E</b>. The Guidance Letter will provide details of the proposed annual budget including:</p> <p>(a) ASE for all products;</p> <p>(b) the following amounts calculated in accordance with these Principles:</p> <ul style="list-style-type: none"> <li>○ Product Prices;</li> <li>○ capital cost amount;</li> <li>○ Indexation;</li> <li>○ Grant payments;</li> <li>○ Specified Payments; and</li> <li>○ Other Payments.</li> </ul> <p>(c) matters for approval by the JBC including:</p> <ul style="list-style-type: none"> <li>○ new Grant payments;</li> </ul>

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		<ul style="list-style-type: none"> <li>○ new Specified Payments;</li> <li>○ new Other Payments; and</li> <li>○ any business cases the Blood Service submits.</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 be asked to approve an annual budget as part of the National Supply Plan and Budget process as per the timetable at <b>Attachment E</b>.</p> <p>The NBA will provide a response to the Blood Service Guidance Letter in accordance with the timetable at <b>Attachment E</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 <b>NSR&amp;S</b> 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>

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		<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> including Tissue Typing (relevant jurisdictions have agreed that they will fund cross-subsidies as requested in the Guidance Letter for each financial year);</li> <li>• <b>Milk Bank</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> <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>

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		<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%; and</li> <li>○ Corporate &amp; Executive 1%.</li> </ul> </li> <li>• Components that will determined on a case by case basis as agreed between the parties and included in the overhead costs recovery are: <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; and</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> </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.
Estimated Capital Costs associated with Products	14.	The Blood Service's Capital Costs associated with the provision of Products (i.e. not capital costs associated with activities funded by Grants or Specified Payments) will be supported by the NBA as a

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		<p>Specified Payment in accordance with Item 24 of these Principles.</p> <p>Estimated Capital Costs associated with Products for Year 1 (2019-20) are 8.5% of total agreed MOP funding as set out in the agreed ASE in the annual Guidance Letter for the relevant financial year. Year 2 and 3 Capital Costs will be based on Year 1 (2019-20) Estimated Capital Cost and adjusted annually by indexation at 1.95%.</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. Capital funding will be included as 1/12<sup>th</sup> of the annual agreed amount and will be invoiced by the Blood Service as part of the invoice for provision of products.</p> <p>As part of the submission of the Strategic Capital Investment Plan (SCIP), incorporating the Annual Capital Plan, the Blood Service will submit planned asset acquisitions that will be undertaken via a service agreement e.g. Software as a Service , Platform as a Service for agreement by the NBA . The NBA will review the submission and provide a response to the Blood Service SCIP within 10 Business Days. The response will set out the approved Annual Capital Plan for the Blood Service for the relevant financial year and any items undertaken via a service agreement. Major capital project over \$10 million for three years will be considered on a case by case basis following submission of a business case by the Blood Service.</p>
<p>Product Prices - Calculation of Tiered Product Prices and definitions of major products and Fixed Costs and Variable Costs</p>	<p>15.</p>	<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> <ul style="list-style-type: none"> <li>• 2b Whole blood red cells – leucodepleted;</li> <li>• 3b Whole blood platelets – leucodepleted;</li> </ul>

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		<ul style="list-style-type: none"> <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> <ul style="list-style-type: none"> <li>• 100% of Fixed Costs as defined above are allocated to 85% of the ASE for each of the five major Group 1 products and Group 2 products.</li> </ul>

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		<p>Tier Prices:</p> <ul style="list-style-type: none"> <li>• Tier One Prices comprise 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>[Not disclosed. This paragraph contains details about plasma volume targets that are yet to be finalised by the Jurisdictional Blood Committee.]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</b> Whole blood red cells – leucodepleted;</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>
<p>Requests for changes to the payments or Additional Payments for Additional Activities</p>	<p>16.</p>	<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, Grant, 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> </ul>



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		<ul style="list-style-type: none"> <li>• changes to the Therapeutic Goods Administration (TGA) Registration or TGA Listing requirements of the Products;</li> <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 (<b>NSR&amp;S 3 - Schedule B</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> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <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 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 16 or any Additional Payment or funding under Item 22, 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	17.	Any agreed change to any amount payable to the Blood Service in respect of Product Prices, Grant Payments, Specified Payments, Other Payments or agreed request for additional payments (under Item 16 or 22) will be separately payable to the Blood Service and will not be incorporated into the calculation of Product Prices, or Grant Payment or Specified Payment for any products and services during the term of the funding cycle in which the change or amount was agreed.

TOPIC	ITEM	OBFM PRINCIPLE
		<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	18.	<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, Grant 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 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.</p>
Policy developments	19.	<p>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.</p>
OBFM Risk Reserve	20.	<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</li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>Item 22 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.</p>
<p>Corporate Risk Reserve</p>	<p>21.</p>	<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> <ul style="list-style-type: none"> <li>• ensure that the Corporate Risk Reserve contains \$25 million (including interest earned) as at the end of 2018-19;</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> </ul> </li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<ul style="list-style-type: none"> <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> <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>

TOPIC	ITEM	OBFM PRINCIPLE
		<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 21 provided that the Blood Service has provided the information and complied with the requirements of this item.</p>
Dealing with losses	22.	<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 22 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 product supplied, which can be the subject of a request under Item 16 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 20 and 21 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>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>If the Blood Service seeks to be compensated under this Item 22 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 F</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 <b>Attachment F</b> will be followed.</p> <p>Nothing in this Item 22 requires the NBA to agree to any changes to the Payments or Additional Payments for products and services.</p>
Dealing with surpluses	23.	<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> <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>

TOPIC	ITEM	OBFM PRINCIPLE
		<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	24.	<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 0 (2018-19) actual operating costs and will be adjusted annually by indexation at 1.95% plus the addition of 10% capital (calculated post indexation adjustment).</p> <p>The R&amp;D annual amount for 2019-20 that will be provided to the Blood Service in response to its Guidance Letter for 2019-20 is the amount determined by the Jurisdictional Blood Committee in December 2018. 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 3 I</b>, and all funding provided for R&amp;D must meet the terms outlined in the agreed R&amp;D Framework.</p> <p><i>2. Calculating Specified Payments for Capital</i></p> <p>The annual Capital Specified Payment amount is as per item 14. One twelfth of the agreed annual Capital amount will be payable each month.</p> <p><i>3. Specified Payments agreed as at the date of these Principles a result of a business case approved by the NBA, including:</i></p>



TOPIC	ITEM	OBFM PRINCIPLE
		<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> <ul style="list-style-type: none"> <li>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</li> <li>ii. the NBA, after considering the business case in accordance with the Deed, has agreed to make additional Specified Payments; then</li> </ul>

TOPIC	ITEM	OBFM PRINCIPLE
		<p>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).</p> <p>The Blood Service must provide to the NBA a business case in the form outlined in <b>NSR&amp;S 35 – Approval Process for Proposals</b>, Tier 3 – Business Case.</p> <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>

<b>Acronyms and Definitions</b>	
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 2017-18
Blood Service	Australian Red Cross Blood Service
Business Case	A business case as described in the form outlined in <b>NSR&amp;S 35 – Approval Process for Proposals</b> , Tier 3 – Business Case.
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 7 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 15 of these Principles.

<b>Acronyms and Definitions</b>	
FFP	Fresh Frozen Plasma
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 ( <b>NSR&amp;S</b> )	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)

<b>Acronyms and Definitions</b>	
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 Payment Rules	means the rules agreed by the parties from time to time that determine when and how the payments are made to the Blood Service and the agreed product substitution rules.
TGA	Therapeutic Goods Administration
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 15 of these Principles
Variable Overheads	is defined in Item 15 of these Principles
Year -1	the 2017-18 financial year
Year 0	the 2018-19 financial year
Year 1	the 2019-20 financial year
Year 2	the 2020-21 financial year
Year 3	the 2021-22 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

Attachment B – SPC and MPC Calculations

Attachment C – Invoice Format

Attachment D – Prepayment Calculation Example

Attachment E – Timetable

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

[Attachments A, B, C, D and F contain sensitive commercial information and have not been disclosed.]

_____	_____	_____	_____
NBA	Date	Blood Service	Date

## Timetable

### Aligning Timetables for Capital Planning, Business Planning and Budgeting

#### Purpose

To provide the NBA and the Blood Service with a high level timetable setting out the timing of the Capital, Budgeting and Business Planning activities. This timetable is based on current timing and may change over time.

Activities	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
<b>Business Planning Process</b>												
Review Strategic Plans												
Business Planning Workshops												
Business Proposals												
Division Work plans												
Reviewed by Executive												
Draft Plan to NBA												
Final Business Plan approved by Board												
Business Plan published												
<b>Capital Planning Process</b>												
Planning for SCIP commences (Finance)												
Divisional planning for SCIP commences (Divisions)												
Initial bids submitted by Divisions												
Business proposals submitted												
Prioritisation of bids by Executives (Cross divisional)												
<b>Activities</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>June</b>

<b>Capital Planning Process continued.</b>													
Draft SCIP Finalised													
Draft SCIP documents reviewed by Executive													
Final SCIP approved by Board													
Budgets loaded into Oracle													
<b>NBA processes</b>													
Final Full SCIP approved by Board received by the NBA													
NBA approve Final SCIP (OOS)													
<b>National Supply Plan and Budget Process</b>													
NBA Modelling and Review Commences													
Meetings with Jurisdictions													
AJE issued to Blood Service													
Guidance Letter issued by Blood Service with ASE													
JBC review National Supply Plan and Budget													
Draft Budget notified to Blood Service													
Final NSP&B advised to Blood Service													
<b>Blood Service Budgeting Process</b>													
Budget Planning Meetings													
Budget commences													
Forecasts issued													
Budgets finalised													
Reviewed by Executive													
Final Budget approved by Board													
Budgets loaded into Oracle													