

OUTPUT BASED FUNDING MODEL PRINCIPLES

(Financial Years 2022-23 to 2024-25)

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.

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Background and Purpose

All Australian Governments have agreed to continue to meet the fair and reasonable costs of the Australian Red Cross Lifeblood (**Lifeblood**), formerly the Australian Red Cross Blood Service, to allow Lifeblood to meet its supply and quality obligations, in accordance with the arrangements under the Deed of Agreement (the Deed) and the Funding and Services Agreement (**FSA**). This commitment is limited to paying Lifeblood 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 Lifeblood and that Lifeblood 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 Lifeblood 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:

- 2022-23 (**Year 1**)
- 2023-24 (**Year 2**)
- 2024-25 (**Year 3**)

I. OBFM Pricing and Payment Starting Principles

- I.1 NBA will make the following three types of payments under the Deed in accordance with these Principles:
- Product Price Payments (including operating costs);
 - Specified Payments (including capital costs); and
 - Other Payments.
- I.2 A funding cycle consists of three consecutive financial years (Year 1, Year 2 and Year 3).
- I.3 Product Prices in the Base Year reflect the Actual Cost of Production for the products in Year -1 (2020-21).
- In Years 1, 2 and 3 of this cycle, Product Prices are subject to indexation in accordance with Item 3.2 of these Principles.
- In Year 0 (2021-22) of this cycle, Product Prices are subject to indexation in accordance with the previous cycle Principles.
- I.4 Product Price Payments include all activities within the Scope of Activities associated with providing those products, including any Value-Added Services that Lifeblood may provide in relation to those products (e.g. irradiating red blood cells) as agreed in the Cost Attribution Rules (Item 3.1 refers).
- I.5 The activities funded by Specified and Other Payments are not included in the determination of Product Prices (see Items 4.3 and 4.5 of these Principles).
- I.6 Subject to these Principles, Product Price Payments, Specified and Other Payments are fixed for each financial year and will not change other than in accordance with Item 4.8 of these Principles and in accordance with the Deed.

2. Guidance Letter

Lifeblood will provide to the NBA an annual Guidance Letter in accordance with the timetable at **Attachment D**. The Guidance Letter will provide details of the proposed annual budget including:

- (a) Annual Supply Estimate (**ASE**) for all Group 1 Products;
- (b) Issues target for Group 2 Products;
- (c) the following amounts calculated in accordance with these Principles:
 - Product Price Payments;
 - Indexation;
 - Specified Payments; and
 - Other Payments.
- (d) matters for approval by governments including:
 - new Specified Payments;
 - new Other Payments; and
 - any business cases Lifeblood submits.

The NBA will review the annual Guidance Letter and provide a recommendation to governments on the annual budget and each jurisdiction will be asked to approve an annual budget as part of the National Supply Plan and Budget (**NSP&B**) process as per the timetable at **Attachment D**.

The NBA will provide a response to the Lifeblood Guidance Letter in accordance with the timetable at **Attachment D**. The response will set out the approved annual budget for Lifeblood for the relevant financial year and include the items listed above.

3. Product Prices

3.1. Cost Attribution Rules

The Cost Attribution Rules will be agreed by the parties prior to each new funding cycle. Lifeblood 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.

The Cost Attribution Rules will determine how Lifeblood's operating costs (which must be based on Lifeblood's audited financial accounts for Year -1 (2020-21)) are allocated against each Product and Service required to be provided by Lifeblood. The Scope of Activities to be included in Lifeblood costs for the provision of Products and Services and for which Payment under these Principles apply is set out in the FSA.

The agreed Cost Attribution Rules for the current funding cycle are set out in **Attachment A** to these Principles.

3.2. Indexation

Product Prices will be indexed annually at 2.22% which is net of a 1.00% efficiency dividend and reflects the net effect of an increase in the Superannuation Guarantee. Any indexation on new business proposals will be negotiated on a case by case basis.

The Indexation rate for Capital Costs has been agreed at 2.22% per annum.

All other Specified and Other Payments will also be indexed at 2.22% annually unless otherwise agreed.

Specified Payments for Melbourne Processing Centre (**MPC**) have separate agreed indexation rates as per its funding agreement. See **Attachment B** for MPC Calculations.

3.3. Calculation of Tiered Product Prices and definitions of major products and Variable Costs and Fixed Costs

In accordance with the Cost Attribution Rules, the prices of products to be supplied by Lifeblood will be split into Tier 1, Tier 2 and non-tier prices. Tier 1 and Tier 2 prices apply to major products, and non-tier prices apply to all other (minor) products.

Major Group 1 products for Tier pricing are:

- 2b Whole blood red cells – leucodepleted;
- 3b Whole blood platelets – leucodepleted;
- 3d Apheresis platelets – leucodepleted;
- 4b Clinical fresh frozen plasma; and
- 4d Apheresis Clinical FFP.

Major Group 2 products for Tier pricing are (Item 3.3 refers):

- 8 Plasma for fractionation – whole blood derived; and
- 9 Plasma for fractionation – apheresis derived.

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.

Variable Costs are:

- all Consumables.

Fixed Costs are all other costs.

Price tiering methodology:

- 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.

Tier Prices:

- Tier 1 Prices comprise Fixed Costs and Consumables for major Group 1 & 2 products supplied up to 85% of the ASE; and
- Tier 2 Prices comprise Consumables for major Group 1 & 2 products supplied above 85% of the ASE.
- Tier 3 Price (nil) for major Group 2 products only as per Item 5 of these Principles.

Non-Tier Prices comprise Fixed Costs and Consumables for all minor products supplied.

Fixed cost recovery

If:

- a product is included in one of the following product categories;
- 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 for Group 1 products and the agreed targets for Group 2 products (**the threshold**); and
- the products were supplied by Lifeblood, and the threshold was met, during the applicable financial year to which the ASE for Group 1 products and the agreed targets for Group 2 products relates,

then Lifeblood will be paid 100% of the Fixed Cost for all products included in the applicable product category in accordance with these Principles.

The product categories are:

- **Product Category 1** - 2b Whole blood red cells – leucodepleted;
- **Product Category 2** - 3b Whole blood platelets – leucodepleted, 3d Apheresis platelets – leucodepleted;
- **Product Category 3** - 4b Clinical fresh frozen plasma, 4d Apheresis Clinical FFP; and
- **Product Category 4** - 8 Plasma for fractionation – whole blood derived, 9 Plasma for fractionation – apheresis derived.

This reconciliation will be undertaken at the end of the financial year by the NBA and agreed with Lifeblood prior to making a Payment for the difference. The process for calculation of the amount is included at **Attachment A**.

3.4. Recalls

For Group 1 and 2 products described under the Deed, if a product issued by Lifeblood 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 Australian Health Provider (**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.

For Group 3 and 4 products described under the Deed:

- if a product issued by Lifeblood is recalled by the Supplier then Lifeblood may be required to assist in the recall process as agreed with the NBA, provided that, if Lifeblood 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;
- in any other circumstances, if a product **issued** by Lifeblood is recalled or otherwise has to be discarded as a result of a mistake, error, action or omission of Lifeblood (or any subcontractors or third parties engaged by Lifeblood) 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; and
- in any other circumstances, if a product in inventory at Lifeblood has to be discarded as a result of a mistake, error, action or omission of Lifeblood (or any subcontractors or third parties engaged by Lifeblood) the NBA will not be required to pay for that recalled or discarded product.

4. Payments

4.1 Products and Services Issued to AHPs (Monthly True-up Invoice)

Lifeblood must invoice the NBA by the 10th Business Day of the month for the previous month issues to AHPs by submitting a Correctly Rendered Invoice. This invoice is referred to as the True-up Invoice and this also includes the reversal of the previous month's prepayment.

Unless there is a dispute in relation to a specific item or number of items within the True-up Invoice, the NBA must pay Lifeblood by the last Friday of the month.

In the event that the NBA disputes a specific item or number of items within a True-up Invoice, the NBA will request that Lifeblood review the disputed item(s) and respond to the NBA. If it is agreed that an error has been made, Lifeblood will issue a credit note or invoice adjustment to rectify the issue. If the dispute is not resolved in sufficient time to have the invoice paid by the 1st Business Day of the month, Lifeblood will withdraw the True-up Invoice. A separate True-up Invoice or credit note will be issued upon resolution of the dispute.

In relation to the invoice for the disputed amount, the NBA and Lifeblood 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 Lifeblood and NBA Chief Executives and if it is still unresolved then the dispute resolution processes set out in the Deed will apply.

4.2 Prepayments for Products and Services

The NBA and Lifeblood will agree the budget for Group 1 and 2 products (based on the ASE for Group 1 Products and the agreed volumes for Group 2 Products - Item 5 refers) each financial year by 31 May. 1/12th of this budget will be known as the monthly *Prepayment Forecast* for products and services.

Lifeblood will provide an invoice to the NBA for each monthly prepayment by the 5th Business Day of the month, covering the next month's prepayment. Each invoice from Lifeblood will include the words *Prepayment for products and services for MMM* (where MMM is month – **Attachment C** refers). The NBA will prepay Lifeblood the amount as per the *Prepayment Forecast* for that month by the 2nd last Friday the month unless the True-Up invoice (Item 4.1 refers) is a negative amount in which case it will be paid in conjunction with True-Up invoice on the last Friday of the month.

4.3 Specified Payments

Specified payments are those payments to Lifeblood that are for a specific purpose to support the operations of Lifeblood in the supply of blood and blood products.

The Specified Payments are categorised as:

1. Specified Payment for Capital Costs;
2. Specified Payment for Research and Development (**R&D**); and
3. Specified Payments agreed as a result of a business case approved by the NBA, including Specified Payments for MPC.

Without limiting any other obligation in these Principles, Lifeblood 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.

Specified Payments will be prepaid to Lifeblood monthly by the 2nd last Friday of the month provided that the NBA has received from Lifeblood a Correctly Rendered Invoice in respect of the next month by the 5th Business Day of the month. Unless otherwise agreed the amount payable will be 1/12th of the Specified Payment annual amount. The method for calculating Specified Payments is detailed in Item 4.4.

4.4 Calculating Specified Payments

Specified Payments payable by the NBA will be calculated in accordance with the following processes:

1. Calculating Specified Payments for Research and Development

Research and Development will be funded based on an amount of \$10.4 million in 2022-23 and will be adjusted annually by indexation at 2.22% plus the addition of 10% capital (calculated post indexation adjustment).

In accordance with requirements below, 1/12th of the R&D annual amount will be payable each month.

The R&D Specified Payment will be administered through an agreed R&D Framework, as set out in the FSA, and all funding provided for R&D must meet the terms outlined in the agreed R&D Framework.

2. Calculating Specified Payments for Capital

The annual Capital Specified Payment amount is as per Item 7. 1/12th of the agreed annual Capital amount will be payable each month.

3. *Specified Payments agreed as at the date of these Principles as a result of a business case approved by the NBA, including:*

a. Specified Payments for MPC;

The annual amounts are set in the Victoria/Tasmania Processing Site (VTPS) (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.

The amount payable each month will be 1/12th of the annual amount.

4. Specified Payments for new business cases;

If:

- i. Lifeblood 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
- ii. the NBA, after considering the business case in accordance with the Deed, has agreed to make additional Specified Payments; then
- 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).

Lifeblood must provide to the NBA a business case in the form outlined in the FSA.

4.5 Other Payments

Other Payments may be made under the Deed other than for Product and Specified Payments. The NBA may after consultation with Lifeblood notify Lifeblood, in accordance with clause 136 of the Deed, of an 'Other Payment' and the conditions applying to such a payment. Other Payments will be payable and may be invoiced by Lifeblood in accordance with a schedule determined by the NBA after consultation with Lifeblood.

4.6 Red Cross Society Oversight Fee

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 Lifeblood's operations.

The oversight fee for Year 1 (2022-23) will be \$310k and will be adjusted annually at 2.22% indexation.

4.7 Requests for Changes to the Payments or Additional Payments for Additional Activities

Lifeblood 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 exceed the agreed funding level as a result of extraordinary circumstances under the Deed or FSA or otherwise agreed by the NBA.

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:

- the necessity for funds is demonstrated to the NBA's satisfaction by a business case as specified below;

- the overall costing structure of Lifeblood 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
- Lifeblood 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.

Lifeblood 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 (Main Operating Program (**MOP**) Projects).

Without limiting any requirement for a submission of a business case under the Deed, if Lifeblood requests any Additional Payment or funding under this Item or any Additional Payment or funding under Item 12 'Dealing with Losses', Lifeblood must provide the NBA with a comprehensive business case supporting the request.

Payments for which Lifeblood 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.

All business cases should consider applicable government timeframes for approving new funding as notified to Lifeblood from time to time.

Unless and until the NBA provides any Additional Payments or funding requested, Lifeblood 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.

4.8 Method of Payment for Agreed Changes or Additional Payments

Any agreed change to any amount payable to Lifeblood in respect of Product Price Payments, Specified Payments, Other Payments or agreed request for additional payments (under Item 4.7 or 4.8) will be separately payable to Lifeblood and will not be incorporated into the calculation of Product Price Payments or Specified Payments for any products and services during the term of the funding cycle in which the change or amount was agreed.

However, any change or amount payable to Lifeblood that applies beyond the term of the funding cycle in which it was agreed may be incorporated into the Product Price Payments for the next funding cycle.

5. Volumes

Group 1 Products

The NBA will provide Lifeblood with Annual Jurisdictional Estimates (**AJE**) based on State and Territory demand volumes for Group 1 Products, as set out in the FSA, each financial year in accordance with the timetable in **Attachment D**.

Lifeblood will then review the AJE and provide its ASE to the NBA in accordance with the timetable in **Attachment D**. The ASE will specify the estimated volume of Group 1 products to be supplied in that financial year. The ASE will be included in the Guidance Letter (Item 2 refers) and will be used as the basis for calculating Product Price Payments.

Group 2 Products

For Group 2 products, as set out in the FSA, the annual kg issues target for each year of this OBFM cycle increases by approximately 10% per year as set out in the table below:

Plasma for Fractionation	2021-22	2022-23	2023-24	2024-25
Total plasma at standard price (Plasma ASE)	884,831	1,019,663	1,070,645	1,124,178
Total plasma at Tier 2 price	16,934	9,711	20,490	32,426
Total plasma at nil price	69,342	38,844	83,904	135,939
Total plasma for fractionation target:	971,107	1,068,218	1,175,039	1,292,543
		10.0%	10.0%	10.0%

Group 3 & 4 Products

The NBA will provide estimated Group 3 & 4 volumes to Lifeblood, in accordance with the timetable at **Attachment D**. The annual volumes will be reviewed and a volume agreed in accordance with the timetable at **Attachment D**. The list of Group 3 & 4 products is provided in the FSA.

6. Cross Subsidisation and Non-Deed Activities

Unless in accordance with the Deed or otherwise agreed by the NBA and Lifeblood, Lifeblood must:

- use payments paid in accordance with the Deed only for the purposes of fulfilling its obligations under the Deed;
- 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 (Non-Deed Activities); and
- provide services to other entities only where those services are not funded from amounts provided under the Deed and do not impact negatively on Lifeblood's ability to meet its Deed obligations.

Clause 15 of the Deed (Clause 15) recognises that Lifeblood may provide products and services and allow the use of Lifeblood's resources, assets or facilities, outside the Deed and not within the Scope of Activities ("Non-Deed Activities"). Clause 15 specifies a number of requirements that Lifeblood must use Best Endeavours to satisfy in relation to Non-Deed Activities, including that Lifeblood:

- must not subsidise any Non-Deed Activities using payments under the Deed;
- must recover the costs of providing the Non-Deed Activities (including the use of resources, assets or facilities) so that these costs are either: (a) met by Lifeblood; or (b) recovered and returned to the NBA.

For the purpose of clause 15, where a cost associated with a Non-Deed Activity is fully and directly attributable to that Non-Deed Activity, Lifeblood will charge that cost fully to the funding source for that Non-Deed Activity.

The following methodology will be used for costs associated with a Non-Deed Activity which are not fully attributable, are indirect costs, or are costs that are not easily measurable:

- 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:
 - 8.5% of the costs of undertaking the Non-Deed Activity as a contribution to Capital for use of infrastructure. If the costs and the recovery of these costs are recorded outside of MOP, this 8.5% recovery will not be required.
 - Information Services 0.5%;
 - Strategy, Communications & Transformation 0.6%;
 - Finance & Procurement 1.5%;
 - People & Culture (Management & Payroll) 0.5%;
 - Corporate & Risk 2.1%;
 - People & Culture 1.2% - to apply where staff need to be specifically recruited for an activity;
 - Information Services 7.5% - 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
 - Administration (includes rent and utilities) 0.4% - to apply when the activity is undertaken in Lifeblood facilities and when a separate rental recovery is not already being charged and returned to MOP; and
- the agreed rate for cost-recovery of the above indirect costs for Lifeblood's tissue typing services is 3.2% of the direct costs of those services.

7. Estimated Capital Costs Associated with Products

Estimated Capital Costs associated with Products for Year 1 (2022-23) are 8.5% of total agreed MOP funding as set out in the annual Guidance Letter for the relevant financial year. Year 2 and 3 Capital Costs will be based on Year 1 (2022-23) Estimated Capital Cost and adjusted annually by indexation at 2.22%.

The amount of Estimated Capital Costs agreed in the annual guidance letter with Lifeblood is a guaranteed amount, and does not change irrespective of the volumes issued within the financial year. Capital funding will be included as 1/12th of the annual agreed amount and will be invoiced by Lifeblood as part of the invoice for provision of products.

Major capital projects valued at more than \$15 million over three years will be considered on a case by case basis following submission of a business case by Lifeblood. Apart from these major capital projects, Lifeblood may apply the Specified Payments for Capital to capital items related to the Scope of Activities under the Deed, including items acquired through a service agreement (such as Software as a Service and Platform as a Service).

8. Changes in the Required Services

The NBA will provide reasonable notice to Lifeblood of its intention to increase or reduce any Services funded by the NBA where that funding has been provided to Lifeblood for the purposes of Lifeblood conducting a specific service. This includes services funded under Product Price Payments and Specified Payments.

The NBA will pay Lifeblood's reasonable costs in respect of any unavoidable costs that Lifeblood can demonstrate are directly attributable to the increase or reduction in those Services provided that Lifeblood takes all reasonable steps to minimise or avoid any costs or losses resulting from the increase or reduction in those Services.

9. Policy Developments

Where reasonable and permissible, the NBA will advise Lifeblood of any applicable policy developments in relation to the prices paid by jurisdictions for blood products and services.

10. OBFM Risk Reserve

The OBFM Risk Reserve is no longer required and Lifeblood will repay the balance of the Reserve to the NBA as at 1 July 2022, at the same time as the return of surplus for 2021-22 under Item 13.

11. Corporate Risk Reserve

Lifeblood must establish and maintain a Corporate Risk Reserve. The Corporate Risk Reserve is to provide funding cover for Lifeblood in the event of material adverse impact from significant corporate risks that cannot be managed within 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.

Lifeblood must:

- ensure that the Corporate Risk Reserve contains \$25 million as at the end of 2021-22, with interest in excess of the \$25 million to be incorporated into the operating result and returned to the NBA at the end of each year as part of the return of surplus under Item 13;
- 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 Lifeblood;
- use the Corporate Risk Reserve to meet any loss suffered or incurred under the Deed (or which would otherwise be suffered or incurred) by Lifeblood arising from or in relation to extraordinary events, including but not limited to:
 - Business disruption due to an industrial dispute;
 - Failure of critical IT and business systems and facilities;
 - Business Disruption due to failure of Consumable suppliers;
 - Significant changes in the external operating environment that have not been planned;
 - Inability to balance donor safety responsibility with sufficiency of blood and blood products;
 - Sub optimal product and safety decisions (e.g. based on public perception rather than scientific fact);
 - Patient Safety event resulting in major or extreme outcome from commission or omission from Lifeblood;
 - An adverse donor event;
 - Ability to urgently manage emerging diseases without full funding;
 - Risk of transmission of disease from transplanted organs prior to July 2009 and from stem cells;

- Loss of building principal sites;
 - 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;
 - 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);
 - Inability to fund ongoing capital needs of Lifeblood;
 - Unrecoverable deficit on Main Operating Program; and
 - In Dealing with Losses as defined in Item 12.
- 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.

The NBA must not unreasonably refuse a request under this Item provided that Lifeblood has provided the information and complied with the requirements of this Item.

12. Dealing with Losses

Although it is at the discretion of Lifeblood whether to request any change to any Payments or Additional Payments, before Lifeblood seeks any changes or Additional Payments it must:

- appropriately manage and mitigate all costs and losses; and
- assess the level of funds available to Lifeblood and the level of financial risk associated with any request.

This Item applies to a situation where Lifeblood 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 given financial year and the actual volume of that product supplied, which can be the subject of a request under Item 4.7 of these Principles.)

In such situations:

- Lifeblood must appropriately manage and mitigate its loss;
- Lifeblood must use the Corporate Risk Reserve to meet all or part of the loss as permitted or required under Item 11 of these Principles; and
- after complying with the above dot points and subject to the Deed, Lifeblood 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.

If Lifeblood seeks to be compensated under this Item the audit type will depend on the amount of the loss and the related compensation claim received by the NBA from Lifeblood. The audit will be in accordance with **Attachment E**.

In this event, and subject to no impropriety by Lifeblood, the NBA agrees to maintain its existing commitment to meet the fair and reasonable costs of Lifeblood. If Lifeblood seeks to be compensated under this Item the process identified in **Attachment E** will be followed.

Nothing in this Item requires the NBA to agree to any changes to the Payments or Additional Payments for products and services.

13. Dealing with Surpluses

At the end of each financial year, Lifeblood will return any operating surplus to the NBA, unless otherwise agreed by the NBA.

Acronyms and Definitions

Actual Cost of Production	of a product means the actual cost of producing the product by Lifeblood as determined by the Audited Financial Statements used in 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 National Supply Plan and Budget planning estimates for Group 1 Products of that name prepared in accordance with the Deed as prepared by Lifeblood in response to the AJE and provided in the Guidance Letter
Base Year	means Year -1 and is 2020-21
Lifeblood	Australian Red Cross Lifeblood
Business Case	A business case as described in the form outlined in the FSA.
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 an invoice which: <ul style="list-style-type: none"> • complies with any relevant law; • is in the format set out at Attachment C; • is accompanied by the dataset files listed in the FSA; and • contains any other requirements agreed by the NBA and Lifeblood.
Cost Attribution Rules	means the rules described in Item 3.1 of these Principles
Estimated Capital Costs	means the estimate calculated in accordance with Item 7 of these Principles
Fixed Costs	is defined in Item 3.3 of these Principles
FFP	Fresh Frozen Plasma
FSA	Funding and Services Agreement
Guidance Letter	is the letter referred to in Item 2 of these Principles
AHP	Australian Health Provider
Governments	Commonwealth, State and Territory Health Departments, formerly the Jurisdictional Blood Committee
MOP	Main Operating Program

MPC	Melbourne Processing Centre (formerly known as Victoria/Tasmania Principal Site)
NBA	National Blood Authority
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
Specified Payments	means those payments to Lifeblood that are for a specific purpose to support the operations of Lifeblood in the supply of the blood and blood products, as described in Item 4.3 of these Principles
TGA	Therapeutic Goods Administration
True-up Invoice	means the monthly Product Price Payment for products supplied by Lifeblood to AHPs
Value-Added Service	means an additional service, as agreed by the parties from time to time, which Lifeblood will provide in relation to an existing product or service under the Deed
Variable Costs	is defined in Item 3.3 of these Principles
Variable Overheads	is defined in Item 3.3 of these Principles
Year -1	the 2020-21 financial year
Year 0	the 2021-22 financial year
Year 1	the 2022-23 financial year
Year 2	the 2023-24 financial year
Year 3	the 2024-25 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.

Attachments

Attachment A - Cost Attribution Rules and Lifeblood SOP:

- A1 – Lifeblood’s cost attribution methodology
- A2 – OBFM Funding Cycle
- A3 – Constructing Prices FY 2020-21
- A3 – Constructing Prices FY 2021-22
- A3 – Constructing Prices FY 2022-23

Note: This is a selection of the Lifeblood SOPs as they are relevant to the OBFM calculations. These SOPs have been developed by Lifeblood 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 – MPC Calculations

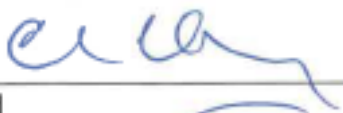

Attachment C – Invoice Format

Attachment D – Timetable

Attachment E – Terms of Reference for a Full Disclosure Audit

Actual Attachments A, B, C and E not disclosed as they contain sensitive information and therefore not published.

Signatures

<p>National Blood Authority</p>  <p>Signed _____</p> <p>John Cahill Chief Executive National Blood Authority</p> <p>_____ Name of Signatory</p>	<p>6 April 2022</p> <p>_____ Date</p>
<p>Australian Red Cross Lifeblood</p>  <p>Signed _____</p> <p>PETER MCDONALD, Acting Chief Executive</p> <p>_____ Name of Signatory</p>	<p>1 April 2022</p> <p>_____ Date</p>

Aligning Timetables for Capital Planning, Business Planning and Budgeting

Attachment D

Purpose:

To provide the NBA and Lifeblood 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
Business Planning Process (Lifeblood)												
Review Strategic Plans												
Business Planning Workshops												
Business Proposals												
Division Workplans												
Reviewed by Lifeblood Executive												
Draft Lifeblood Business Plan submitted to NBA												
Final Lifeblood Business Plan approved by Lifeblood Board												
Lifeblood Business Plan published												
Capital Planning Process												
Lifeblood processes												
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)												
Draft SCIP Finalised												
Draft SCIP documents reviewed by Lifeblood Executive												
Final SCIP approved by Lifeblood Board												
Budgets loaded into Oracle												
NBA processes												
Final Full SCIP (approved by Lifeblood Board) received by the NBA												
NBA approve Final SCIP (OOS)												
National Supply Plan and Budget Process												
NBA Modelling and Review Commences												
Meetings with Jurisdictions												
NBA issues AJE to Lifeblood (Fresh & Group 3 & 4 products)												
Guidance Letter issued by Lifeblood to the NBA with Lifeblood ASE												
Jurisdictional review of National Supply Plan and Budget												
Draft Budget notified to Lifeblood by the NBA												
NBA response to Lifeblood Guidance Letter												
Final NSP&B advised to Lifeblood by the NBA												
Lifeblood Budgeting Process												
Budget Planning Meetings												
Budget commences												
Forecasts issued												
Budgets finalised												
Reviewed by Executive												
Final Budget approved by Lifeblood Board												
Budgets loaded into Oracle												