

INDEPENDENT HOSPITAL PRICING AUTHORITY

Entity Resources and Planned Performance

Independent Hospital Pricing Authority

Health Portfolio Entity

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Section 1: Entity Overview and Resources

1.1 Strategic Direction Statement

The Australian Government is working with State and Territory Governments to implement reforms to the health system to improve health outcomes for all Australians and ensure the sustainability of the health system.

The Independent Hospital Pricing Authority (IHPA), established in December 2011, is responsible for determining a National Efficient Price (NEP) for public hospital services through the analysis of data on the actual activities and costs of public hospitals. IHPA also determines a National Efficient Cost (NEC) which is used when Activity Based Funding (ABF) is not suitable for funding such as in the case of small rural public hospitals. The NEP, combined with block funding for those services that are not appropriate to fund through ABF, ensures that public hospitals receive funding based on need and encourages development in best practice care across the health care system.

IHPA is independent of both the Australian Government and State and Territory Governments. The independent and transparent advice it provides is used to determine Australian Government funding to Local Hospital Networks for the provision of public hospital services.

IHPA is a Corporate Commonwealth Entity under the *Public Governance, Performance and Accountability Act 2013*, and its role and functions are set out in the *National Health Reform Act 2011*.

1.2 Entity Resources

Table 1.1 shows the total resources from all sources. The table summarises how resources will be applied by outcome and by departmental classifications.

Table 1.1: IHPA Resource Statement – Budget Estimates for 2015-16 as at Budget May 2015

	Estimated available appropriation	Estimate of prior year amounts available in	Proposed at Budget	Total estimate
	2014-15 \$'000	2015-16 \$'000	2015-16 \$'000	2015-16 \$'000
Opening balance/reserves at bank	20,298	16,702	-	16,702
FUNDS FROM GOVERNMENT				
Ordinary annual services¹				
Outcome 1	25,718	-	25,877	25,877
Total ordinary annual services	25,718	-	25,877	25,877
Other services²				
Non-operating	-	-	-	-
Total other services	-	-	-	-
Total annual appropriations	25,718	-	25,877	25,877
Payments from related entities³				
Amounts from the Portfolio				
Department	-	-	-	-
Amounts from other agencies	-	-	-	-
Total payments	-	-	-	-
Total funds from Government	25,718	-	25,877	25,877
FUNDS FROM OTHER SOURCES				
Interest	-	-	-	-
Sale of goods and services	464	-	245	245
Other	-	-	-	-
Total other sources	464	-	245	245
Total net resourcing for IHPA	46,480	16,702	26,122	42,824

All figures are GST exclusive.

1 Appropriation Bill (No. 1) 2015-16.

2 Appropriation Bill (No. 2) 2015-16.

3 Funding provided by a Government entity that is not specified within the annual appropriation bills as a payment to the corporate entity.

1.3 Budget Measures

Section 1.3 is not applicable to IHPA.

Section 2: Outcomes and Planned Performance

2.1 Outcomes and Performance Information

Promote improved efficiency in, and access to, public hospital services primarily through setting efficient national prices and levels of block funding for hospital activities

Outcome Strategy

Improvements to the funding of the public hospital system are necessary to ensure the financial sustainability of public health services into the future. IHPA promotes improved efficiency in, and access to, public hospital services by providing independent advice to the Australian Government and State and Territory Governments regarding the efficient price of health care services, and by developing and implementing robust systems to support ABF for those services.

At arm's length from all governments, IHPA is responsible for setting the NEP and NEC for public hospital services. This then determines the Australian Government's contribution to public hospital funding.

IHPA is also responsible for developing national classifications for health care and other services used in public hospitals and, as required, resolving disputes on cost-shifting and cross-border issues and providing advice and reports to the Australian Government and the public.

To improve transparency, IHPA publishes an annual *Pricing Framework for Australian Public Hospital Services* that outlines the principles, criteria and methodology used by IHPA to determine the NEP for services provided by hospitals on an activity basis and the NEC for services that are block funded.

As prescribed in the *National Health Reform Act 2011*, the Clinical Advisory Committee, the Jurisdictional Advisory Committee and other advisory committees, will continue to advise on matters relating to the functions of IHPA. These committees will ensure that the underlying principles applied to setting the NEP and NEC are both clinically relevant and technically appropriate.

IHPA Budgeted Expenses and Resources

Table 2.1 provides an overview of the total expenses for IHPA by programme.

Table 2.1: Budgeted Expenses for IHPA

	2014-15 Estimated actual \$'000	2015-16 Budget \$'000	2016-17 Forward Year 1 \$'000	2017-18 Forward Year 2 \$'000	2018-19 Forward Year 3 \$'000
Programme 1.1: Public hospital price determinations					
Revenue from Government					
Appropriations through the Portfolio Department	25,718	25,877	25,999	26,150	26,490
Revenues from industry sources	464	245	245	245	245
Operating deficit (surplus)	(198)	(194)	(190)	(191)	(193)
Total for Programme 1.1	25,984	25,928	26,054	26,204	26,542
Total expenses for Outcome 1	25,984	25,928	26,054	26,204	26,542
	2014-15	2015-16			
Average staffing level (number)	54	59			

Programme 1.1: Public Hospital Price Determinations

Programme Objectives

Determine the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services

IHPA will release the NEP and NEC Determinations for 2016-17 by 31 March 2016. The NEP Determination sets out the efficient price for public hospital services, while the NEC Determination represents the efficient cost of a block funded hospital.

IHPA will undertake further technical development to improve the price setting process, and continue to refine the models used to determine the NEP and NEC.

Develop national classifications for Activity Based Funding (ABF)

ABF requires robust classification systems. Classifications aim to provide the health care sector with a nationally consistent method of classifying all types of patients, their treatment, and associated costs.

During 2015-16, IHPA will further develop the classifications for admitted acute care, subacute care, non-admitted patient care as well as progress the initial design of new classifications in emergency care, teaching, training and research, and mental health care.

Determine data requirements and data standards

Timely, accurate and reliable public hospital data is vital to both the development of classifications for hospital services and to determine the NEP of those services. IHPA has developed a rolling *Three Year Data Plan* to communicate to the Australian Government and States and Territories the data requirements, data standards and timelines that IHPA will use to collect data over the coming three years. To ensure greater transparency, IHPA will publish data compliance reports every six months to indicate jurisdictional compliance with the specifications in the rolling *Three Year Data Plan*.

Resolve disputes on cost-shifting and cross-border issues

IHPA will review its *Cost-Shifting and Cross-Border Dispute Resolution Framework* and where any Commonwealth, State and/or Territory Health Minister considers that costs in relation to health care services are incorrectly attributable to a jurisdiction, the Minister may request that IHPA investigate the dispute. As soon as practicable, IHPA will give the Health Minister of the other jurisdiction a written invitation to provide a submission. A recommendation will be provided to the relevant jurisdictions following the completion of the investigation.

Programme 1.1: Deliverables

Qualitative Deliverables for Programme 1.1

Determine the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services

Qualitative Deliverables	2015-16 Reference Point or Target
Develop the <i>Pricing Framework for Australian Public Hospital Services</i> for public hospital services in 2016-17.	Publish the 2016-17 Pricing Framework by 31 December 2015 outlining the principles, scope and methodology to be adopted in the determination of the NEP and NEC.
Publish an annual determination of the NEP and NEC for the coming financial year along with other information supporting the efficient funding of public hospital services.	Publish the NEP and NEC Determinations 2016-17 by 31 March 2016.

Develop national classifications for Activity Based Funding (ABF)

Qualitative Deliverables	2015-16 Reference Point or Target
Develop ABF classifications for emergency care, mental health care, subacute and non-acute care, teaching, training and research, and non-admitted patient care.	Commence development work on the new classification system for emergency care services in 2015-16. Progress development of the Australian Mental Health Care Classification V2.0 by 30 June 2016. Ongoing development of the subacute care classification during 2015-16. Completion of a teaching, training and research costing study by 1 December 2015. Continue development work on the new classification for non-admitted care in 2015-16.
Revise the ABF classification for admitted acute care.	Commence development work on <i>Australian Modification of the International Statistical Classification of Diseases 10th Edition</i> and the Australian Refined Diagnosis Related Groups V9.0 prior to 30 June 2016.

Determine data requirements and data standards

Qualitative Deliverable	2015-16 Reference Point or Target
Update the rolling <i>Three Year Data Plan</i> .	Updated rolling <i>Three Year Data Plan</i> published on the IHPA website by July 2015.

Resolve disputes on cost-shifting and cross-border issues

Qualitative Deliverable	2015-16 Reference Point or Target
Review of IHPA's <i>Cost-Shifting and Cross-Border Dispute Resolution Framework</i> .	Publication of updated <i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> .

Programme 1.1: Key Performance Indicators**Qualitative Key Performance Indicators for Programme 1.1****Determine the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services**

Qualitative Indicator	2015-16 Reference Point or Target
Reduce the number of Local Hospital Networks that record costs per National Weighted Activity Unit (NWAU) significantly above the NEP.	Reduction in the range between the 50th and 90th percentile cost per NWAU when compared to 2013-14 data.

Develop national classifications for Activity Based Funding (ABF)

Qualitative Indicator	2015-16 Reference Point or Target
Increased percentage of public hospital services funded by nationally consistent ABF.	Provide a further increase in the proportion of funding for public hospital services using ABF as reported by the Administrator of the National Health Funding Pool. ¹

Determine data requirements and data standards

Qualitative Indicator	2015-16 Reference Point or Target
The Australian Government and States and Territories comply with the data requirements and data standards, as outlined in the rolling <i>Three Year Data Plan</i> .	Publication of a report on a six monthly basis outlining compliance with the data requirements and data standards specified in the rolling <i>Three Year Data Plan</i> .

Resolve disputes on cost-shifting and cross-border issues

Qualitative Indicator	2015-16 Reference Point or Target
Timely investigation and provision of recommendations to Health Ministers to resolve cost-shifting and cross-border disputes.	IHPA investigation of cost-shifting or cross-border disputes and provision of recommendations or assessment within six months of receipt of request.

¹ In 2013-14, 82 per cent of National Health Reform Agenda funding was provided on the basis of ABF.

Section 3: Explanatory Tables and Budgeted Financial Statements

Section 3 presents explanatory tables and budgeted financial statements which provide a comprehensive snapshot of entity finances for the 2015-16 Budget year. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations and programme expenses, movements in administered funds, special accounts and Australian Government Indigenous expenditure.

3.1 Explanatory Tables

3.1.1 Movement of Administered Funds Between Years

Section 3.1.1 is not applicable to IHPA.

3.1.2 Special Accounts

Section 3.1.2 is not applicable to IHPA.

3.1.3 Australian Government Indigenous Expenditure (AGIE)

Section 3.1.3 is not applicable to IHPA.

3.2 Budgeted Financial Statements

3.2.1 Differences in Entity Resourcing and Financial Statements

Section 3.2.1 is not applicable to IHPA.

3.2.2 Analysis of Budgeted Financial Statements

The IHPA became a Corporate entity on 1 July 2014 under the *Public Governance, Performance and Accountability Act 2013*. A consequence of this change was that from 1 July 2014, IHPA no longer maintains separate accounting records for Administered revenue, expenses, assets and liabilities and cash flows, as these are accounted for as part of IHPA's Departmental item.

An analysis of IHPA's budgeted financial statements for 2015-16 is provided below.

Departmental Resources

Comprehensive Income Statement

IHPA anticipates an operating surplus of \$0.2 million in the 2014-15 financial year. Surpluses of \$0.2 million are also planned for each year of the forward estimates.

Own-source income of \$0.4 million in 2014-15 is sourced from international sales of intellectual property relating to the Australian Refined Diagnosis Related Groups (AR DRG) classification system owned by the Commonwealth. Sales revenue is planned at \$0.2 million from 2015-16 onwards as revenue from overseas sources is expected to decline.

Balance Sheet

IHPA's assets and liabilities are expected to remain stable over the forward estimates.

Appropriation receivable was reduced by \$3.651 million in 2014-15 as a result of the application of the *Omnibus Repeal Day (Autumn 2014) Act 2014*.

Cash Flow

Cash flows are consistent with income, expenses and asset movements.

3.2.3 Budgeted Financial Statements Tables

Table 3.2.1: Comprehensive Income Statement (showing net cost of services) for the period ended 30 June

	Estimated actual 2014-15 \$'000	Budget estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000	Forward estimate 2018-19 \$'000
EXPENSES					
Employee benefits	7,527	8,172	8,313	8,471	8,641
Supplier expenses	17,714	17,004	16,941	17,159	17,339
Depreciation and amortisation	743	752	800	574	562
Total expenses	25,984	25,928	26,054	26,204	26,542
LESS:					
OWN-SOURCE INCOME					
Revenue					
Sale of goods and rendering of services	464	245	245	245	245
Total revenue	464	245	245	245	245
Gains					
Other	-	-	-	-	-
Total gains	-	-	-	-	-
Total own-source income	-	-	-	-	-
Net cost of (contribution by) services	25,520	25,683	25,809	25,959	26,297
Revenue from Government	25,718	25,877	25,999	26,150	26,490
Surplus (Deficit)	198	194	190	191	193
Surplus (Deficit) attributable to the Australian Government	198	194	190	191	193
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation reserves	-	-	-	-	-
Total other comprehensive income (loss)	-	-	-	-	-
Total comprehensive income (loss) attributable to the Australian Government	198	194	190	191	193

Table 3.2.2: Budgeted Departmental Balance Sheet (as at 30 June)

	Estimated actual 2014-15 \$'000	Budget estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000	Forward estimate 2018-19 \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	368	367	402	372	343
Receivables	17,659	17,764	18,099	18,224	18,736
Total financial assets	18,027	18,131	18,501	18,596	19,079
Non-financial assets					
Land and buildings	528	260	-	323	259
Property, plant and equipment	397	381	311	335	311
Intangibles	262	212	159	103	46
Prepayments	44	44	44	44	44
Total non-financial assets	1,231	897	514	805	660
Total assets	19,258	19,028	19,015	19,401	19,739
LIABILITIES					
Payables					
Suppliers	2,494	2,261	1,988	2,183	2,328
Other payables	770	770	770	770	770
Total payables	3,264	3,031	2,758	2,953	3,098
Provisions					
Employees	897	702	768	768	768
Other provisions	166	170	174	174	174
Total provisions	1,063	872	942	942	942
Total liabilities	4,327	3,903	3,700	3,895	4,040
Net Assets	14,931	15,125	15,315	15,506	15,699
EQUITY					
Contributed equity	(3,251)	(3,251)	(3,251)	(3,251)	(3,251)
Reserves	16	16	16	16	16
Retained surpluses or accumulated deficits	18,166	18,360	18,550	18,741	18,934
Total equity	14,931	15,125	15,315	15,506	15,699

Table 3.2.3: Departmental Statement of Changes in Equity — summary of movement (Budget year 2015-16)

	Retained earnings	Asset revaluation reserve	Contributed equity/capital	Total equity
	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2015				
Balance carried forward from previous period ¹	18,166	16	(3,251)	14,931
Surplus (deficit) for the period	194	-	-	194
Appropriation (equity injection)	-	-	-	-
Estimated closing balance as at 30 June 2016				
	18,360	16	(3,251)	15,125

- 1 The 2015-2016 opening balance for contributed equity includes a return of capital of \$3.651m in 2014-15 which resulted from the repeal of Appropriation Act (No. 1) 2011-2012. The repeal of this Appropriation Act was classified as a return of capital.

**Table 3.2.4: Budgeted Departmental Statement of Cash Flows
(for the period ended 30 June)**

	Estimated actual 2014-15 \$'000	Budget estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000	Forward estimate 2018-19 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	150	150	150	150	150
Appropriations	25,301	25,771	25,664	26,120	26,073
Net GST received	643	632	632	632	632
Total cash received	26,094	26,553	26,446	26,902	26,855
Cash used					
Employees	7,436	8,323	8,247	8,471	8,641
Suppliers	17,559	17,268	17,202	16,964	17,194
Net GST paid	556	545	545	632	632
Total cash used	25,551	26,136	25,994	26,067	26,467
Net cash from (or used by) operating activities	543	417	452	835	388
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	488	418	417	865	417
Total cash used	488	418	417	865	417
Net cash from (or used by) investing activities	(488)	(418)	(417)	(865)	(417)
FINANCING ACTIVITIES					
Cash received					
Contributed equity	-	-	-	-	-
Total cash received	-	-	-	-	-
Cash used					
Cash used for other financing activities	-	-	-	-	-
Total cash used	-	-	-	-	-
Net cash from (or used by) financing activities	-	-	-	-	-
Net increase (or decrease) in cash held	55	(1)	35	(30)	(29)
Cash and cash equivalents at the beginning of the reporting period	313	368	367	402	372
Cash and cash equivalents at the end of the reporting period	368	367	402	372	343

Table 3.2.5: Departmental Capital Budget Statement (for the period ended 30 June)

	Estimated actual 2014-15 \$'000	Budget estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000	Forward estimate 2018-19 \$'000
CAPITAL APPROPRIATIONS					
Equity injections - Bill 2	-	-	-	-	-
Total capital appropriations	-	-	-	-	-
Total new capital appropriations represented by:					
Purchase of non-financial assets	-	-	-	-	-
Total items	-	-	-	-	-
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriations - equity injection ¹	-	-	-	-	-
Funded internally from departmental resources	488	418	417	865	417
Total acquisitions of non-financial assets	488	418	417	865	417
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	488	418	417	865	417
Total cash used to acquire assets	488	418	417	865	417

1 Includes both current Bill 2 and prior Act 2/4/6 appropriations and special capital appropriations.

Table 3.2.6: Statement of Asset Movements (Budget year 2015-16)

	Buildings	Other property, plant and equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2015				
Gross book value	1,177	693	713	2,583
Accumulated depreciation/amortisation and impairment	(649)	(296)	(451)	(1,396)
Opening net book balance	528	397	262	1,187
CAPITAL ASSET ADDITIONS				
Estimated expenditure on new or replacement assets				
By purchase - appropriation equity	-	-	-	-
By purchase - internal resources	-	175	243	418
Total additions	-	175	243	418
Other movements				
Depreciation/amortisation expense	(268)	(191)	(293)	(752)
Total other movements	(268)	(191)	(293)	(752)
As at 30 June 2016				
Gross book value	1,177	868	956	3,001
Accumulated depreciation/amortisation and impairment	(917)	(487)	(744)	(2,148)
Closing net book balance	260	381	212	853