

INDEPENDENT HOSPITAL PRICING AUTHORITY

Entity Resources and Planned Performance

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Section 1: Entity Overview and Resources

1.1 STRATEGIC DIRECTION STATEMENT¹

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) 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 services. IHPA also determines a National Efficient Cost (NEC) which is used when Activity Based Funding is not suitable for funding such as in the case of small rural public hospitals.

Following the *Heads of Agreement between the Commonwealth and States and Territories on Public Hospital Funding*, signed on 1 April 2016, and subsequent Direction issued to IHPA by the Minister for Health on 16 February 2017, IHPA began work to implement pricing for safety and quality into funding of public hospital services.

IHPA is responsible for developing national classifications for health care and other services delivered by 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.

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, advise on matters relating to the functions of IHPA. These committees ensure that the underlying principles applied to setting the NEP and NEC are both clinically relevant and technically appropriate.

IHPA is independent of the Australian Government and State and Territory Governments.

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 For more information about the strategic direction of the IHPA, refer to the current corporate plan, available at: www.ihoa.gov.au/who-we-are/corporate-plan

1.2 ENTITY RESOURCE STATEMENT

Table 1.1 shows the total funding from all sources available to the entity for its operations and to deliver programs and services on behalf of the Government.

The table summarises how resources will be applied by outcome (Government strategic policy objectives) and by administered (on behalf of the Government or the public) and departmental (for the entity's operations) classification.

For more detailed information on special accounts and special appropriations, please refer to *Budget Paper No. 4 – Agency Resourcing*.

Information in this table is presented on a resourcing (i.e. appropriations/cash available) basis, whilst the 'Budgeted expenses by outcome' tables in Section 2 and the financial statements in Section 3 are presented on an accrual basis.

Table 1.1: IHPA Resource Statement – Budget Estimates for 2017-18 as at Budget May 2017

	2016-17 Estimated actual \$'000	2017-18 Estimate \$'000
Opening balance/cash reserves at 1 July	26,576	24,913
Funds from Government		
Annual appropriations		
Ordinary annual services ^(a)		
Outcome 1	-	-
Other services ^(b)		
Equity injection	-	-
Total annual appropriations	-	-
Amounts received from related entities ^(c)		
Amounts from the Portfolio Department	15,538	15,476
Amounts from other entities	-	-
Total amounts received from related entities	15,538	15,476
Total funds from Government	15,538	15,476
Funds from other sources		
Interest	96	96
Sale of goods and services	845	850
Other	-	-
Total funds from other sources	941	946
Total net resourcing for IHPA	43,055	41,335
	2016-17	2017-18
Average staffing level (number)	1	1

All figures are GST exclusive.

^(a) Appropriation Bill (No. 1) 2017-18.

^(b) Appropriation Bill (No. 2) 2017-18.

^(c) 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

This section is not applicable to IHPA.

Section 2: Outcomes and Planned Performance

Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. Commonwealth programs are the primary vehicle by which Government entities achieve the intended results of their outcome statements. Entities are required to identify the programs which contribute to Government outcomes over the Budget and forward years.

Each outcome is described below together with its related programs. The following provides detailed information on expenses for each outcome and program, further broken down by funding source.

Note:

Performance reporting requirements in the Portfolio Budget Statements are part of the Enhanced Commonwealth Performance Framework established by the *Public Governance, Performance and Accountability Act 2013*. It is anticipated that the performance criteria described in Portfolio Budget Statements will be read with broader information provided in an entity's corporate plans and annual performance statements – included in Annual Reports – to provide an entity's complete performance story.

IHPA's most recent corporate plan is available at:
www.ihoa.gov.au/who-we-are/corporate-plan

IHPA's most recent annual performance statement is available at:
www.ihoa.gov.au/publications/annual-report-2016

2.1 BUDGETED EXPENSES AND PERFORMANCE

Outcome 1

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

Program Contributing to Outcome 1

Program 1.1: Public Hospital Price Determinations

Linked Programs

Other Commonwealth entities that contribute to Outcome 1
<p>Department of Health Program 2.7: Hospital Services The Department of Health has policy responsibility for public and private hospital services, including the Commonwealth Government funding contribution for public hospital services. This includes policy responsibility for the implementation of Activity Based Funding under the National Health Reform Agreement.</p>
<p>Australian Commission on Safety and Quality in Health Care Program 1.1: Safety and Quality in Health Care The Australian Commission on Safety and Quality in Health Care works together with IHPA, through a joint working party, to consider options for their respective governing bodies on possible approaches to ensuring safety and quality in the provision of health care services to fulfil the relevant requirements of the National Health Reform Agreement.</p>

IHPA

Budgeted Expenses for IHPA

Table 2.1.1 shows how much the entity intends to spend (on an accrual basis) on achieving the outcome, broken down by program, as well as by administered and departmental funding sources.

Table 2.1.1: Budgeted Expenses for IHPA

	2016-17 Estimated actual \$'000	2017-18 Budget \$'000	2018-19 Forward Year 1 \$'000	2019-20 Forward Year 2 \$'000	2020-21 Forward Year 3 \$'000
Program 1.1: Public Hospital Price Determinations					
Revenue from Government					
Ordinary annual services	-	-	-	-	-
Amounts from related entities	15,538	15,476	15,876	16,118	16,102
Revenues from independent sources	941	946	1,351	951	951
Expenses not requiring appropriation in the Budget year ^(a)	6,698	6,811	6,924	7,046	7,039
Operating deficit (surplus)	-	-	-	-	-
Total for Program 1.1	23,177	23,233	24,151	24,115	24,092
Total expenses for Outcome 1	23,177	23,233	24,151	24,115	24,092
	2016-17	2017-18			
Average staffing level (number)	1	1			

^(a) Expenses not requiring appropriation in the Budget year are made up of staff salary and shared services received free of charge from Department of Health.

Planned Performance for IHPA

Table 2.1.2 below details the performance criteria for the program associated with Outcome 1.² It also summarises how the program is delivered and where 2017-18 Budget measures have materially changed the program.

Table 2.1.2: Performance Criteria for IHPA

Purpose
To determine the National Efficient Price and the National Efficient Cost for public hospital services.
Outcome 1
Promote improved efficiency in, and access to, public hospital services primarily through setting efficient national prices and levels of block funding for hospital activities
Program 1.1: Public Hospital Price Determinations
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 Activity Based Funding for those services. In 2017-18 this will include work to implement pricing for safety and quality into funding of public hospital services, consistent with the <i>Heads of Agreement between the Commonwealth and States and Territories on Public Hospital Funding</i> signed on 1 April 2016.
Delivery
<p>A. Determining the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services</p> <ul style="list-style-type: none"> Continue to develop and refine the pricing models which will ensure accurate NEP and NEC Determinations. Develop safety and quality measures for inclusion in the NEP in future years. <p>B. Developing infrastructure to support a national Activity Based Funding system</p> <ul style="list-style-type: none"> Continue to develop and refine new and existing hospital activity classifications through specialist input from clinicians. Ensure clinical acceptance of classification systems through consultation and collaboration with specialist committees including IHPA's Clinical Advisory Committee. Establish and maintain national costing standards. Ensure effective collection and processing of costing information from public and private hospitals. Develop and maintain standards for activity data collections, including the annual publication of the <i>Three Year Data Plan</i>. Publish a six-monthly report outlining jurisdictional compliance with the data requirements and data standards as set out in the <i>Three Year Data Plan</i>. <p>C. Resolving disputes on cost-shifting and cross-border issues</p> <ul style="list-style-type: none"> Investigate and make recommendations concerning cross-border disputes and cost-shifting disputes between States and Territories.

² Progress against the performance criteria published in the *2016-17 Portfolio Budget Statements* will be reported in the 2016-17 IHPA Annual Report.

Performance criteria		
A. Determining the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services		
Publish the <i>Pricing Framework for Australian Public Hospital Services (Pricing Framework)</i> outlining the principles, scope and methodology to be adopted in the determination of the National Efficient Price and National Efficient Cost.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
<i>Pricing Framework for Australian Public Hospital Services 2017-18</i> published in March 2017. ³	Publish the Pricing Framework 2018-19 by 31 December 2017.	Publish the Pricing Framework annually by 31 December.
Publish an annual determination of the National Efficient Price and National Efficient Cost for the coming financial year along with other information supporting the efficient funding of public hospital services.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
The National Efficient Price (NEP) and National Efficient Cost (NEC) Determinations for 2017-18 were published in March 2017.	Publish the NEP and NEC Determinations for 2018-19 by 31 March 2018.	Publish the NEP and NEC Determinations annually by 31 March.



³ The *Pricing Framework for Australian Public Hospital Services* for 2017-18 was published in March 2017. This allowed for time to consult with stakeholders following the Direction issued to IHPA by the former Minister for Health and Aged Care following from the Heads of Agreement signed at the Council of Australian Governments meeting in April 2016 for IHPA to develop options for incorporating safety and quality into the pricing and funding of public hospital services.

B. Developing infrastructure to support a national Activity Based Funding system		
Develop new Activity Based Funding classifications.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
Australian Mental Health Care Classification Version 1.0 implemented.	Complete work on the new classification system for emergency care services by December 2017. Development of the Australian Mental Health Care Classification Version 2.0. Continue to develop a new classification for teaching and training. Development of the Australian non-admitted care classification system.	Complete work on the Australian non-admitted care classification system by December 2018. Complete work on the teaching and training classification by June 2018.
Revise existing Activity Based Funding classifications.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
Australian Refined Diagnosis Related Groups Version 9.0 approved by the Pricing Authority in November 2016.	Continue work on the Australian Modification of the International Statistical Classification of Diseases 11th edition. Continue work on the new classification for Australian national sub-acute and non-acute patient care. Continue work on Australian Refined Diagnosis Related Group Version 10.	Complete work on the Australian Modification of the International Statistical Classification of Diseases 11th edition by 2019. Complete work on Australian Refined Diagnosis Related Group Version 10 by 2019.
Maintain up-to-date national costing standards.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
In progress.	Release of the Australian Hospital Patient Costing Standards Version 4.	Continued development of the Australian Hospital Patient Costing Standards Version 4.
Ensure effective collection and processing of costing information to support ABF outcomes.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
The National Hospital Cost Data Collection (Round 19) was published in November 2016. The National Hospital Cost Data Collection (Round 19) Independent Financial Review was published in February 2017.	Completion of the annual National Hospital Cost Data Collection Round by 30 December of that year. Completion of the annual National Hospital Cost Data Collection Round, Independent Financial Review by 30 December of that year. Release of the annual cost weights for public and private hospitals by June of that year.	As per 2017-18.

C. Resolving disputes on cost-shifting and cross-border issues		
Review of IHPA's Cost-Shifting and Cross-Border Dispute Resolution Framework.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
The <i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> was reviewed and published on 1 March 2016.	Complete review and publish updated <i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> annually by June.	As per 2017-18.
Timely investigation and provision of recommendations to Health Ministers to resolve cost-shifting and cross-border disputes.		
2016-17 Estimated result	2017-18 Target	2018-19 (& beyond) Target
No disputes were received.	IHPA investigation of cost-shifting or cross-border disputes and provision of recommendations or assessment within six months of receipt of request.	As per 2017-18.
Material changes to Program 1.1 resulting from the following measures:		
<ul style="list-style-type: none"> • There are no material changes to Program 1.1 resulting from measures. 		



Section 3: Budgeted Financial Statements

Section 3 presents budgeted financial statements which provide a comprehensive snapshot of entity finances for the 2017-18 Budget year, including the impact of Budget measures and resourcing on financial statements.

3.1 BUDGETED FINANCIAL STATEMENTS

3.1.1 Differences Between Entity Resourcing and Financial Statements

This section is not applicable to IHPA.

3.1.2 Explanatory Notes and Analysis of Budgeted Financial Statements

Departmental Resources

Comprehensive Income Statement

The operational functions of the Independent Hospital Pricing Authority (IHPA) were transferred to the Department of Health (the Department) on 1 July 2016, with the Board, Chief Executive Officer (CEO) and functions retained.

Under a memorandum of understanding (MOU) arrangement executed in June 2016, the Department's staff are seconded to IHPA under the direct control of IHPA's CEO to support its functions. The cost of these services are provided to IHPA as resources received free of charge.

In the 2017-18 financial year IHPA's total budget expenditure estimate is \$23.2 million. IHPA is funded through both payments from the Department and funds from own source income.

Balance Sheet

IHPA's receivables are planned to reduce from \$18.5 million in 2016-17 to \$0.3 million in 2017-18, as a result of the extinguishing of the unspent \$18.2 million from the 2014-15 appropriation by the automatic operation of the three year repeal that will occur at the end of 2016-17.

Cash Flow

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

3.2 BUDGETED FINANCIAL STATEMENTS TABLES

Table 3.1: Comprehensive Income Statement (showing net cost of services for the period ended 30 June)

	2016-17 Estimated actual \$'000	2017-18 Budget \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000
EXPENSES					
Employee benefits	6,134	6,201	6,326	6,454	6,454
Supplier expenses	16,311	16,315	17,262	17,098	17,075
Depreciation and amortisation	732	717	563	563	563
Total expenses	23,177	23,233	24,151	24,115	24,092
LESS:					
OWN-SOURCE INCOME					
Revenue					
Sale of goods and rendering of services ^(a)	16,383	16,326	17,131	16,973	16,957
Interest	96	96	96	96	96
Total revenue	16,479	16,422	17,227	17,069	17,053
Gains					
Other ^(b)	6,698	6,811	6,924	7,046	7,039
Total gains	6,698	6,811	6,924	7,046	7,039
Total own-source income	23,177	23,233	24,151	24,115	24,092
Net cost of (contribution by) services	-	-	-	-	-
Revenue from Government	-	-	-	-	-
Surplus (deficit)	-	-	-	-	-
Surplus (deficit) attributable to the Australian Government	-	-	-	-	-
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation reserves	-	-	-	-	-
Total other comprehensive income (loss)	-	-	-	-	-
Total comprehensive income (loss) attributable to the Australian Government	-	-	-	-	-

^(a) Payments from Department of Health and funds from own sources.

^(b) Staff salary and shared services received free of charge from Department of Health.

Table 3.2: Budgeted Departmental Balance Sheet (as at 30 June)

	2016-17 Estimated actual \$'000	2017-18 Budget \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	6,737	6,633	6,824	7,015	7,106
Receivables	18,515	339	339	339	339
Total financial assets	25,252	6,972	7,163	7,354	7,445
Non-financial assets					
Land and buildings	203	383	318	253	188
Property, plant and equipment	290	314	290	209	183
Intangibles	303	247	190	190	190
Prepayments	49	49	49	49	49
Total non-financial assets	845	993	847	701	610
Total assets	26,097	7,965	8,010	8,055	8,055
LIABILITIES					
Payables					
Suppliers	1,350	1,384	1,419	1,454	1,454
Other payables	355	355	355	355	355
Total payables	1,705	1,739	1,774	1,809	1,809
Provisions					
Employees	120	130	140	150	150
Other provisions	165	165	165	165	165
Total provisions	285	295	305	315	315
Total liabilities	1,990	2,034	2,079	2,124	2,124
Net Assets	24,107	5,931	5,931	5,931	5,931
EQUITY					
Contributed equity	400	400	400	400	400
Reserves	16	16	16	16	16
Retained surpluses (accumulated deficits)	23,691	5,515	5,515	5,515	5,515
Total equity	24,107	5,931	5,931	5,931	5,931

Table 3.3: Departmental Statement of Changes in Equity – Summary of Movement (Budget year 2017-18)

	Retained earnings	Asset revaluation reserve	Contributed equity/capital	Total equity
	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2017				
Balance carried forward from previous period	23,691	16	400	24,107
Surplus (deficit) for the period	-	-	-	-
Appropriation (equity injection)	(18,176)	-	-	(18,176)
Estimated closing balance as at 30 June 2018	5,515	16	400	5,931

Table 3.4: Budgeted Departmental Statement of Cash Flows (for the period ended 30 June)

	2016-17 Estimated actual \$'000	2017-18 Budget \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	846	866	1,273	887	871
Interest	96	96	96	96	96
Appropriations	-	-	-	-	-
Net GST received	1,304	1,303	1,379	1,364	1,364
Other	15,538	15,460	15,859	16,085	16,085
Total cash received	17,784	17,725	18,607	18,432	18,416
Cash used					
Employees	7,105	6,197	6,322	6,450	6,450
Suppliers	11,408	10,682	11,551	11,289	11,318
Net GST paid	85	85	126	85	85
Others	432	-	-	-	-
Total cash used	19,030	16,964	17,999	17,824	17,853
Net cash from (or used by) operating activities	(1,246)	761	608	608	563
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	417	865	417	417	472
Total cash used	417	865	417	417	472
Net cash from (or used by) investing activities	(417)	(865)	(417)	(417)	(472)
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	(1,663)	(104)	191	191	91
Cash and cash equivalents at the beginning of the reporting period	8,400	6,737	6,633	6,824	7,015
Cash and cash equivalents at the end of the reporting period	6,737	6,633	6,824	7,015	7,106

Table 3.5: Departmental Capital Budget Statement (for the period ended 30 June)

	2016-17 Estimated actual \$'000	2017-18 Budget \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'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 ^(a)	-	-	-	-	-
Funded internally from departmental resources	417	865	417	417	472
Total acquisitions of non-financial assets	417	865	417	417	472
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	417	865	417	417	472
Total cash used to acquire assets	417	865	417	417	472

^(a) Includes both current Bill 2, prior Act 2/4/6 appropriations and special capital appropriations.

Table 3.6: Statement of Asset Movements (Budget year 2017-18)

	Buildings	Other property, plant and equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2017				
Gross book value	796	811	530	2,137
Accumulated depreciation/ amortisation and impairment	(593)	(521)	(227)	(1,341)
Opening net book balance	203	290	303	796
CAPITAL ASSET ADDITIONS				
Estimated expenditure on new or replacement assets				
By purchase - appropriation equity	-	-	-	-
By purchase - internal resources	388	234	243	865
Total additions	388	234	243	865
Other movements				
Depreciation/amortisation expense	(208)	(210)	(299)	(717)
Total other movements	(208)	(210)	(299)	(717)
As at 30 June 2018				
Gross book value	1,184	1,045	531	3,002
Accumulated depreciation/ amortisation and impairment	(801)	(731)	(284)	(2,058)
Closing net book balance	383	314	247	944