

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 the 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 the 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.

In 2018-19, IHPA will continue to further develop and implement pricing for safety and quality into funding of public hospital services, consistent with the Addendum to the National Health Reform Agreement signed in 2017.

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. It also provides 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.

The role and functions of IHPA are set out in the *National Health Reform Act 2011*. IHPA is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*.

¹ For more information about the strategic direction of the IHPA, refer to the current Corporate Plan, available at: www.iHPA.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, 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 2018-19 as at Budget May 2018

	2017-18 Estimated actual \$'000	2018-19 Estimate \$'000
Opening balance/cash reserves at 1 July	9,794	9,690
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	14,476	14,797
Amounts from other entities	-	-
Total amounts received from related entities	14,476	14,797
Total funds from Government	14,476	14,797
Funds from other sources		
Interest	96	120
Sale of goods and services	1,850	1,120
Other	-	-
Total funds from other sources	1,946	1,240
Total net resourcing for IHPA	26,216	25,727
	2017-18	2018-19
Average staffing level (number)	1	1

All figures are GST exclusive.

^(a) Appropriation Bill (No. 1) 2018-19.

^(b) Appropriation Bill (No. 2) 2018-19.

^(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 that 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/ihoa-annual-report-2016-17

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 healthcare services to fulfil the relevant requirements of the National Health Reform Agreement.</p>

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

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward Year 1 \$'000	2020-21 Forward Year 2 \$'000	2021-22 Forward Year 3 \$'000
Program 1.1: Public Hospital Price Determinations					
Revenue from Government					
Ordinary annual services	-	-	-	-	-
Amounts from related entities	14,476	14,797	15,039	15,038	15,021
Revenues from independent sources	1,946	1,240	1,258	1,258	1,358
Expenses not requiring appropriation in the Budget year ^(a)	6,811	7,086	7,208	7,215	7,257
Operating deficit (surplus)	-	-	-	-	-
Total for Program 1.1	23,233	23,123	23,505	23,511	23,636
Total expenses for Outcome 1	23,233	23,123	23,505	23,511	23,636
	2017-18	2018-19			
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. It also summarises how the program is delivered and where 2018-19 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
<p>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 healthcare services, and by developing and implementing robust systems to support Activity Based Funding for those services.</p> <p>In 2018-19 this will include work to further develop and implement pricing for safety and quality into funding of public hospital services, consistent with the Addendum to the National Health Reform Agreement signed in 2017.</p>
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 that 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 quarterly 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 cost-shifting disputes and cross-border disputes between States and Territories.

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</i> (Pricing Framework) outlining the principles, scope and methodology to be adopted in the determination of the National Efficient Price and National Efficient Cost.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
<i>Pricing Framework for Australian Public Hospital Services 2018-19</i> was published in November 2017.	Publish the Pricing Framework 2019-20 by 31 December 2018.	Publish the next Pricing Framework annually by 31 December.
Publish an annual determination of the National Efficient Price (NEP) and National Efficient Cost (NEC) for the coming financial year along with other information supporting the efficient funding of public hospital services.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
The NEP and NEC Determinations for 2018-19 were published in March 2018.	Publish the NEP and NEC Determinations for 2019-20 by 31 March 2019.	Publish the next NEP and NEC Determinations annually by 31 March.
B. Developing infrastructure to support a national Activity Based Funding system		
Develop new Activity Based Funding classifications.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
New classification system for emergency care services was developed. Australian Teaching and Training Classification Version 1.0 was approved on 4 April 2018.	Seek approval for the Australian Emergency Care Classification Version 1.0 by December 2018. Commence work on the Australian Non-Admitted Care Classification system Version 1.0 for approval in 2019-20.	Complete work on the Australian Non-Admitted Care Classification system Version 1.0 for approval in 2019-20.

Revise existing Activity Based Funding classifications.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
<p>Continued work on the Australian Modification of the International Statistical Classification of Diseases 11th edition.</p> <p>Continued work on Australian Refined Diagnosis Related Groups Version 10.</p> <p>Continued work on the refinement of the classification for Australian national sub-acute and non-acute patient care.</p> <p>Commenced work on the Australian Mental Health Care Classification Version 2.0.</p>	<p>Complete work on the Australian Modification of the International Statistical Classification of Diseases 11th edition by June 2019.</p> <p>Complete work on Australian Refined Diagnosis Related Groups Version 10 by June 2019.</p> <p>Continue to develop Mental Health Care Classification Version 2.0 for approval in 2019.</p>	<p>Commence work on Version 2.0 of the Australian Emergency Care Classification.</p> <p>Complete Mental Health Care Classification Version 2.0 for approval in 2019.</p> <p>Commence work on the Australian Teaching and Training Classification Version 2.0.</p> <p>Commence work on the Australian Modification of the International Statistical Classification of Diseases 12th edition.</p> <p>Commence work on Australian Refined Diagnosis Related Groups Version 11.</p>
Maintain up-to-date national costing standards.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
<p>The Australian Hospital Patient Costing Standards Version 4 was published on 31 March 2018.</p>	<p>Implementation of the Australian Hospital Patient Costing Standards Version 4.</p>	<p>Development of the Australian Hospital Patient Costing Standards Version 5.</p>
Ensure effective collection and processing of costing information to support Activity Based Funding outcomes.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
<p>The National Hospital Cost Data Collection (Round 20) was completed on 31 March 2018.</p> <p>The National Hospital Cost Data Collection (Round 20) Independent Financial Review was published in January 2018.</p> <p>The annual cost weights for public and private hospitals were released in February 2018.</p>	<p>Completion of the annual National Hospital Cost Data Collection Round by December 2018.</p> <p>Completion of the annual National Hospital Cost Data Collection Round, Independent Financial Review by December 2018.</p> <p>Release of the annual cost weights for public and private hospitals by December 2018.</p>	<p>Release of the next annual cost weights for public and private hospitals by December 2019.</p>

C. Resolving disputes on cost-shifting and cross-border issues		
Review of IHPA's <i>Cost-Shifting and Cross-Border Dispute Resolution Framework</i>.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
<i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> on track to be reviewed and published by June 2018.	Complete review and publish updated <i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> by June 2019.	Complete review and publish updated <i>Cost-Shifting and Cross-Border and Dispute Resolution Framework</i> by June 2020.
Timely investigation and provision of recommendations to Health Ministers to resolve cost-shifting and cross-border disputes.		
2017-18 Estimated result	2018-19 Target	2019-20 (& beyond) Target
No disputes were received (as at May 2018).	IHPA investigation of cost-shifting or cross-border disputes and provision of recommendations or assessment within six months of receipt of request.	As per 2018-19.
Material changes to Program 1.1 resulting from the following measures:		
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 2018-19 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 direct control of IHPA's CEO to support its functions. The cost of these services are provided to IHPA as resources free of charge.

In the 2018-19 financial year IHPA's total budget expenditure estimate is \$23.1 million. IHPA is funded through both payments from the Department and funds from own source income. Own source income is primarily derived from sales of intellectual property relating to the Australian Refined Diagnosis Related Groups (AR-DRG) classification systems.

Balance Sheet

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

3.2 BUDGETED FINANCIAL STATEMENTS TABLES

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

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
EXPENSES					
Employee benefits	6,601	7,126	7,126	7,126	7,126
Supplier expenses	15,915	15,522	15,816	15,822	15,947
Depreciation and amortisation	717	475	563	563	563
Total expenses	23,233	23,123	23,505	23,511	23,636
LESS:					
OWN-SOURCE INCOME					
Revenue					
Sale of goods and rendering of services ^(a)	16,326	15,917	16,177	16,176	16,259
Interest	96	120	120	120	120
Total Revenue	16,422	16,037	16,297	16,296	16,379
Gains					
Other ^(b)	6,811	7,086	7,208	7,215	7,257
Total gains	6,811	7,086	7,208	7,215	7,257
Total own-source income	23,233	23,123	23,505	23,511	23,636
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)

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	9,690	9,698	9,889	9,980	10,071
Receivables	210	707	707	707	707
Total financial assets	9,900	10,405	10,596	10,687	10,778
Non-financial assets					
Land and buildings	382	305	240	175	110
Property, plant and equipment	366	320	239	213	187
Intangibles	792	543	543	543	543
Prepayments	254	254	254	254	254
Total non-financial assets	1,794	1,422	1,276	1,185	1,094
Total assets	11,694	11,827	11,872	11,872	11,872
LIABILITIES					
Payables					
Suppliers	2,577	2,700	2,735	2,735	2,735
Other payables	109	109	109	109	109
Total payables	2,686	2,809	2,844	2,844	2,844
Provisions					
Employees	133	143	153	153	153
Other provisions	186	186	186	186	186
Total provisions	319	329	339	339	339
Total liabilities	3,005	3,138	3,183	3,183	3,183
Net Assets	8,689	8,689	8,689	8,689	8,689
EQUITY					
Contributed equity	400	400	400	400	400
Reserves	88	88	88	88	88
Retained surpluses or accumulated deficits	8,201	8,201	8,201	8,201	8,201
Total equity	8,689	8,689	8,689	8,689	8,689

IHPA

Table 3.3: Departmental Statement of Changes in Equity – Summary of Movement (Budget year 2018-19)

	Retained earnings \$'000	Asset revaluation reserve \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2018				
Balance carried forward from previous period	8,201	88	400	8,689
Surplus (deficit) for the period	-	-	-	-
Appropriation (equity injection)	-	-	-	-
Estimated closing balance as at 30 June 2019	8,201	88	400	8,689

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

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	1,980	1,198	1,218	1,218	1,325
Interest	96	120	120	120	120
Appropriations	-	-	-	-	-
Net GST received	1,481	1,458	1,484	1,488	1,497
Other	14,476	14,797	15,039	15,038	15,021
Total cash received	18,033	17,573	17,861	17,864	17,963
Cash used					
Employees	850	850	850	850	850
Suppliers	16,292	16,037	16,323	16,371	16,463
Net GST paid	130	78	80	80	87
Others	-	-	-	-	-
Total cash used	17,272	16,965	17,253	17,301	17,400
Net cash from (or used by) operating activities	761	608	608	563	563
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	865	600	417	472	472
Total cash used	865	600	417	472	472
Net cash from (or used by) investing activities	(865)	(600)	(417)	(472)	(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	(104)	8	191	91	91
Cash and cash equivalents at the beginning of the reporting period	9,794	9,690	9,698	9,889	9,980
Cash and cash equivalents at the end of the reporting period	9,690	9,698	9,889	9,980	10,071

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

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 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	865	600	417	472	472
Total acquisitions of non-financial assets	865	600	417	472	472
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	865	600	417	472	472
Total cash used to acquire assets	865	600	417	472	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 2018-19)

	Buildings	Other property, plant and equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2018				
Gross book value	201	405	1,271	1,877
Accumulated depreciation/ amortisation and impairment	(68)	(134)	(632)	(834)
Opening net book balance	133	271	639	1,043
CAPITAL ASSET ADDITIONS				
Estimated expenditure on new or replacement assets				
By purchase - appropriation equity	-	-	-	-
By purchase - internal resources	300	150	150	600
Total additions	300	150	150	600
Other movements				
Depreciation/amortisation expense	(128)	(101)	(246)	(475)
Total other movements	(128)	(101)	(246)	(475)
As at 30 June 2019				
Gross book value	501	555	1,421	2,477
Accumulated depreciation/ amortisation and impairment	(196)	(235)	(878)	(1,309)
Closing net book balance	305	320	543	1,168