

INDEPENDENT HOSPITAL PRICING AUTHORITY

**Agency resources and
planned performance**

IHPA

Independent Hospital Pricing Authority

Health and Ageing Portfolio Agency

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IHPA

Section 1: Agency Overview and Resources

1.1 Strategic Direction Statement

The Australian Government, through the 2011 National Health Reform Agreement, will continue to work in partnership with state and territory governments to introduce a wide ranging series of structural reforms to the health system aimed at improving health outcomes for all Australians and ensuring the sustainability of the health system. These reforms include the introduction of a nationally unified, locally controlled health system that funds public hospital services using activity based funding.

The Independent Hospital Pricing Authority (IHPA), established in December 2011, is responsible for determining a national efficient price for hospital services through the analysis of data on the actual activities and costs of public hospitals. The establishment of a national efficient price, combined with block funding, will ensure public hospitals receive funding based on need and will encourage developments in best practice care across the health care system.

The IHPA is independent of both Commonwealth and state and territory governments. The independent and transparent advice it provides will be used to determine Commonwealth funding to Local Hospital Networks (LHNs) for the provision of public hospital services.

The IHPA is a prescribed agency under the *Financial Management and Accountability Act 1997*, and its role and functions are set out in the *National Health Reform Act 2011*.

1.2 Agency Resources

Table 1.2.1 shows the total resources from all origins. The table summarises how resources will be applied by outcome and by Departmental classifications.

Table 1.2.1 IHPA Resource Statement – Budget Estimates for 2012-13 as at Budget May 2012

	Estimate of prior year amounts available in 2012-13 \$'000	Proposed at Budget 2012-13 \$'000	Total estimate 2012-13 \$'000	Estimated available appropriation 2011-12 \$'000
Ordinary annual services¹				
Departmental appropriation				
Prior year departmental appropriation ²	-	-	-	-
Departmental appropriation ³	-	14,316	14,316	-
s31 Relevant agency receipts	-	-	-	-
Total	-	14,316	14,316	-
Administered resources¹				
Outcome 1	-	12,589	12,589	-
Total	-	12,589	12,589	-
Total ordinary annual services	-	26,905	26,905	-
Other services - Bill 2⁴				
Departmental non-operating				
Equity injections	-	-	-	-
Previous years' programs	-	-	-	-
Total	-	-	-	-
Total other services	-	-	-	-
Total available annual appropriation	-	26,905	26,905	-
Total appropriations excluding Special Accounts	-	26,905	26,905	-
Special Accounts				
Opening balance ⁵	-	-	-	-
Appropriation receipts ⁶	-	-	-	-
Non-appropriation receipts to Special Accounts	-	-	-	-
Total Special Accounts	-	-	-	-
Total resourcing	-	26,905	26,905	-
Less appropriations drawn from annual or special appropriations above and credited to Special Accounts and/or CAC Act bodies through annual appropriations	-	-	-	-
Total net resourcing for IHPA	-	26,905	26,905	-

All figures are GST exclusive.

¹ Appropriation Bill (No.1) 2012-13.

² Estimated adjusted balance carried from previous year for annual appropriations.

³ IHPA received \$0.2 mil in 2012-13 for the Departmental Capital Budget (see Table 3.2.5).

⁴ Appropriation Bill (No.2) 2012-13.

⁵ Estimated opening balance for special accounts. For further information on special accounts see Table 3.1.2.

⁶ Appropriation receipts from IHPA annual and special appropriations for 2012-13 included above.

1.3 Budget Measures

Section 1.3 is not applicable to IHPA in 2012-13.

Section 2: Outcomes and Planned Performance

2.1 Outcomes and Performance Information

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

Outcome Strategy

The Australian Government recognises that improvements to the funding of the public hospital system are necessary to ensure the financial sustainability of public health services into the future. The establishment of the IHPA gives effect to the agreement between the Commonwealth, the states and territories to establish a body to independently determine the national efficient price of public hospital services.

The IHPA will promote improved efficiency in, and access to, public hospital services by providing independent advice to the Commonwealth and states and territories regarding the efficient cost of services and developing and implementing robust systems to support activity based funding for those services. At arm's length from all governments, the IHPA is the Statutory Authority responsible for setting the national efficient price and levels of block funding for services provided in public hospitals. In doing this, the 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 Australian governments and the public.

To improve transparency, the IHPA has published a draft *Pricing Framework* that outlines the principles and criteria used by the IHPA to determine the efficient price.

As prescribed in the *National Health Reform Act 2011*, the Clinical Advisory Committee, the Jurisdictional Advisory Committee and other advisory committees have been established to advise the IHPA on matters in relation to the functions of IHPA. These committees will ensure that the underlying principles applied to setting the national efficient price are both clinically relevant and technically appropriate.

IHPA Budgeted Expenses and Resources

Table 2.1.1 provides an overview of the total expenses for IHPA by Program.

Table 2.1.1: Budgeted Expenses and Resources for IHPA

	2011-12 Estimated actual \$'000	2012-13 Budget \$'000	2013-14 Forward year 1 \$'000	2014-15 Forward year 2 \$'000	2015-16 Forward year 3 \$'000
Program 1.1: Public hospital price determinations					
Administered expenses					
Ordinary annual services (Appropriation Bill No. 1)	-	12,589	13,339	13,743	14,142
Departmental expenses					
Departmental appropriation ¹	-	14,116	12,713	12,807	12,916
Expenses not requiring appropriation in the budget year ²	-	-	-	-	-
Operating loss	-	-	-	-	-
Total for Program 1.1	-	26,705	26,052	26,550	27,058
Total expenses for Outcome 1	-	26,705	26,052	26,550	27,058
	2011-12	2012-13			
Average staffing level (number)	43	59			

¹ Departmental appropriation combines "Ordinary annual services (Appropriation Bill No 1)" and "Revenue from independent sources (s31)".

² Expenses not requiring appropriation in the Budget year is made up of depreciation expense, amortisation expense, makegood expense and audit fees.

Program 1.1: Public hospital price determinations

Program Objectives

Determine the national efficient price for public hospital services

The IHPA will publish a report annually setting out the national efficient price for public hospital services for the coming financial year, along with other information supporting the efficient funding of public hospitals. This will include advice on the scope of public hospital services eligible for Commonwealth Government activity based funding, criteria for services to be funded by blocks grants and adjustments to the price to reflect legitimate and unavoidable variations in the cost of delivering health care services.

During 2012-13, the IHPA will undertake further technical development to improve the robustness of the price setting process, and ensure that the strategic directions of the IHPA are met. As required, the IHPA will provide advice to the Commonwealth, states and territories in relation to the costs of providing health care services in the future.

Develop national classifications for activity based funding

Activity based funding requires robust classification systems – without acceptable classifications to describe what hospitals do, activity based funding cannot occur. The IHPA has developed national classification systems for health care and other public hospital services, including acute admitted, non-admitted and emergency care.

In 2012-13, IHPA will develop classification systems for mental health services, admitted sub-acute services and non-acute services. This will allow the IHPA to calculate the national efficient price for these services in future years. The IHPA will continue to consult with the clinical community to ensure that these classifications are clinically meaningful.

Develop the Three Year Data Plan

Timely, accurate and reliable public hospital data is vital to both the development of classifications for hospital services and to determine the national efficient price of those services. Recognising this, the IHPA has developed a rolling *Three Year Data Plan* to communicate to the Commonwealth, states and territories the data requirements, data standards and timelines that IHPA will use to collect data over the coming three years. This rolling *Three Year Data Plan* will be revised each year.

Resolve disputes on costing shifting and cross-border issues

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 IHPA investigate the dispute. As soon as practicable, the 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.

Program 1.1: Deliverables

Table 2.1.2: Qualitative Deliverables for Program 1.1

Qualitative Deliverables	2012-13 Reference Point or Target
Determine the national efficient price for public hospital services	
Annual determination of the national efficient price for the coming financial year along with other information supporting the efficient funding of public hospitals	Annual publication of the national efficient price and other information that supports the efficient funding of public hospitals Standing Council on Health (SCoH) endorsement of the block funding criteria
Develop the Three Year Data Plan	
Develop the <i>Three Year Data Plan</i>	Annual publication of the <i>Three Year Data Plan</i> (following SCoH endorsement) and communication with the Commonwealth, states and territories
Resolve disputes on costing shifting and cross-border issues	
Timely investigation and provision of recommendations to health ministers on cross border and cost-shifting disputes	IHPA investigation of cross border or cost-shifting dispute and provision of recommendations, and if necessary advice to the Commonwealth to adjust funding, within six months of receipt of request

Program 1.1: Key Performance Indicators

Table 2.1.3: Qualitative Key Performance Indicators for Program 1.1

Qualitative Indicator	2012-13 Reference Point or Target
Determine the national efficient price for public hospital services	
The rate of growth of the national efficient price is lower than the long term average growth in public hospital expenditure	2012-13 will provide baseline data for acute admitted services, emergency department services and non-admitted patient services
Develop national classifications for activity based funding	
Percentage of public hospital separations funded by nationally consistent activity based funding	2012-13 will provide baseline data for acute admitted services, emergency department services and non-admitted patient services which will be funded using activity based funding
Develop the Three Year Data Plan	
Commonwealth, states and territories compliance with the data requirements and data standards, as outlined in the <i>Three Year Data Plan</i>	Publication of a quarterly report outlining the Commonwealth, states and territories compliance with the data requirements and data standards
Resolve disputes on costing shifting and cross-border issues	
Reduction in the monetary value of disputes unresolved 12 months after notification	2012-13 will provide baseline data on monetary value of disputes



Section 3: Explanatory Tables and Budgeted Financial Statements

Section 3 presents explanatory tables and budgeted financial statements which provide a comprehensive snapshot of agency finances for the 2012-13 Budget year. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations and program expenses, movements in administered funds, special accounts and 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

In 2012-13, the Australian Government Indigenous Expenditure Statement is not applicable because IHPA has no specific Indigenous expenses.

3.2 Budgeted Financial Statements

3.2.1 Differences in agency resourcing and financial statements

Section 3.2.1 is not applicable to IHPA.

3.2.2 Analysis of budgeted financial statements

Departmental Resources

Comprehensive income statement

IHPA anticipates a break even position in its first full year of operation.

IHPA's expenses comprise of employee benefits and supplier expenses. Supplier expenses are forecast to reduce into the forward estimates following an initial establishment phase.

IHPA anticipates a breakeven position into the forward estimates before the impact of non-appropriated depreciation expenses.

Balance Sheet

IHPA net asset position is anticipated to slightly increase overtime reflecting the injection of equity to fund minor asset purchases. Employee liabilities are anticipated to increase and are offset by equal increases in appropriation receivable balances.

Cashflow

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

Administered

IHPA administers funds to deliver components of the National Health Reform agenda. These supplier expenses are associated with the development of national classifications and robust systems to support activity based funding.

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 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
EXPENSES					
Employee benefits	-	7,110	7,075	7,287	7,506
Supplier expenses	-	7,006	5,638	5,520	5,410
Depreciation and amortisation	-	-	-	-	-
Total expenses	-	14,116	12,713	12,807	12,916
LESS:					
OWN-SOURCE INCOME					
Revenue					
Sale of goods and rendering of services	-	-	-	-	-
Total revenue	-	-	-	-	-
Gains					
Other	-	-	-	-	-
Total gains	-	-	-	-	-
Total own-source income	-	-	-	-	-
Net cost of (contribution by) services	-	14,116	12,713	12,807	12,916
Revenue from Government	-	14,116	12,713	12,807	12,916
Surplus (Deficit)	-	-	-	-	-
Surplus (Deficit) attributable to the Australian Government	-	-	-	-	-
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation reserves	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income attributable to the Australian Government	-	-	-	-	-

**Table 3.2.1: Comprehensive income statement (showing net cost of services)
(for the period ended 30 June) (Cont.)**

Note: Reconciliation of comprehensive income attributable to the agency					
	2011-12	2012-13	2013-14	2014-15	2015-16
	\$'000	\$'000	\$'000	\$'000	\$'000
Total comprehensive income (loss) attributable to the Australian Government	-	-	-	-	-
plus non-appropriated expenses depreciation and amortisation expenses	-	-	-	-	-
Total comprehensive income attributable to the agency	-	-	-	-	-

Table 3.2.2: Budgeted Departmental balance sheet (as at 30 June)

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	-	200	200	200	200
Receivables	-	1,782	1,710	1,743	1,778
Total financial assets	-	1,982	1,910	1,943	1,978
Non-financial assets					
Land and buildings	-	-	-	-	-
Property, plant and equipment	-	200	400	600	800
Intangibles	-	-	-	-	-
Total non-financial assets	-	200	400	600	800
Total assets	-	2,182	2,310	2,543	2,778
LIABILITIES					
Payables					
Suppliers	-	584	470	460	451
Other payables	-	-	-	-	-
Total payables	-	584	470	460	451
Provisions					
Employees	-	1,398	1,440	1,483	1,527
Other provisions	-	-	-	-	-
Total provisions	-	1,398	1,440	1,483	1,527
Total liabilities	-	1,982	1,910	1,943	1,978
Net Assets	-	200	400	600	800
EQUITY					
Contributed equity	-	200	400	600	800
Reserves	-	-	-	-	-
Retained surpluses or accumulated deficits	-	-	-	-	-
Total equity	-	200	400	600	800

**Table 3.2.3: Departmental statement of changes in equity — summary of movement
(Budget year 2012-13)**

	Retained earnings	Asset revaluation reserve	Other reserves	Contributed equity/ capital	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2012					
Balance carried forward from previous period	-	-	-	-	-
Surplus (deficit) for the period	-	-	-	-	-
Capital budget - Bill 1 (DCB)	-	-	-	200	200
Estimated closing balance as at 30 June 2013	-	-	-	200	200

DCB = Departmental Capital Budgets.

**Table 3.2.4: Budgeted Departmental statement of cash flows
(for the period ended 30 June)**

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	-	14,116	12,713	12,807	12,916
Net GST received	-	799	568	556	545
Other cash received	-	-	-	-	-
Total cash received	-	14,915	13,281	13,363	13,461
Cash used					
Employees	-	6,121	7,033	7,244	7,462
Suppliers	-	7,995	5,680	5,563	5,454
Net GST paid	-	799	568	556	545
Total cash used	-	14,915	13,281	13,363	13,461
Net cash from (or used by) operating activities	-	-	-	-	-
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	-	200	200	200	200
Total cash used	-	200	200	200	200
Net cash from (or used by) investing activities	-	(200)	(200)	(200)	(200)
FINANCING ACTIVITIES					
Cash received					
Capital budget - Bill 1 (DCB)	-	200	200	200	200
Total cash received	-	200	200	200	200
Net cash from (or used by) financing activities	-	200	200	200	200
Net increase (or decrease) in cash held	-	-	-	-	-
Cash and cash equivalents at the beginning of the reporting period	-	200	200	200	200
Cash and cash equivalents at the end of the reporting period	-	200	200	200	200

Table 3.2.5: Capital budget statement

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
CAPITAL APPROPRIATIONS					
Capital budget - Bill 1 (DCB)	-	200	200	200	200
Equity injections - Bill 2	-	-	-	-	-
Total capital appropriations	-	200	200	200	200
Total new capital appropriations represented by:					
Purchase of non-financial assets	-	200	200	200	200
Other	-	-	-	-	-
Total items	-	200	200	200	200
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriations	-	-	-	-	-
Funded by capital appropriation - DCB ¹	-	200	200	200	200
Funded internally from departmental resources	-	-	-	-	-
Total acquisitions of non-financial assets	-	200	200	200	200
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	-	200	200	200	200
Total cash used to acquire assets	-	200	200	200	200

¹ Does not include annual finance lease costs. Includes purchases from current and previous years' appropriation (Departmental Capital Budgets).

Table 3.2.6: Statement of asset movements (2012-13)

	Buildings	Other property, plant and equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2012				
Gross book value	-	-	-	-
Accumulated depreciation/amortisation and impairment	-	-	-	-
Opening net book balance	-	-	-	-
CAPITAL ASSET ADDITIONS				
Estimated expenditure on new or replacement assets				
By purchase - appropriation equity	-	-	-	-
By purchase - appropriation ordinary annual services	-	200	-	200
Sub-total	-	200	-	200
Other movements				
Depreciation/amortisation expense	-	-	-	-
Disposals ¹	-	-	-	-
Other	-	-	-	-
As at 30 June 2013				
Gross book value	-	200	-	200
Accumulated depreciation/amortisation and impairment	-	-	-	-
Closing net book balance	-	200	-	200

¹ Proceeds may be returned to the Official Public Account.

Table 3.2.7: Schedule of budgeted income and expenses administered on behalf of government (for the period ended 30 June)

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT					
Grants	-	-	-	-	-
Supplier expenses	-	12,589	13,339	13,743	14,142
Total expenses administered on behalf of Government	-	12,589	13,339	13,743	14,142

Table 3.2.8: Schedule of budgeted assets and liabilities administered on behalf of government (as at 30 June)

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Cash and cash equivalents	-	-	-	-	-
Receivables	-	-	-	-	-
Total financial assets	-	-	-	-	-
Total assets administered on behalf of Government	-	-	-	-	-
LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT					
Payables					
Grants	-	-	-	-	-
Suppliers	-	-	-	-	-
Accrued Expenses	-	-	-	-	-
Other Payables	-	-	-	-	-
Total payables	-	-	-	-	-
Total liabilities administered on behalf of Government	-	-	-	-	-

Table 3.2.9: Schedule of budgeted administered cash flows (for the period ended 30 June)

	Estimated actual 2011-12 \$'000	Budget estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000	Forward estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000
OPERATING ACTIVITIES					
Cash received					
GST received	-	-	-	-	-
Total cash received	-	-	-	-	-
Cash used					
Grant payments	-	-	-	-	-
Suppliers	-	12,589	13,339	13,743	14,142
GST paid	-	-	-	-	-
Total cash used	-	12,589	13,339	13,743	14,142
Net cash from (or used by) operating activities	-	(12,589)	(13,339)	(13,743)	(14,142)
Net increase (or decrease) in cash held	-	(12,589)	(13,339)	(13,743)	(14,142)
Cash at beginning of reporting period	-	-	-	-	-
Cash from Official Public Account for:					
- appropriations	-	12,589	13,339	13,743	14,142
Cash to the Official Public Account	-	-	-	-	-
Cash at end of reporting period	-	-	-	-	-

