

INDEPENDENT HOSPITAL PRICING AUTHORITY

Entity Resources and Planned Performance

Independent Hospital Pricing Authority

Health Portfolio Entity

IHPA

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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.

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*. Operational details are contained in the Corporate Plan, which is available on the IHPA website.

As announced in the *2015-16 Mid-Year Economic and Fiscal Outlook*, the Government will transfer the operational functions of IHPA to the Department of Health from 1 July 2016, with the Board, Chief Executive Officer and associated functions retained.

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 2016-17 as at Budget May 2016

	2015-16 Estimated actual \$'000	2016-17 Estimate \$'000
Opening balance/cash reserves at 1 July	23,162	23,161
Funds from Government		
Annual appropriations		
Ordinary annual services ¹		
Outcome 1	25,877	-
Other services ²		
Equity injection	-	-
Total annual appropriations	25,877	-
Amounts received from related entities³		
Amounts from the Portfolio Department	-	15,538
Amounts from other entities	-	-
Total amounts received from related entities	-	15,538
Total funds from Government	25,877	15,538
Funds from other sources		
Interest	126	34
Sale of goods and services	719	845
Other	-	-
Total funds from other sources	845	879
Total net resourcing for IHPA	49,884	39,578
	2015-16	2016-17
Average staffing level (number)	59	1

All figures are GST exclusive.

¹ Appropriation Bill (No. 1) 2016-17.

² Appropriation Bill (No. 2) 2016-17.

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

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: From 1 July 2015, performance reporting requirements in the Portfolio Budget Statements sit alongside those required under the Enhanced Commonwealth Performance Framework. It is anticipated that the performance criteria described in Portfolio Budget Statements will be read with broader information provided in an entity's corporate plan and annual performance statement – included in Annual Reports from October 2016 – to provide an entity's complete performance story.

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

Linked Programs

Commonwealth entity and linked program	Contribution to Outcome 1 made by linked programs
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.
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.

Budgeted Expenses for IHPA

This table 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

	2015-16 Estimated actual \$'000	2016-17 Budget \$'000	2017-18 Forward Year 1 \$'000	2018-19 Forward Year 2 \$'000	2019-20 Forward Year 3 \$'000
Program 1.1: Public hospital price determinations					
Revenue from Government					
Ordinary annual services	25,877	-	-	-	-
Amounts from related entities	-	15,538	15,460	15,859	16,085
Revenues from independent sources	845	879	884	1,289	889
Expenses not requiring appropriation in the Budget year ¹	-	6,640	6,746	6,859	6,974
Operating deficit (surplus)	(194)	-	-	-	-
Total expenses for Program 1.1	26,528	23,057	23,090	24,007	23,948
Total expenses for Outcome 1	26,528	23,057	23,090	24,007	23,948

	2015-16	2016-17
Average staffing level (number)	59	1

¹ 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.

Table 2.1.2: Performance Criteria for IHPA

Table 2.1.2 below details the performance criteria for each program associated with Outcome 1.¹ It also summarises how each program is delivered and where 2016-17 Budget measures have created new programs or materially changed existing programs.

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 ABF for those services.
Purpose	To determine the NEP and NEC for public hospital services. ²
Delivery	Program activities, which are intended to benefit the Australian community, will be delivered under the following program objectives: A. Determining the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services B. Developing national classifications for Activity Based Funding (ABF) C. Determining data requirements and data standards D. Resolving disputes on cost-shifting and cross-border issues
Program objective	
A. Determining the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services	
IHPA is responsible for setting the NEP and NEC for public hospital services. 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. In 2016-17, IHPA will release the NEP and NEC Determinations for 2017-18 by 31 March 2017.	

¹ Progress against the performance criteria published in the 2015-16 Portfolio Budget Statements will be reported in the 2015-16 IHPA Annual Report.

² This purpose text will be reflected in the 2016-17 IHPA Corporate Plan.

Qualitative performance criteria	2016-17 Reference point or target
Develop the <i>Pricing Framework for Australian Public Hospital Services</i> for public hospital services in 2017-18. ³	Publish the 2017-18 Pricing Framework by 31 December 2016 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 for 2017-18 by 31 March 2017. ⁴
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.
Program objective	
B. Developing national classifications for Activity Based Funding (ABF)	
<p>Classification systems for ABF provide the health care sector with a nationally consistent method for classifying patients, their treatment and associated costs.</p> <p>During 2016-17, IHPA will undertake further development of the admitted acute care, subacute care, non-admitted patient care, emergency care, mental health care and teaching, training and research classifications.</p>	
Qualitative performance criteria	2016-17 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.	<p>Continue developmental work on the new classification system for emergency care services in 2016-17.⁵</p> <p>Implementation of the Australian Mental Health Care Classification V1.0 from 30 June 2016.</p> <p>Ongoing development of the subacute care classification.</p> <p>Complete new classification for teaching, training and research by June 2017.</p> <p>Continue development work on the new classification for non-admitted care.</p>

³ This performance criterion and target have been revised. The target reported in the *2015-16 Portfolio Budget Statements* has been achieved.

⁴ The target for this performance criterion has been revised. The target reported in the *2015-16 Portfolio Budget Statements* has been achieved.

⁵ Ibid

Revise the ABF classification for admitted acute care.	Complete developmental work on <i>Australian Modification of the International Statistical Classification of Diseases 10th Edition</i> and the Australian Refined Diagnosis Related Groups V9.0 by 30 June 2017. ⁶
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. ⁷
Program objective	
C. Determining 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 and NEC for those services. In 2016-17, IHPA will review its rolling <i>Three Year Data Plan</i> , which is used to communicate the data requirements, data standards and timelines that IHPA will use to collect data from jurisdictions over the coming three years.	
Qualitative performance criteria	2016-17 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 2016. ⁸
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> .
Program objective	
D. Resolving disputes on cost-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, IHPA will investigate the dispute in accordance with its <i>Cost-Shifting and Cross-Border Dispute Resolution Framework</i> . In 2016-17, IHPA will complete its annual review of the <i>Cost-Shifting and Cross-Border Dispute Resolution Framework</i> in consultation with all jurisdictions.	

⁶ The target for this performance criterion has been revised. The target reported in the 2015-16 *Portfolio Budget Statements* has been achieved.

⁷ In 2013-14, 82 per cent of National Health Reform Agenda funding was provided on the basis of ABF.

⁸ The target for this performance criterion has been revised. The target reported in the 2015-16 *Portfolio Budget Statements* has been achieved.

IHPA – Entity Budget Statements – Outcomes and Planned Performance

Qualitative performance criteria	2016-17 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> by June 2017. ⁹
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.
Material changes to Program 1.1 resulting from the following measures:	
There are no material changes to Program 1.1 resulting from measures.	

⁹ The target for this performance criterion has been revised. The target reported in the 2015-16 *Portfolio Budget Statements* has been achieved.

Section 3: Budgeted Financial Statements

Section 3 presents budgeted financial statements which provide a comprehensive snapshot of entity finances for the 2016-17 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

These financial plans reflect the Australian Government's MYEFO 2015-16 Smaller Government decision to transfer operational functions of the Independent Hospitals Pricing Authority (IHPA) to the Department of Health (Health) from 1 July 2016, with the Board, Chief Executive Officer and functions retained.

A consequence of this change is that post 1 July 2016 40 Health staff will be seconded to IHPA to support its functions. The cost of these staff and the shared services provided by Health is \$6.6 million in 2016-17 and will be provided as a free of charge service. To ensure the independence of IHPA's functions, staff provided under these arrangements will be under the direction of IHPA's CEO.

In addition to the free of charge resources, in 2016-17 Health will provide IHPA with \$15.5 million for its operational expenses and capital expenditure.

Own-source income of \$0.8 million is primarily derived from sales of intellectual property relating to the Australian Refined Diagnosis Related Groups (AR-DRG) classification systems.

Balance Sheet

IHPA's appropriation receivable of \$18.2 million was derived from unspent 2014-15 departmental appropriation. This amount will be extinguished by the automatic three year repeal that will occur at the end of 2016-17.

The balance of IHPA staff entitlement provision of \$0.9 million is planned to transfer in its entirety to Health at the 2015-16 year end.

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

	2015-16 Estimated actual \$'000	2016-17 Budget \$'000	2017-18 Forward estimate \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000
EXPENSES					
Employee benefits	8,172	5,975	6,081	6,194	6,309
Supplier expenses	17,604	16,282	16,435	17,251	17,077
Depreciation and amortisation	752	800	574	562	562
Total expenses	26,528	23,057	23,090	24,007	23,948
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Sale of goods and rendering of services ¹	719	16,383	16,310	17,114	16,940
Interest	126	34	34	34	34
Total own-source revenue	845	16,417	16,344	17,148	16,974
Gains					
Other ²	-	6,640	6,746	6,859	6,974
Total gains	-	6,640	6,746	6,859	6,974
Total own-source income	845	23,057	23,090	24,007	23,948
Net cost of (contribution by) services	25,683	-	-	-	-
Revenue from Government	25,877	-	-	-	-
Surplus (deficit)	194	-	-	-	-
Surplus (deficit) attributable to the Australian Government	194	-	-	-	-
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation reserves	-	-	-	-	-
Total other comprehensive income (loss)	-	-	-	-	-
Total comprehensive income (loss) attributable to the Australian Government	194	-	-	-	-

¹ Payments from Department of Health and funds from own sources.

² Staff salary and shared services received free of charge from Department of Health.

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

	2015-16 Estimated actual \$'000	2016-17 Budget \$'000	2017-18 Forward estimate \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	4,985	3,593	3,373	3,122	2,900
Receivables	19,726	20,287	2,235	2,776	3,143
Total financial assets	24,711	23,880	5,608	5,898	6,043
Non-financial assets					
Land and buildings	328	68	391	327	263
Property, plant and equipment	332	262	286	262	181
Intangibles	360	307	251	194	194
Prepayments	48	48	48	48	48
Total non-financial assets	1,068	685	976	831	686
Total assets	25,779	24,565	6,584	6,729	6,729
LIABILITIES					
Payables					
Suppliers	3,670	3,397	3,592	3,737	3,737
Other payables	677	677	677	677	677
Total payables	4,347	4,074	4,269	4,414	4,414
Provisions					
Employees	945	-	-	-	-
Other provisions	166	170	170	170	170
Total provisions	1,111	170	170	170	170
Total liabilities	5,458	4,244	4,439	4,584	4,584
Net Assets	20,321	20,321	2,145	2,145	2,145
EQUITY					
Contributed equity	400	400	400	400	400
Reserves	16	16	16	16	16
Retained surpluses or accumulated deficits	19,905	19,905	1,729	1,729	1,729
Total equity	20,321	20,321	2,145	2,145	2,145

IHPA

Table 3.3: Departmental Statement of Changes in Equity — Summary of Movement (Budget year 2016-17)

	Retained earnings \$'000	Asset revaluation reserve \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2016				
Balance carried forward from previous period	19,905	16	400	20,321
Surplus (deficit) for the period	-	-	-	-
Appropriation (equity injection)	-	-	-	-
Estimated closing balance as at 30 June 2017	19,905	16	400	20,321

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

	2015-16 Estimated actual \$'000	2016-17 Budget \$'000	2017-18 Forward estimate \$'000	2018-19 Forward estimate \$'000	2019-20 Forward estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	624	526	726	714	488
Interest	126	34	34	34	34
Appropriations	26,014	-	-	-	-
Net GST received	632	1,628	1,644	1,725	1,708
Other	-	15,296	15,460	15,859	16,085
Total cash received	27,396	17,484	17,864	18,332	18,315
Cash used					
Employees	8,323	6,920	6,081	6,194	6,309
Suppliers	17,868	11,374	11,053	11,800	11,725
Net GST paid	545	84	85	125	86
Others	-	81	-	47	-
Total cash used	26,736	18,459	17,219	18,166	18,120
Net cash from (or used by) operating activities	660	(975)	645	166	195
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	418	417	865	417	417
Total cash used	418	417	865	417	417
Net cash from (or used by) investing activities	(418)	(417)	(865)	(417)	(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	242	(1,392)	(220)	(251)	(222)
Cash and cash equivalents at the beginning of the reporting period	4,743	4,985	3,593	3,373	3,122
Cash and cash equivalents at the end of the reporting period	4,985	3,593	3,373	3,122	2,900

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

	2015-16 Estimated actual \$'000	2016-17 Budget \$'000	2017-18 Forward estimate \$'000	2018-19 Forward estimate \$'000	2019-20 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 ¹	-	-	-	-	-
Funded internally from departmental resources	418	417	865	417	417
Total acquisitions of non-financial assets	418	417	865	417	417
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	418	417	865	417	417
Total cash used to acquire assets	418	417	865	417	417

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

Table 3.6: Statement of Asset Movements (Budget year 2016-17)

	Buildings	Other property, plant and equipment	Intangibles	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2016				
Gross book value	1,177	787	1,028	2,992
Accumulated depreciation amortisation and impairment	(849)	(455)	(668)	(1,972)
Opening net book balance	328	332	360	1,020
CAPITAL ASSET ADDITIONS				
Estimated expenditure on new or replacement assets				
By purchase - appropriation equity	-	-	-	-
By purchase - internal resources	-	174	243	417
Total additions	-	174	243	417
Other movements				
Depreciation/amortisation expense	(260)	(244)	(296)	(800)
Total other movements	(260)	(244)	(296)	(800)
As at 30 June 2017				
Gross book value	1,177	961	1,271	3,409
Accumulated depreciation amortisation and impairment	(1,109)	(699)	(964)	(2,772)
Closing net book balance	68	262	307	637