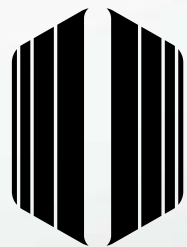




ANNUAL REPORT
2013-14

INDEPENDENT HOSPITAL PRICING AUTHORITY



IHPA

About this report

This report is prepared in accordance with the *Requirements for Annual Reports*, as issued by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accountants Audit under sub sections 63(2) and 70(2) of the *Public Service Act 1999*.

The report is a formal accountability document that details the activities of the Independent Hospital Pricing Authority (IHPA) from 1 July 2013–30 June 2014.

This report provides Members of Parliament and Senators with an accurate description of IHPA's activities during the financial year 2013–14. The report also provides a valuable resource of information for IHPA's stakeholders including the general public.

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Preface

The Independent Hospital Pricing Authority (IHPA) Annual Report 2013–14 starts with a letter from IHPA's Chief Executive Officer (CEO), Dr Tony Sherbon, to the Minister for Health, asking the Minister to present the annual report to Parliament.

Introduction—the annual report introduction provides an explanation of the role of IHPA including commentary about the legislation that underpins IHPA's existence. It also sets out IHPA's vision, mission and values as specified in IHPA's strategic plan.

Chapter 1: Overview—this section provides an overview of IHPA's role and a welcome from the Chair and CEO. It also reports on the highlights and achievements for 2013–14 as well as looking forward to what IHPA plans to achieve next year.

Chapter 2: Clinical Advisory Committee annual report—as required by s. 178 of the *National Health Reform Act 2011*, this section provides the annual report on behalf of the Clinical Advisory Committee.

Chapter 3: Performance reporting—a full report is provided detailing IHPA's specific program areas and policy development as they relate to our *Portfolio Budget Statements 2013–14*. This section also provides some key highlights of IHPA's work during 2013–14.

Chapter 4: Management and accountability—this chapter reports on our corporate governance, people management and corporate planning activities as well as compliance with external legislative requirements.

Chapter 5: Financial management—a discussion and analysis of our financial performance, the independent auditor's report, a signed statement by the CEO and Chief Financial Officer and a complete set of financial statements for IHPA from 1 July 2013–30 June 2014.

The **appendices** include information about freedom of information, marketing and advertising, legal services expenditure, a resource statement and resources for outcomes, as well as a list of abbreviations, a glossary, a legislative compliance index and an alphabetical index.

Letter of transmittal



The Hon. Peter Dutton, MP
Minister for Health
Parliament House
Canberra ACT 2600

Dear Minister,

In accordance with the requirements of the *National Health Reform Act 2011* and the *Financial Management and Accountability Act 1997*, I am pleased to submit to you, for presentation to Parliament, the annual report and financial statements of the Independent Hospital Pricing Authority (IHPA) for the financial year ended 30 June 2014.

The report reflects the *Requirements for Annual Reports* approved by the Joint Committee of Public Accounts and Audit under s. 63 and 70 of the *Public Service Act 1999* and includes IHPA's audited financial statements as required by s. 57 of the *Financial Management and Accountability Act 1997*.

Yours sincerely



Dr Tony Sherbon
Chief Executive Officer
Independent Hospital Pricing Authority
2 October 2014

Independent Hospital Pricing Authority

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Introduction



Background

The Independent Hospital Pricing Authority (IHPA) is an independent government agency. It was established under Commonwealth legislation on 15 December 2011, as part of the implementation of the National Health Reform Agreement (NHRA) reached by the Council of Australian Governments (COAG) in August 2011.

COAG unanimously agreed in 2011 to the establishment of Activity Based Funding (ABF) as the primary funding methodology for public hospitals throughout Australia and to the establishment of IHPA, as a national organisation created under Australian Government statute, to deliver a number of the key decisions that would underpin the establishment of ABF across Australia.

The implementation of ABF aims to improve the transparency of public hospital funding and strengthen incentives for efficiency in the delivery of public hospital services.

IHPA is charged with determining the National Efficient Price (NEP) and the National Efficient Cost (NEC) for public hospital services. This ensures that public hospitals receive funding based on unit costs and encourages developments in best practice care across the healthcare system. From 1 July 2012, the Australian Government has been using the NEP and NEC to determine Australian Government funding to Local Hospital Networks (LHNs).

In accordance with s.210 of the *National Health Reform Act 2011* (the Act) this annual report provides a review of the work performed by IHPA during the last financial year. This includes information and advice given by the Pricing Authority as required in s. 131 (1)(g) of the Act.

About IHPA

The Independent Hospital Pricing Authority (IHPA) became operational on 15 December 2011 at the date of commencement of the *National Health Reform Act 2011* (the Act). IHPA works collaboratively with the jurisdictions, advisory committees and key stakeholders to develop the foundations to implement a nationally consistent approach to Activity Based Funding (ABF) for public hospital services throughout Australia.

IHPA is governed by the Pricing Authority, which is primarily responsible for the proper and efficient performance of IHPA's functions. Members of the Pricing Authority are appointed by the Australian Government Minister for Health, following nominations by the Council of Australian Governments (COAG). They bring various skills, including experience in both healthcare needs and the provision of health care for people living in regional and rural areas. The Chair of the Pricing Authority reports directly to the Minister. However, as outlined in the Act, the Minister is unable to direct the Determinations made by IHPA.

IHPA's key role is to determine the National Efficient Price (NEP) for public hospital services. The NEP is based on activity and cost data drawn from all states and territories across Australia.

IHPA also determines a National Efficient Cost (NEC) covering block funded services for which the technical requirements for ABF do not currently exist, such as block funded small rural and specialist hospitals, teaching, training and research, as well as non-admitted mental health services.

IHPA is required to consider the actual cost of delivering public hospital services in as wide a range of hospitals as practicable. It is also required to take into account any legitimate and unavoidable variations in costs due to hospital characteristics (for example, size, type and location) and patient complexity (for example, Indigenous status and demographic profile).

IHPA must also balance a range of national policy objectives, guided by a set of principles contained in the National Health Reform Agreement (NHRA) 2011. This includes that IHPA have regard to ensuring reasonable access to public hospital services, clinical safety and quality, efficiency and effectiveness, and financial sustainability of the public hospital system.

IHPA works in partnership with the National Health Performance Authority and the Australian Commission on Safety and Quality in Health Care to ensure that pricing, quality and performance measures are complementary and facilitate a strong national framework for the delivery of public hospital services.

The Pricing Authority is supported by a Chief Executive Officer, who is responsible for the day-to-day running of the Agency.

In this report, the 'Pricing Authority' refers to the governing body and 'IHPA' refers to the Agency.

IHPA's vision, mission and values

IHPA values the work, talent and contribution of its people and is creating organisation-wide development strategies to maintain and grow discipline, expertise and intellectual capital. We facilitate an atmosphere of open communication and welcome ideas and innovation. Our people demonstrate a strong team ethic and collaborative culture and take pride in their work.



Our vision

For all Australians to have access to a sustainable, locally-controlled health system that funds public hospital services using Activity Based Funding, where practicable, based on a National Efficient Price (NEP).

Our mission

To promote improved efficiency in, and access to, public hospital services through setting the NEP and levels of block funding for hospital services.



Our values

To act with independence, transparency, integrity, fairness, respect, accuracy and accountability. We value collaboration and demonstrate our values in our interaction within IHPA, with our stakeholders and the community.



What is Activity Based Funding?

Activity Based Funding (ABF) is a way of funding hospitals whereby they get paid for the number and mix of patients they treat. If a hospital treats more patients, it receives more funding. Because some patients are more complicated to treat than others, ABF also takes this in to account.

ABF should support timely access to quality health services, improve the value of the public investment in hospital care and ensure a sustainable and efficient network of public hospital services.

ABF payments should be fair and equitable, including being based on the same price for the same service across public, private or not-for-profit providers of public hospital services. The building blocks required for an ABF system are:



Classification

Patients are classified into groups that are clinically relevant, and cost homogenous (for example, all the patients who have had cataract lens procedures could be considered as one group).

Counting

Each patient episode needs to be counted. This includes inpatient admissions, emergency department presentations and outpatient appointments as well as a range of mental health and rehabilitation services.



Costing

A representative number of patient episodes are costed. This information is used for developing the classification system and for the pricing model.

Pricing

The pricing model determines how much is paid for an average patient. The pricing model needs to adequately recognise those factors which increase the cost of care which may not be picked up in the classification system, for example the additional cost of providing health services in remote areas, or to children.



What is the National Efficient Price (NEP)?

The NEP underpins the introduction of Activity Based Funding (ABF) for public hospital services nationally and is used to determine the Australian Government's funding contribution to Local Hospital Networks. On 3 March 2014, IHPA announced its third NEP Determination for the financial year 2014–15. The NEP is \$5,007 per National Weighted Activity Unit (NWAU).

The NWAU is the unit of measure of the ABF system and allows hospital activity across a range of settings to be compared—for example, inpatients, outpatients and emergency patients.

Examples of costs of procedures:

- A tonsillectomy has a weight of 0.7058 NWAU which equates to \$3,534 per admission
- A hip replacement has a weight of 4.1855 NWAU which equates to \$20,957 per admission.

What is the National Efficient Cost (NEC)?

In 2013–14, IHPA released the second NEC Determination. The NEC is for services that are not suitable for ABF, such as small rural hospitals.

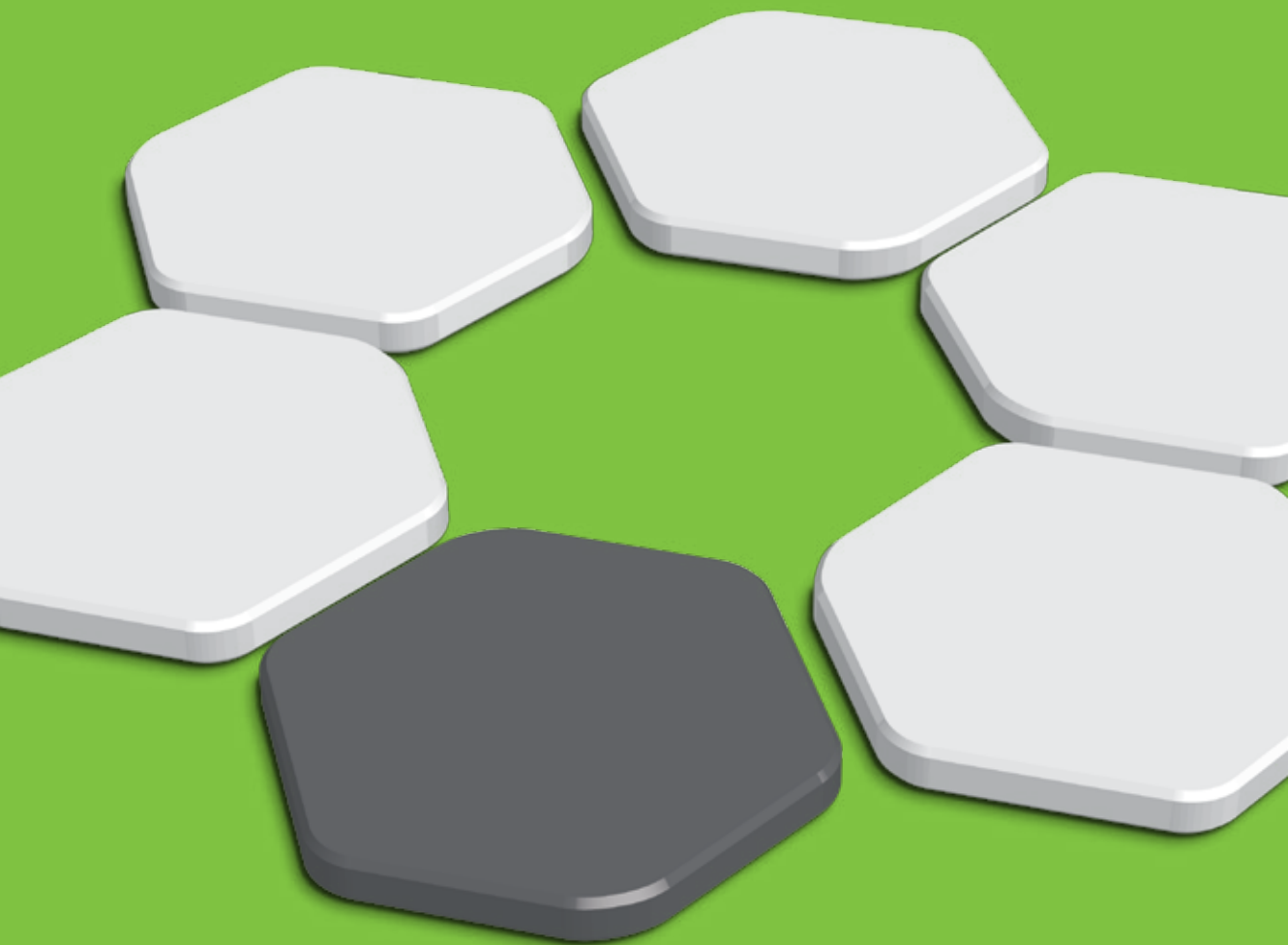
The NEC determines the Australian Government's contribution to block funded hospitals.

The NEC for 2014–15 is \$5.725 million, the average cost of block funded hospitals across Australia. Small rural hospital funding levels are weighted relative to this cost based on their volume of activity and location (for example, very remote location).

Table 1: NEP and NEC Determinations

	2012–13	2013–14	2014–15
NEP Determination	\$4,808	\$4,993	\$5,007
Back-cast NEP Determination	N/A	\$4,819*	N/A
NEC Determination	N/A	\$4.738 million	\$5.725 million

*The NEP for 2013–14 was back-cast (revised) using more up to date cost data that was not available when the price was first calculated. This is in accordance with the National Health Reform Agreement (clause A40).



1

Overview

Chair's welcome

I am pleased to present the Independent Hospital Pricing Authority's annual report for 2013–14.

During IHPA's third year of operation, we have continued to lead reform of Australian public hospital service financing. Activity Based Funding (ABF) is now used by all states and territories and together with the jurisdictions we have developed a single ABF currency for Australia providing increased transparency, efficiency and benchmarking opportunities.

In 2013–14, we completed the third round of pricing for Australian public hospital services through the National Efficient Price (NEP) and the National Efficient Cost (NEC) Determinations which directly determines the Australian Government's funding to public hospitals throughout Australia.

We have continued to work in partnership with a wide range of stakeholders and strengthened our advisory network. This has helped us to improve upon and add to hospital classification systems and continuously improve costing and data quality.

Notable achievements include the establishment of a mental health care working group and the roll out of a costing study to enable the development of a classification for mental health care. Significant progress has also been made with improvements in the acute admitted, subacute and non-admitted classifications and the progression and assessment of the feasibility of a classification for Teaching, Training and Research.

We have made some major improvements in data quality, notably through the National Hospital Cost Data Collection (NHCCDC), the primary data that informs the NEP and NEC.



I was delighted to open another successful Activity Based Funding Conference and welcome almost 500 delegates to the Melbourne Exhibition and Convention Centre. This event saw a range of health professionals come together to share their experiences in implementing ABF at patient and hospital levels.

Our achievements this year would not be possible without the collaboration of our many stakeholders. I'd like to thank the states and territories and the Australian Government whose partnership is vital to the delivery of better healthcare for local communities.

I thank my fellow Pricing Authority members for their ongoing commitment to their role in providing expert advice to guide IHPA in its decision making.

I'd like to particularly thank Dr Tony Sherbon, Chief Executive Officer at IHPA and all of his staff for their persistent and ongoing hard work in delivering the NEP and NEC at such high quality and under tight time pressures.

I look forward to a successful year ahead as we continue to focus on our key objectives and to continue working collaboratively as we strive to make Australia's public health system one of the best in the world.

A handwritten signature in black ink that reads "Shane D. Solomon".

Shane Solomon
Pricing Authority Chair
2 October 2014

Chief Executive Officer's year in review



I am pleased to report on the Independent Hospital Pricing Authority's achievements in 2013–14.

This year IHPA has continued to embed Activity Based Funding (ABF) at a national level and deliver on key obligations in the *National Health Reform Act 2011*.

A program of comprehensive consultation has enabled us to fine-tune the *Pricing Framework for Australian Public Hospital Services* ensuring a clear understanding of what is a hospital service and the methodology that guides the annual determination of the National Efficient Price (NEP) and National Efficient Cost (NEC).

The increasing quality of submissions received by IHPA from all jurisdictions highlights the successful partnership that has enabled a national roll out of ABF. A range of enhancements to our policy framework has ensured that the pricing process is clearer and more transparent to jurisdictions and stakeholders.

The NEP and the NEC Determinations for 2014–15 were released in March 2014. The NEC covers services for which the technical requirements for ABF do not currently exist, such as small rural and specialist hospitals, Teaching, Training and Research (TTR), as well as non-admitted mental health services.

This year IHPA has established a new mental health care working group. This group includes a range of mental health professionals that come together to assist IHPA in developing a new mental health care classification to enable ABF to be used more effectively for mental health care services.

In 2013–14, we also continued to work on the development of a classification system for TTR by defining TTR and identifying any possible cost drivers that may impact the classification system.

I would like to thank the Pricing Authority for their continued expertise and vision and the Clinical Advisory Committee who provide a vital mechanism to ensure that decisions are made with a clinical perspective in mind.

I would also like to note my appreciation to the large number of highly skilled experts within all jurisdictions and national peak representative bodies that continue to contribute and support IHPA in its work.

Finally, I would like to thank the staff at IHPA for the expertise and professionalism they bring to our work. These achievements are a testament to the excellent work provided across every division of IHPA from the core business teams through to the corporate support staff.


I look forward to a successful year ahead as we continue to build on the work achieved this year.

A handwritten signature in black ink, appearing to read 'A. K. Sherbon'.

Dr Tony Sherbon
Chief Executive Officer
Independent Hospital Pricing Authority
2 October 2014









Highlights and achievements

In 2013–14 the Independent Hospital Pricing Authority has had some significant achievements, detailed below:

-  Determined the National Efficient Price (NEP) and National Efficient Cost (NEC) for 2014–15.
-  Published the updated *Pricing Framework for Australian Public Hospital Services 2014–15*.
-  Developed the National Pricing Models in consultation with stakeholders.
-  Published the annual update to the *Three Year Data Plan*.
-  Collected the cost data for the National Hospital Cost Data Collection (NHCDC) Round 17 in public and private hospitals.
-  Participated in developing a data submission portal to support the concept of single provision, multiple use.
-  Reviewed the Tier 2 non-admitted services classification publishing updates to the *Non-admitted Services Definition Manual* and *Non-admitted Services Compendium*.
-  Began work on a comprehensive mental health care costing study to assist in developing the new mental health care classification system.
-  Developed communication tools to assist in educating stakeholders about the NHCDC and its role in the NEP and NEC Determinations.
-  Developed and published the first activity data set specification for Teaching, Training and Research (TTR), and published nationally agreed definitions for TTR.
-  Undertook an investigative review of the emergency care classification systems internationally to ascertain if a more suitable classification is appropriate for Australia.
-  Delivered the Activity Based Funding Conference 2014 for 460 delegates in Melbourne.

Looking ahead

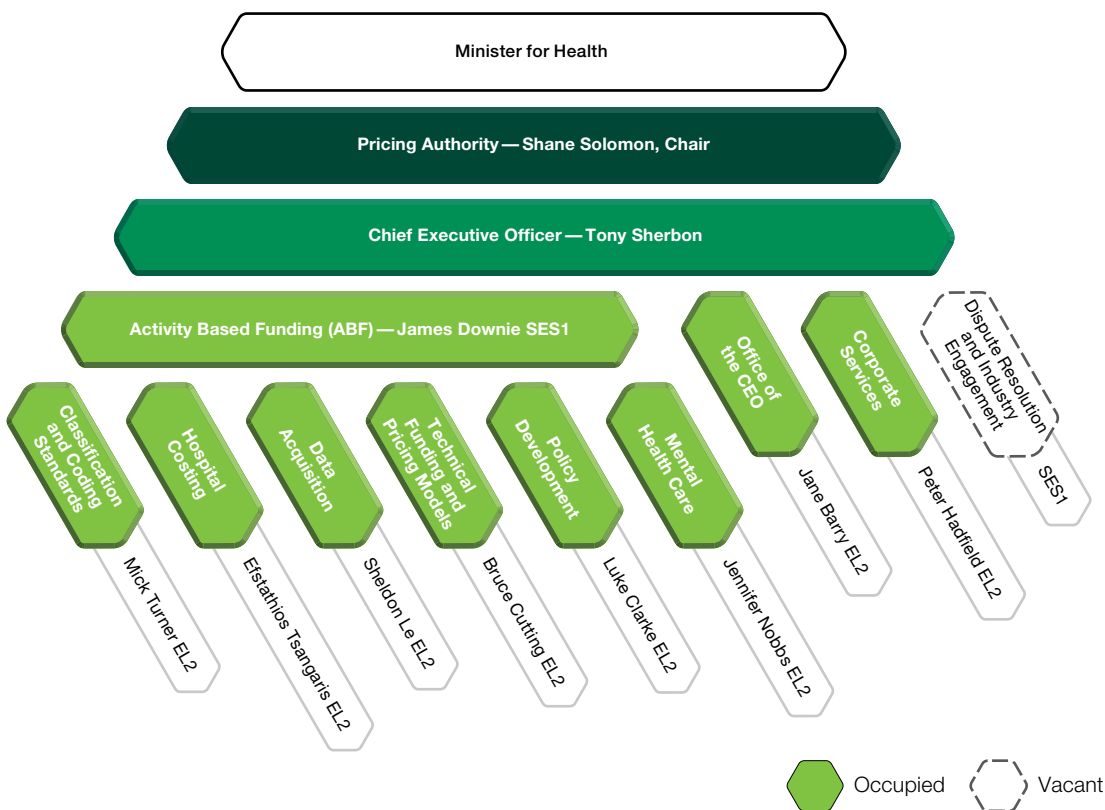
Milestones for the next financial year include:

-  The NEP and NEC Determinations for 2015–16.
-  Publication of the *Pricing Framework for Australian Public Hospital Services 2015–16*.
-  Completion of the mental health care costing study and ongoing work to develop the new mental health care classification system.
-  Development of initiatives to improve the robustness of the National Hospital Cost Data Collection (NHCDC).
-  Publication of the NHCDC Round 17 cost report for public hospitals and private hospitals.
-  Publication of the *Australian Hospital Patient Costing Standards v. 3.1*.
-  Begin a major costing development project to develop v. 4 of the *Australian Hospital Patient Costing Standards*.
-  Hosting the Activity Based Funding Conference 2015 in Adelaide.

Organisational structure

The Chief Executive Officer (CEO) of the Independent Hospital Pricing Authority (IHPA) is a statutory office holder and reports to the Pricing Authority, which reports to the Minister for Health.

Figure 1: IHPA's organisational structure at 30 June 2014



The organisational units and branches within the organisation operate as follows:

Activity Based Funding

IHPA's Activity Based Funding (ABF) branch has six teams each led by a Director who is responsible for establishing and maintaining the infrastructure and systems required to enable the delivery of a national ABF system. The ABF branch also

runs a number of advisory working groups that enable IHPA to consult with jurisdictions and other stakeholders on technical issues relating to classification, costing and data specifications.

Six teams function within the ABF branch:

1. Data Acquisition

The Data Acquisition team works with states and territories to develop appropriate data specifications, and to acquire, validate and maintain data in the IHPA information technology environment. The team provides analytical support to the various teams in the ABF branch.

2. Hospital Costing

The Hospital Costing team works with stakeholders to coordinate the collection, validation, analysis and reporting of the National Hospital Cost Data Collection (NHCDC), in conjunction with states and territories and private hospitals. The NHCDC is a valuable tool for use across the Australian health system as it plays a large role in collating the vast majority of health system costs at a 'product' level. It has recently been defined as a remarkable evidence base and unique in the world. The NHCDC is a primary input into the National Efficient Price (NEP) used to fund public hospitals. The team also develops and implements the *National Hospital Patient Costing Standards*.

To ensure the NHCDC can continue to be a well-informed evidence based data collection, the Hospital Costing team also conduct specific costing studies.

3. Classification and Coding Standards

The Classification and Coding Standards team works with stakeholders to develop and maintain the clinical classifications, coding standards and business rules associated with the implementation of a nationally consistent ABF framework for public hospital services. The work of the team covers six work streams—admitted acute, non-admitted, mental health care, subacute, emergency and teaching, training and research. In addition, the team is responsible for management of licensing Australian Refined Diagnostic Related Groups (AR-DRGs) and International Statistical Classification of Diseases and Related Health Problems, Tenth Revision, Australian Modification (ICD-10-AM) to local and international markets.

4. Technical Funding and Pricing Models

The Technical Funding and Pricing Models team develops models that underpin IHPA's determination of the NEP and the National Efficient Cost (NEC). It does this by developing costing models that best explain the expenditure of Local Hospital Networks (LHNs) nationally, and applying the policies contained within IHPA's *Pricing Framework for Australian Public Hospital Services*.

5. Mental Health Care

The Mental Health Care team is a new addition to the ABF branch this year. The team works with key stakeholders, largely through the mental health working group to develop a new classification for mental health care to enable ABF for mental health care services.

6. Policy Development

Develops policy across IHPA including matters relating to ABF, the NEP Determination and the NEC Determination.

Office of the CEO

The Office of the CEO supports the CEO and IHPA in all ministerial, government and parliamentary matters as well as internal and external communications. This includes secretariat services, parliamentary correspondence, internal and external communication, media, stakeholder engagement and website management.

Corporate Services

Corporate Services provide business support services in the areas of finance, human resource management, procurement, information and communication technology and governance.

Dispute Resolution

IHPA did not receive any dispute resolution referrals from health ministers this financial year; therefore plans to develop the role remain on hold.

The Pricing Authority

The Pricing Authority has an overall governance role and is responsible for the proper and efficient performance of IHPA's functions.

The Pricing Authority consists of a Chair, a Deputy Chair and seven other members, with one position currently not filled, appointed for a period not greater than five years. The Pricing Authority Chair is selected and appointed by the Australian Government Minister for Health; the Deputy Chair is appointed with the agreement of the Premiers of states and Chief Ministers of territories; and the other Pricing Authority members are appointed with the agreement of the Prime Minister and states and territories.

Members of the Pricing Authority bring significant expertise and skills to the role, including substantial experience and knowledge of the health care needs and the provision of health care for people living in regional and rural areas. The Pricing Authority is supported by a Chief Executive Officer, who is responsible for the day-to-day running of the organisation.

The current Pricing Authority members were appointed in February 2012.

Members of the Pricing Authority 2013–14

- Mr Shane Solomon (Chair)
- Mr Jim Birch, AM (Deputy Chair)
- Mr Glenn Appleyard
- Dr Michael Walsh
- Mr Alan Bansemer
- A/Prof. Bruce Chater, OAM
- Mr Alan Morris
- Prof. Jane Hall

The Pricing Authority met on nine occasions between 1 July 2013 and 30 June 2014:

- 21 August 2013
- 22 August 2013
- 13 September 2013
- 25 October 2013
- 28 November 2013
- 21 February 2014
- 20 March 2014
- 21 May 2014
- 19 June 2014

Table 2: Pricing Authority meetings and attendances 2013–14

Member	Meetings eligible	Meetings attended
Shane Solomon (Chair)	9	8
Jim Birch (Deputy Chair)	9	5
Glenn Appleyard	9	8
Alan Morris	9	6
Alan Bansemer*	7	7
A/Prof. Bruce Chater, OAM	9	9
Prof. Jane Hall	9	8
Michael Walsh	9	6

* Alan Bansemer was granted a leave of absence from Pricing Authority business under section 150(3) of the *National Health Reform Act 2011* between 24 March—19 June 2014



The Pricing Authority 2013–14

Standing, left to right:

- Mr Glenn Appleyard
- Mr Jim Birch, AM (Deputy Chair)
- Dr Michael Walsh
- Mr Alan Bansemer
- A/Prof. Bruce Chater, OAM.

Seated, left to right:

- Mr Alan Morris
- Prof. Jane Hall
- Mr Shane Solomon (Chair).

Mr Shane Solomon (Chair)

Shane Solomon has over 30 years of international and national healthcare management expertise. In April 2013, Shane was appointed as Head of Health for Telstra's new Health Business Unit.

Prior to joining Telstra, Shane was KPMG's Partner in Charge, Healthcare. In this role, he worked with state and Australian Governments, along with private sector health organisations.

Shane was the Chief Executive of the Hong Kong Hospital Authority, managing Hong Kong's 57,000 public hospital staff. During his five-year tenure, he implemented significant funding and service quality reforms, including a casemix pay for performance model and the ongoing development of a comprehensive integrated e-health system.

In Victoria, Shane was Under-Secretary of Health at the Department of Human Services (as it then was) where he was responsible for managing the funding system (including casemix) for Victoria, and performance and governance of Melbourne metropolitan health services. He was responsible for developing the Hospital Admission Risk Program and governance reforms to Victoria's public hospital system.

Shane was the first Group Chief Executive Officer of the integrated Sisters of Mercy Victorian hospital and aged care services group, merging public hospitals, private hospitals, aged care services, and palliative care services into a single new organisation and expanding the Sisters of Mercy mission from five entities to 12.

Mr Jim Birch, AM (Deputy Chair)

Jim Birch lives in Adelaide, South Australia and is a board member of HealthDirect Australia, Cancer SA Board and Mary MacKillop Care SA.

Jim is Lead Partner, Health and Human Services, Asia Pacific and Government and Public Sector Lead Partner, Oceania at Ernst and Young and was previously Chief Executive of the Human Services and Health Department in South Australia.

Mr Glenn Appleyard

Glenn Appleyard was a member of the Australian Accounting Standards Board from 1 January 2003 to 31 December 2011.

Glenn has held several senior positions within the public service including: Deputy Secretary in the Tasmanian and Victorian Departments of Treasury and Finance, Regional Director for the Australian Bureau of Statistics in Tasmania, and General Manager of the Food, Agriculture and Fisheries Division of the Tasmanian Department of Primary Industries, Water and Environment.

Glenn has an active interest in public finance issues, particularly Australian Government–state financial relations, and is a member of the Commonwealth Grants Commission. He is also currently the Chair of the Tasmanian Economic Regulator.

Mr Alan Bansemer

Alan Bansemer has over 35 years' experience in the health sector, including six years as the West Australian Health Commissioner and eight years as the Deputy Secretary to the Australian Government Department of Human Services and Health (as it then was). He currently runs his own private consultancy group, Banscott Health Consulting Pty Ltd, providing strategic advice to health departments throughout Australia.

Alan has chaired a number of committees including the Medicare Schedule Review Board and General Practice Consultative Committee. In addition, he has served as a member of numerous health advisory committees including the Australian Health Ministers' Advisory Council, Health Insurance Commission (now Medicare Australia) and the Australian Institute of Health and Welfare.

A/Prof. Bruce Chater, OAM

A/Prof. Bruce Chater is Head of the Academic Discipline of Rural and Remote Medicine and Deputy Chair of the Rural Clinical School Management Committee at the University of Queensland—tasks he performs from his rural base of Theodore, Queensland where he continues as a practicing rural doctor.

Bruce has been very involved both professionally and politically with the rural doctors' movement. He was the founding convener of the Rural Doctors' Association of Queensland and Australia and served as President of the Australian College of Rural and Remote Medicine.

Prof. Jane Hall

Prof. Jane Hall is the founding Director of the Centre for Health Economics Research and Evaluation and Professor of Health Economics in the Faculty of Business at the University of Technology, Sydney. Jane is a Fellow of the Academy of Social Sciences in Australia.

She has held many advisory and board positions, and is currently a member of the board of the Bureau of Health Information. She is actively involved in policy analysis and critique, and is a regular commentator on health funding and organisational issues in Australia.

Mr Alan Morris

Alan Morris is the former Chair of the Commonwealth Grants Commission and also undertakes consulting and advisory work for AusAID and the World Bank.

His prior appointments have included: Executive Director for Australia, Korea, New Zealand and Egypt at the European Bank for Reconstruction and Development, London; Secretary, Department of Premier and Cabinet, Tasmania; Secretary (Chief Executive Officer) and Secretary to Cabinet, Department of the Chief Minister, Northern Territory of Australia; Assistant to Executive Director, International Monetary Fund, Washington DC; Chief Financial Officer, International Finance Section, Australian Treasury; and First Assistant Secretary, Department of Finance, Papua New Guinea.

Dr Michael Walsh

Michael is Chief Executive of Cabrini Health, a private not for profit Catholic health service in Melbourne, Australia. He was recruited from Doha, Qatar where he was Chief Executive of the National Health Authority. Prior to this he worked in London, England as Chief Executive, South East London Strategic Health Authority. Michael has held a range of senior hospital and health department positions in Victoria and Western Australia. He is Vice President of the Royal Australasian College of Medical Administration, a Fellow of Australasian College of Health Service Management. Michael has over 25 years' experience in health service policy and management in both public and private sectors.

IHPA committees and working groups

Overview

IHPA has developed a committee framework to assist in providing expert advice and to ensure the transparency and integrity of the organisation.

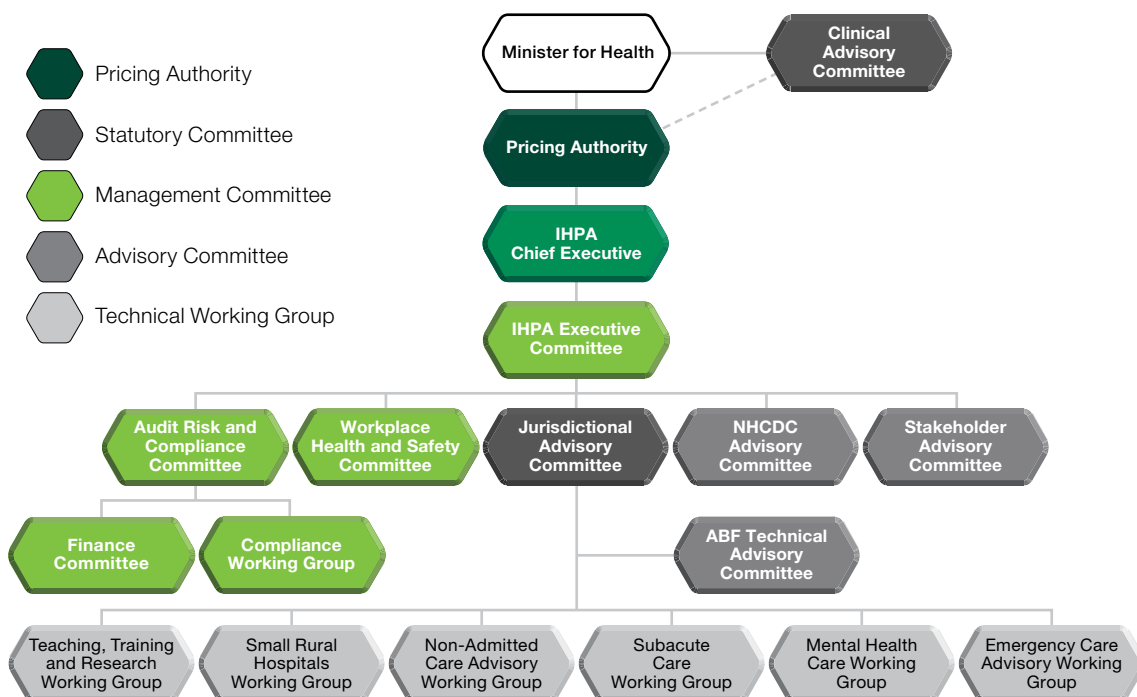
IHPA's statutory committees comprise the Clinical Advisory Committee (CAC) and the Jurisdictional Advisory Committee (JAC) which have been established pursuant to part 4.10 and 4.11 of the *National Health Reform Act 2011* to assist IHPA in performing its functions.

Other advisory committees and working groups have been established to assist IHPA in delivery of its work program, pursuant to Part 4.12 of the *National Health Reform Act 2011* including:

- Stakeholder Advisory Committee
- Activity Based Funding Technical Advisory Committee
- Teaching, Training and Research Working Group
- Small Rural Hospitals Working Group
- Non-admitted Care Advisory Working Group
- Subacute Care Working Group
- Mental Health Care Working Group
- Emergency Care Advisory Working Group
- National Hospital Cost Data Collection (NHCDC) Advisory Committee (established in August 2013)

Figure 2 depicts the alignment between IHPA's management, committees and working groups. Working groups and committees are structured to enhance IHPA's statutory functions. Some committees and working groups may also have sub-committees to assist in the delivery of IHPA's work program. All committees and working groups have a documented Charter or Terms of Reference (ToR) setting out their role, function, delegated power, membership and reporting relationship.

Figure 2: IHPA's management, committees and working groups



Clinical Advisory Committee

The Clinical Advisory Committee (CAC) is responsible for providing advice to the Australian Government Minister for Health and IHPA with respect to clinical matters and reports directly to the Minister.

The CAC was appointed by the previous Minister for Health, the Hon. Tanya Plibersek, MP, in June 2012 (as well as two appointments made in February 2013), with additional members being appointed based on the need for more areas of expertise. At the date of publication of this report, the CAC consisted of 27 members.

As specified in s. 193 of the *National Health Reform Act 2011*, the CAC is required to report annually. More information about the CAC can be located in the CAC annual report in Chapter two of this report.

Jurisdictional Advisory Committee

The Jurisdictional Advisory Committee (JAC) was established under s. 195 of the Act. Membership of the JAC consists of a Chair appointed by the Pricing Authority and nine other members (one to represent each state, territory and the Australian Government). JAC members are appointed by written instrument by the head of the health department of each state and territory. The Australian Government member is appointed by the Secretary of the Department of Health.

The JAC met on 10 occasions between 1 July 2013 and 30 June 2014:

- 9 August 2013
- 5 September 2013
- 1 October 2013
- 12 November 2013
- 18 December 2013
- 30 January 2014
- 27 March 2014
- 28 April 2014
- 29 May 2014
- 30 June 2014

Current JAC members

Dr Tony Sherbon, Chair
 Ms Janet Anderson*
 Dr Rohan Hammett
 Mr Kym Piper*
 Mr Nick Steele
 Dr Dorothy Jones
 Ms Frances Diver
 Mr Michael Kalimnios*
 Mr Michael Pervan
 Mr Stephen Goggs

Previous members during this period

Ms Penny Fielding
 Dr Jo Wright
 Ms Kerry Flanagan
 Ms Jenny Richter

*There were several JAC membership changes during the period 1 July 2013 to 30 June 2014—NT, SA and the Australian Government advised IHPA of changes to JAC membership by written instrument throughout this period.

Table 3: JAC meetings 2013–14

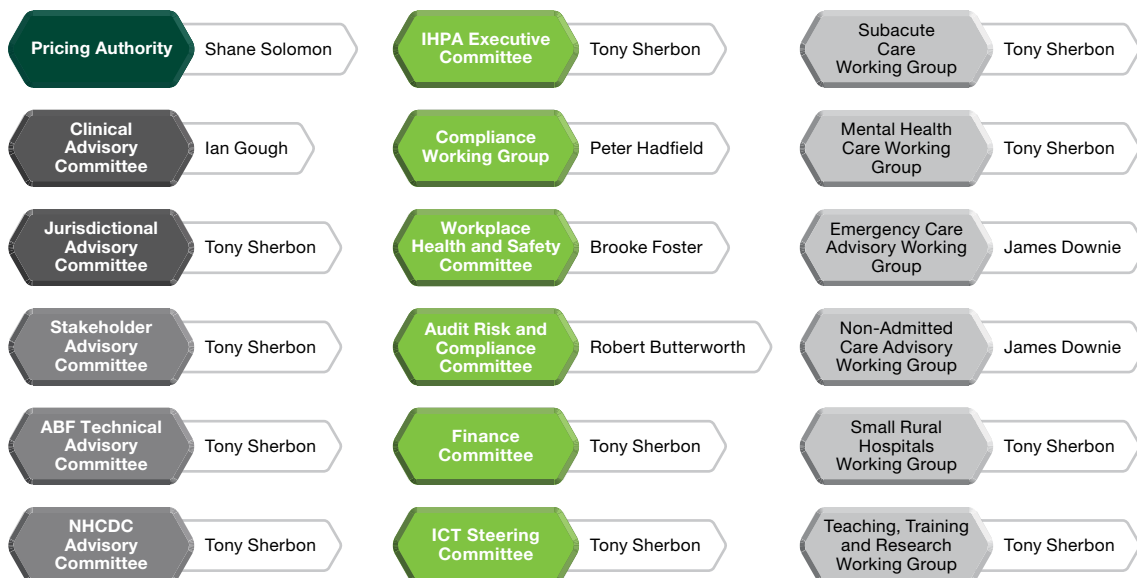
Members	Meetings Represented
IHPA	10
Australian Government	10
NSW	10
SA	10
QLD	10
WA	10
Vic	10
NT	10
Tas	10
ACT	10

Table 4: Other committee and working group meetings 2013–14

Committee	Meetings held up to 30 June 2014
Activity Based Funding Technical Advisory Committee	8
Stakeholder Advisory Committee	4
Teaching, Training and Research Working Group	7
Small Rural Hospitals Working Group	5
Non-admitted Care Advisory Working Group	8
Subacute Care Working Group	5
Mental Health Care Working Group	6
Emergency Care Advisory Working Group	7
National Hospital Cost Data Collection Advisory Committee	5*

*The NHCDC Advisory Committee was established in August 2013







Figure 3: Committee Chairs



IHPA internal committees

IHPA has a number of internal committees that provide independent assurance and assistance to the CEO, the Executive Committee and the Pricing Authority on matters such as risk, control and compliance frameworks and financial statement responsibilities.

More detailed information about these committees can be located in Chapter 4—Management and accountability.

-  Pricing Authority
-  Statutory Committee
-  Management Committee
-  Advisory Committee
-  Technical Working Group
-  Committee Chair



2

Clinical Advisory
Committee
Annual Report



Letter from the Chair



I am pleased to provide the annual report for the Clinical Advisory Committee (CAC) for 2013–14 and to reflect on the committee's achievements over the past year.

In 2013–14, the CAC met four times as it continued to offer the Independent Hospital Pricing Authority (IHPA) strategic clinical advice to help guide its work program.

The CAC provided critical input into the development of the *Pricing Framework for Australian Public Hospital Services 2014–15* which informed the National Efficient Price and National Efficient Cost Determinations for 2014–15.

In addition to its work on pricing, the CAC was involved in the revision and development of classification systems to support the implementation of Activity Based Funding (ABF) across Australia.

I was particularly pleased with the CAC's ability to respond effectively across the diverse range of complex clinical areas that are addressed within this report. Key achievements included the review of the definitions and cost drivers of Teaching, Training and Research and the assessment of new technologies and their impact on the pricing model.

In the past year members of the CAC were also involved in the joint working party with the Australian Commission on Safety and Quality in Health Care. A key outcome of this joint working party was the development of indicators for quality and safety to protect the link between the role of ABF data and quality.

I would like to extend my thanks to the members of the CAC who have generously donated their time and insight, to play a central role in continuing to develop a price for Australian public hospital services.

I am proud of the achievements outlined in this chapter and look forward to chairing the CAC in 2014–15 as we continue to work towards improving the Australian health system.

A handwritten signature in black ink that reads "Ian Gough". The signature is written in a cursive, flowing style.

Professor Ian Gough
Clinical Advisory Committee Chair
2 October 2014

About the Clinical Advisory Committee

The Clinical Advisory Committee (CAC) is a statutory committee that was established under Part 4.10 of the *National Health Reform Act 2011*.

The functions of the CAC as described in s. 177:

- (a) to advise the Pricing Authority in relation to developing and specifying classification systems for health care and other services provided by public hospitals;
- (b) to advise the Pricing Authority in relation to matters that:
 - (i) relate to the functions of the Pricing Authority; and
 - (ii) are referred to the Clinical Advisory Committee by the Pricing Authority;
- (c) to do anything incidental to or conducive to the performance of the above functions.

The CAC is a key component of the National Health Reform Agreement and the *National Health Reform Act 2011*. The CAC was established to ensure that clinicians had an input in the development of a national Activity Based Funding system through the provision of timely and quality clinical advice to inform Pricing Authority decision making.

The 27 members of the CAC were appointed by the Australian Government Minister for Health and were drawn from a range of clinical specialties and backgrounds to ensure the CAC represents a wide range of clinical expertise. Appointments are based on individual expertise rather than as a representative of an organisation, peak body or jurisdiction. Remuneration is determined by the Remuneration Tribunal.

The Chair of the CAC, Professor Ian Gough, reports to the Australian Government Minister for Health and is supported by IHPA staff.

Membership of the Clinical Advisory Committee

The 27 members of the CAC met four times in 2013–14.







Table 5: Membership of the Clinical Advisory Committee

Name	Position	Specialty	Meetings eligible	Meetings attended
Appointed in June 2012				
Prof. Ian Gough	Chair	Endocrinology/Surgery	4	4
Dr Alasdair MacDonald	Deputy Chair	Internal Medicine	4	3
Prof. Gerard Carroll	Member	Cardiology/Rural	4	4
Prof. Peter Macdonald	Member	Transplantation	4	3
A/Prof. Paul Varghese	Member	Geriatrics/ Rehabilitation	4	4
Dr Bernard Whitfield	Member	Ear Nose and Throat Surgery/ Injuries/Trauma	4	4
Prof. John Turnidge	Member	Infectious Disease	4	3
Dr Philip Hoyle	Member	Administration	4	3
A/Prof. Louis Irving	Member	Respiratory/ Indigenous Health	4	3
A/Prof. Daryl Williams	Member	Anaesthesia and Pain Management	4	2
Prof. Leon Flicker	Member	Geriatrics/Indigenous Health	4	3
W/Prof. Fiona Wood	Member	Burns	4	3
Dr Amanda Ling	Member	Administration	4	3
A/Prof. Liza Heslop	Member	Nursing/Pregnancy and Childbirth	4	4
Mr Graham J Reynolds	Member	Paediatrics	4	2
Prof. Geoff Donnan	Member	Neurology	4	2
Prof. Ray Lowenthal*	Member	Haematologist/Oncologist	1	1
Ms Jan Erven	Member	Occupational Therapist	4	3
Prof. Sally Tracy	Member	Midwife	4	2
Ms Amber Roberts	Member	Pharmacist	4	4
Ms Alison McMillan	Member	Chief Nurse	4	3
Dr Ruth Vine	Member	Psychiatrist	4	4
Ms Sue Davis	Member	Nurse	4	3
Ms Julie Connell	Member	Allied Health Manager	4	4
Dr Jo Wright	Member	Rural Medical Practice	4	3
Appointed in February 2013				
A/Prof. Melinda Truesdale	Member	Emergency Medicine	1	1
Dr Amod Karnik	Member	Intensive Care Medicine	1	1

*Prof. Ray Lowenthal was granted a leave of absence by the Chair from March 2013–March 2014.








The year in review

In 2013–14 the Clinical Advisory Committee (CAC) supported IHPA's Work Program to deliver the following key achievements:

-  Contributed to the development of the *Pricing Framework for Australian Public Hospital Services 2014–15* by providing clinical advice on complex areas such as Intensive Care Unit (ICU) adjustments and radiotherapy.
-  Informed the National Efficient Price (NEP) 2014–15 and the National Efficient Cost (NEC) 2014–15 Determinations.
-  Provided advice on the development and revision of clinically relevant classifications to support the implementation of a nationally consistent Activity Based Funding (ABF) framework.
-  Reviewed and commented on the definition of Teaching, Training and Research (TTR) and acknowledged possible cost drivers that may impact the development of a classification system.
-  A presentation by the Deputy Chair on behalf of the CAC to almost 500 delegates at IHPA's Activity Based Funding Conference 2014 in Melbourne.
-  Identified and engaged peak clinical bodies to offer content expertise on key areas of IHPA's Work Program.

The year ahead

In the next financial year the CAC will build on its achievements and work on the following projects:

-  Continue to advise IHPA on its Work Program for 2014–15 by assisting with the development of the *Pricing Framework for Australia Public Hospital Services 2015–16* and IHPA's determination of the NEP and NEC for 2015–16.
-  Advise on the ABF classification development for admitted acute care, non-admitted care, subacute care and emergency department care.
-  Provide input into the development of the mental health care and TTR classification systems.
-  Advise on the development of Australian Refined Diagnosis Related Group (AR-DRG) v.8 and International Statistical Classification of Diseases and Related Health Problems, Tenth Revision, Australian Modification (ICD-10-AM) 9th edition for acute admitted care.
-  Evaluate the proposed approach to subacute and non-acute services classification revision and assist with the development of the Australian National Subacute and Non-Acute Patient (AN-SNAP).
-  Assess the impact of new technology on hospital service delivery in future policy and pricing determinations.
-  Participation in the evaluation of the implementation of ABF in Australia.



3

Performance reporting

Outcomes and planned performance

This section discusses the main activities of the Independent Hospital Pricing Authority (IHPA) and reports on performance against specific targets set out in the *Portfolio Budget Statements* (PBS) for 2013–14.

The Australian Government requires agencies to measure their performance in terms of outcomes. The outcome expected from IHPA's work in 2013–14 was:

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

IHPA's outcome strategy states:

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. 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, IHPA is the Independent government agency responsible for setting the National Efficient Price and levels of block funding for services provided in public hospitals. In doing this, 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, IHPA will publish an annual draft *Pricing Framework for Australian Public Hospital Services* that outlines the principles and criteria used by IHPA to determine the efficient price for services provided by hospitals on an activity basis and National Efficient Cost 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 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.

The program attached to this outcome is Program 1.1: Public hospital price determinations.

Program 1.1 defines IHPA's four key program objectives:

1. Determine the National Efficient Price and National Efficient Cost for public hospital services
2. Develop national classifications for Activity Based Funding
3. Update the *Three Year Data Plan*
4. Resolve disputes on cost-shifting and cross-border issues.

The full *Portfolio Budget Statement* for 2013–14 is available at http://www.health.gov.au/internet/budget/publishing.nsf/Content/2013-2014_Health_PBS

Below is a summary of the work conducted by IHPA to meet the four objectives specified in Program 1.1.

Determine the National Efficient Price and National Efficient Cost for public hospital services

IHPA publishes an annual National Efficient Price (NEP) Determination for public hospital services for the coming financial year, along with other information supporting the efficient funding of public hospitals. This includes advice on the scope of public hospital services eligible for Australian Government funding (the General List), criteria for services to be funded by block grants (the National Efficient Cost) and adjustments to the price to reflect legitimate and unavoidable variations in the cost of delivering health care services.

In designing the pricing model, IHPA must comply with the requirements of the National Health Reform Agreement (NHRA) in:

- Ensuring reasonable access to public hospital services, clinical safety and quality, efficiency and effectiveness and financial sustainability of the public hospital system.
- Considering the actual cost of delivery of public hospital services in as wide a range of hospitals as practicable.
- Considering the expected changes in costs from year-to-year when making projections.

During 2013–14, IHPA continued to improve the robustness of the price setting in consultation with stakeholders. This included the development of the third National Cost Model and National Pricing Model to inform the determination of the NEP for the 2014–15 financial year.

Another key achievement has been the improvements to the National Cost Model for block-funded hospitals, which informed the determination of the National Efficient Cost (NEC) for 2014–15.

Through the consultation processes of the Pricing Framework and stakeholder committees, IHPA further strengthened its policies relating to the NEP and NEC Determinations. This includes the review and update of the *Annual Review of the General List Policy*, providing guidance when a jurisdiction requests IHPA to consider services to be included or excluded from the General List.

In 2013–14 IHPA reviewed the *Assessment of Legitimate and Unavoidable Cost Variations Framework* to layout the process which IHPA will follow in assessing submissions from jurisdictions relating to claims of unavoidable cost difference in determining adjustments to the NEP.

IHPA has produced even more supporting documentation to assist jurisdictions, including technical specifications, shared base data and copies of the main cost models and associated manuals. The *Information Release Policy* has also been updated and the *Third Party Usage of IHPA Protected Data Rules* has been developed outlining the principles and processes adopted by IHPA in the discretionary release of information.

Substantial adjustments have been developed in the approach to indexation of 2011–12 costs to 2013–14 prices, by the inclusion of a backcasting process to inform the National Funding Administrator's growth calculations.

National Hospital Cost Data Collection (NHCDC)

Fundamental to the National Efficient Price (NEP) and the National Efficient Cost (NEC) Determinations is the data obtained through the NHCDC. The NHCDC is the primary data input that results in NEP and NEC Determinations. IHPA is constantly focused on improving data quality to ensure that the NEP and NEC are robust, transparent and as accurate as possible.

The NHCDC is seen as a world class data collection and IHPA is continuing to make improvements to refine the collection further guided by recommendations in the *NHCDC Strategic Review*.

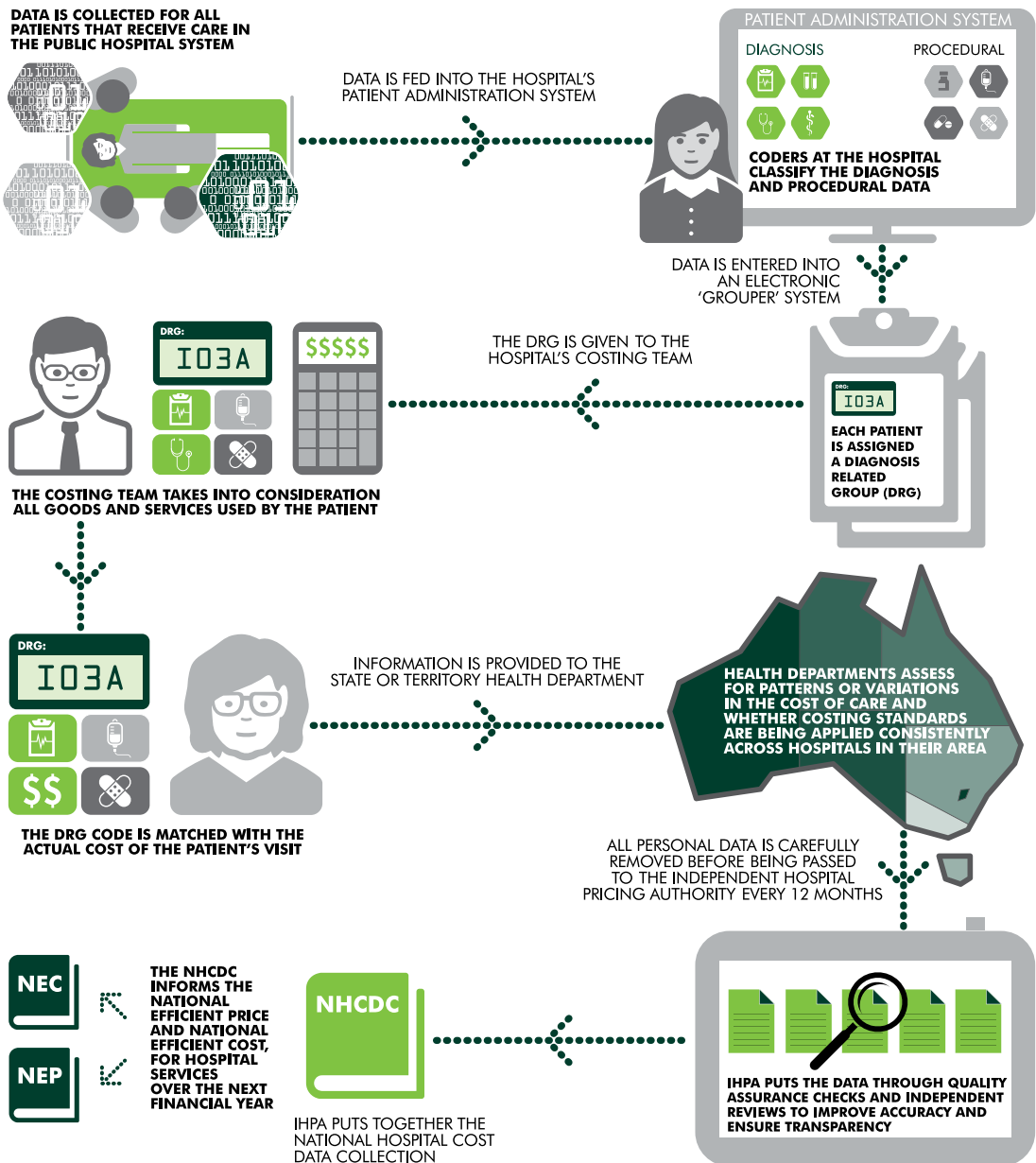
In 2013–14 IHPA continued to improve the data quality by aligning data sets to reduce the data burden on jurisdictions.

Specific outputs include:

- Establishment of an NHCDC Advisory Committee.
- Completion of the NHCDC Round 16 for the public and private section, including the production of a cost report and an independent financial review.
- Finalisation of the collection of Round 17 data for public and private hospitals.
- Completed a formal review of the draft *Australian Hospital Patient Costing Standards*.
- Further delivery of recommendations in the NHCDC strategic review including:
 - » reduced data required specifications to reduce the data burden on jurisdictions.
 - » the development of communication tools to assist stakeholders in understanding the NHCDC cycle.
 - » an agreed definition of the strategic purpose of the NHCDC and its role in benchmarking and pricing.

NHCDC cycle

Figure 4: Calculating the cost of public hospital services



Develop national classifications for Activity Based Funding

Activity Based Funding (ABF) requires robust classification systems to be able to describe the activity undertaken within a hospital. Classification systems enable clinical and demographic information that is written in medical charts or collected elsewhere to be converted into manageable data categories. Rules for collecting and coding clinical data need to be consistent across Australia to ensure that all states and territories are obtaining and providing information the same way. Effective clinical classification systems ensure that hospital data is grouped into appropriate classes, which in turn contributes to the determination of the National Efficient Price (NEP).

This year IHPA continued to address the data burden on jurisdictions by working within the current national health data system and using existing data collections where possible. IHPA also developed the first national data collection for clinical teaching and training, the *Hospital Teaching and Training Activities Data Set Specification*.

A consortia led by the University of Sydney commenced work on a major review of the case complexity process within the Australian Refined Diagnostic Related Groups (AR-DRG) classification system. This review, which is due for completion by the end of 2014, is the first of its kind since the current case complexity methodology was introduced into the AR-DRG system in 2000.

IHPA also licenses the right to use, develop or evaluate the AR-DRG classification system to other countries. As at 30 June 2014, 16 countries in Europe, Asia and the Middle East are licensed for the AR-DRG classification system.

The Tier 2 non-admitted services classification underwent an annual review with updates made to the classification, as well as to the *Non-admitted Services Definition Manual* and *Non-admitted Services Compendium*. The project to review alternative non-admitted classifications was completed and recommended a new classification be developed for use within Australia. A work program has commenced enabling the

development of a new non-admitted classification in a staged and manageable fashion. This work program has begun with the coding of diagnoses and procedure data that was collected as part of the Non-admitted and Subacute Care Costing Study. This coding project will develop an extensive clinical and cost dataset on which to base the future classification.

The Urgency Related Groups emergency care classification underwent a revision process to improve the clinical meaningfulness of the classification and better capture care provided to mental health patients in emergency departments. IHPA also carried out an investigative review of classification systems for emergency care to identify alternative classifications and consider if a new or revised classification should be used for ABF. The review resulted in several recommendations to improve the classification of emergency care services in Australia, and will form the basis of future developmental work in this area.

IHPA commenced work on the development of a new mental health care classification system, engaging a consortia led by HealthConsult to undertake a mental health care costing study. This work has been informed by IHPA's 2012–13 project led by the University of Queensland to define mental health care and investigate the key cost drivers associated with the delivery of mental health care.

The University of Wollongong were engaged to develop a revised version the Australian National Subacute and Non-Acute Patient (AN-SNAP) classification. A new version of AN-SNAP (version 4) is due for completion by the end of 2014.

Finally, IHPA commenced a project to define Teaching, Training and Research (TTR) for ABF purposes and to identify and analyse cost drivers of TTR. Nationally agreed definitions for TTR have been developed, and a teaching and training classification framework has been developed through identification and analysis of the cost drivers. This project has laid the foundations for the development of ABF systems for TTR.

Determine data requirements and data standards

Timely, accurate and reliable public hospital data is vital to both the development of classifications for hospital services and to determine the National Efficient Price (NEP) of those services. Recognising this, every year IHPA revises a rolling *Three Year Data Plan* to communicate the data requirements, data standards and timelines to the Australian Government, states and territories that IHPA will use to collect data over the coming three years.

This year IHPA has continued to produce the data set specifications for the various data collections that IHPA relies on for ABF. This includes a secure data exchange infrastructure with online data validation tools for each data set collected from the jurisdictions.

IHPA publishes quarterly data compliance reports as required under the National Health Reform Agreement. The reports are available on the IHPA website at www.ihipa.gov.au.

In the next financial year, IHPA plans to enhance the existing secure data submission portal, including an online data quality assurance function. This will reduce the work required by jurisdictions in submitting data to IHPA while ensuring high quality data is provided.

We will also continue to refine the data specifications for future years, to ensure that IHPA has the data it needs to perform its roles. This will include the annual update to the *Three Year Data Plan*, to forecast IHPA's data requirements for the coming three years.

In addition we will continue work with other national agencies to achieve the aim of 'single provision, multiple use' of data to reduce the data burden on states and territories.

Resolve disputes on cost-shifting and cross-border issues

IHPA has a role to investigate and make recommendations concerning cross-border disputes between states and territories, and to make assessments of cost-shifting disputes. Cross-border dispute recommendations are to be accepted and implemented by jurisdictions, whilst IHPA makes assessments of cost-shifting disputes.

Where any Australian Government, 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, 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.

This year IHPA has reviewed and published the *Cost-shifting and Cross-border Dispute Resolution Framework* to guide processes to investigate cross-border and cost-shifting disputes and provide a timely process to investigate both cross-border and cost-shifting disputes should it receive a request from a health minister.

In 2013–14, IHPA did not receive any requests relating to this function.

The tables on the next page set out the qualitative deliverables and performance against key performance indicators for 2012–13.

IHPA's financial statements can be found in Chapter 5 and Appendix B provides a summary table showing the total resources of the organisation and expenses by outcome.

Table 6: Qualitative Deliverables for Program 1.1

	Deliverable	Target	Result
Determine the National Efficient Price for public hospital services	Annual determination of the National Efficient Price (NEP) and the National Efficient Cost (NEC) for the coming financial year along with other information supporting the efficient funding of public hospitals.	Annual publication of the NEP and NEC for Australian public hospital services and other information that supports the efficient funding of public hospitals.	Target met
Develop the <i>Three Year Data Plan</i>	Update the <i>Three Year Data Plan</i> .	Annual publication of the <i>Three Year Data Plan</i> and communication with the Australian Government, states and territories.	Target met
Resolve disputes on cost-shifting and cross-border issues	Timely investigation and provision of recommendations to health ministers on cross-border and cost-shifting dispute.	IHPA investigation of cross-border or cost-shifting dispute and provision of recommendations or assessment within six months of receipt of request.	Reference point met

Table 7: Qualitative Key Performance Indicators for Program 1.1

	Indicator	Target	Result
Determine the National Efficient Price for public hospital services	Reduction in the number of Local Hospital Networks that record costs per National Weighted Activity Unit significantly above the NEP.	2013–14 will provide additional baseline data for acute admitted services, emergency department services, non-admitted patient services and block funded public hospital services. The baseline data collection will be completed by 30 June 2014.	Target met
Develop national classifications for Activity Based Funding	Percentage of public hospital separations funded by nationally consistent Activity Based Funding.	2013–14 will provide additional baseline data for acute admitted services, emergency department services and non-admitted patient services which will be funded using Activity Based Funding. The baseline data collection will be completed by 30 June 2014.	Target met
Develop the <i>Three Year Data Plan</i>	Australian Government, 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 Australian Government, states and territories compliance with the data requirements and data standards.	Target met

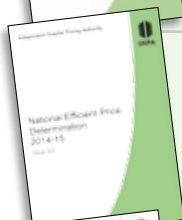
Publications

IHPA has produced a number of publications and reference materials that provide the groundwork to deliver our objectives as required under the *National Health Reform Act 2011*. All of these documents are available on the IHPA website at www.ihoa.gov.au.



National Efficient Cost (NEC) Determination 2014–15

A National Efficient Cost for services that are not suitable for Activity Based Funding (ABF), such as small rural hospitals. This determines the Australian Government's contribution to block funded hospitals.



National Efficient Price (NEP) Determination 2014–15

The NEP underpins ABF across Australia for Commonwealth funded public hospital services. This document includes the way the NEP is calculated and the price weights for specific hospital services.



Pricing Framework for Australian Public Hospital Services 2014–15

The Pricing Framework is fundamental to the National Health Reform Agreement and underpins the annual NEP and NEC for Australian public hospital services.



Tier 2 Non-admitted Services Compendium 2014–15

The *Tier 2 Non-admitted Services Compendium* assists health departments and hospital staff to collect non-admitted activity data for ABF. The compendium provides guidance on the counting and classification rules associated with the Tier 2 non-admitted services classification.



Tier 2 Non-admitted Services Definition Manual v. 3.0 2014–15

This manual provides the Tier 2 classes for counting non-admitted service events based on an assessment of both the type of clinician providing the service and the nature of the service provided.



Work Program 2013–14

IHPA's Work Program is revised and published each financial year. It outlines IHPA's objectives, performance indicators and timeframes for the coming year.

Stakeholder engagement

Activity Based Funding Conference 2014



Key statistics

- 460+ delegates in Melbourne
- Four workshops
- 10 plenary and panel sessions
- 36 concurrent sessions
- Over 77 abstract authors
- 109 tweets using the #ABF14 hashtag.

Online



Key statistics


- Over 270,000 website visits
- 290 mentions on Twitter
- 190 Twitter followers
- 278 LinkedIn followers
- 160+ health professionals attended IHPA's webinar series.

Consultation



Key statistics

- 500+ stakeholders engaged throughout the year for public consultations
- Over 74 committee and working group meetings
- 8 submissions on the *Work Program 2013-14*
- 34 submissions on the *Pricing Framework 2014-15*.



4

Management and accountability



Corporate governance

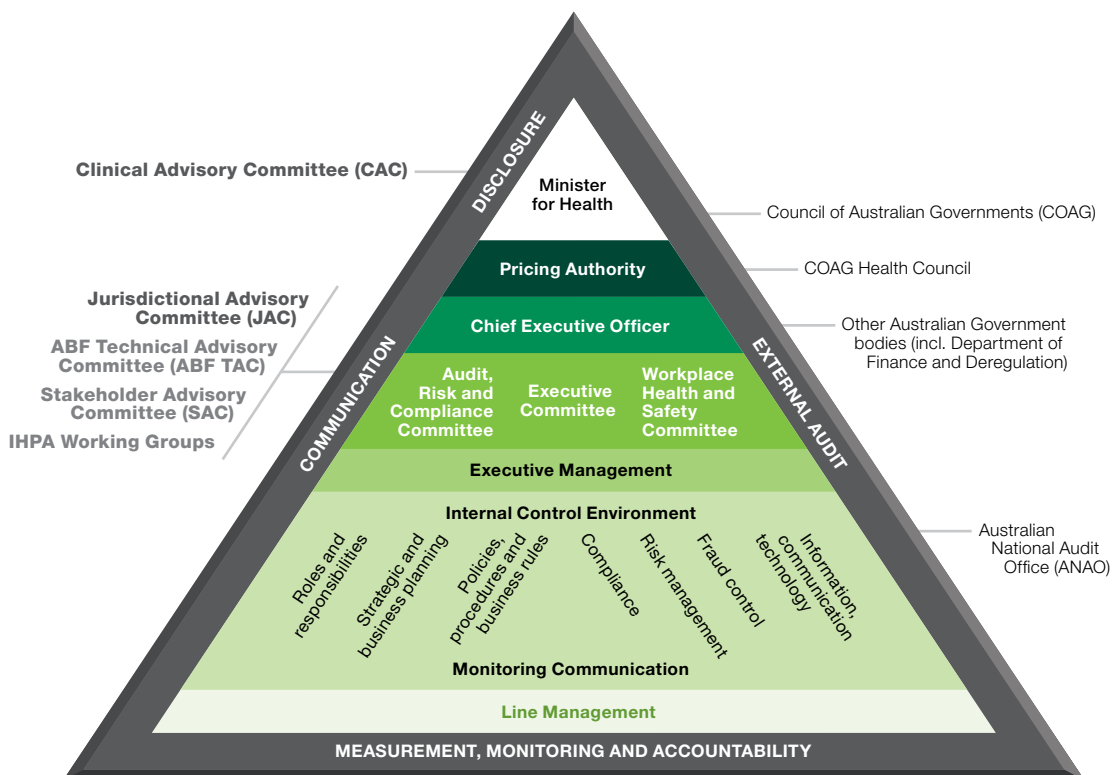
Effective corporate governance enables the Independent Hospital Pricing Authority (IHPA) to meet its obligations, manage risk and take advantage of opportunities. It ensures that IHPA has effective decision-making processes and compliance systems in place and that the roles and accountabilities of our staff and the Pricing Authority are clearly defined and well understood.

IHPA's corporate governance framework establishes the structure by which good governance principles are embedded in policies, processes and systems within IHPA. It shapes

how we perform our functions and activities. It contains elements that include: our internal control framework, an enterprise approach to risk management, positive assurance processes that confirm compliance with IHPA's legal obligations, fraud control and strategic business planning. IHPA ensures good governance practices are understood and embedded within the organisation through induction, regular training programs acting on controls and regular assessments to confirm we are complying with our governance obligations.

We operate a comprehensive governance framework which is designed to serve the needs of our stakeholders through the ongoing achievement of our strategic and operational objectives.

Figure 5: IHPA's corporate governance model



Governance initiatives

During the 2013–14 financial year, IHPA continued to develop and implement policies and procedures that ensure good governance over IHPA's business. In 2013–14 we have:

- Implemented an enterprise wide risk management approach that encourages managers to accept good risks and decline unsuitable risks.
- Ensured that reviews are undertaken of business risks in addition to refining and updating the monthly control report used to provide positive assurance of compliance.
- Completed an environmental scan of Australian Government, state and territory legal data management obligations and confirmed that IHPA's policies, processes and systems for protecting data collected by IHPA meet all defined obligations.
- Arranged for third party audits to be undertaken. Audit findings on IHPA's data management, computer management and security management processes have been reviewed by management and remediated.
- Updated our privacy policy and procedures to comply with changes to the *Privacy Act 1988* that were introduced in March 2014.
- Completed updated compliance training sessions for existing staff and induction training for all new staff, contractors and consultants.
- Updated procurement policies, procedures and templates to reflect that from 1 July 2014, IHPA will contract as a corporate entity.
- Updated procurement policies, procedures and templates to integrate strong data security obligations over all consultants and contractors who deal with Pricing Authority data.
- Reviewed and maintained existing compliance registers for protective security under the *National Health Reform Act 2011* and the *Financial Management and Accountability Act 1997*.
- Exercised our business continuity and disaster recovery plans.
- Completed assurance processes that confirm compliance with the *National Health Reform Act 2011* and the National Health Reform Agreement obligations.
- Implemented Information Communication and Technology (ICT) solutions to support Activity Based Funding analytical activities that comply with the Australian Government's *Information Security Manual*.
- Reviewed and updated IHPA's policies, processes, systems and Governance Charters for the introduction of the *Public Governance Performance and Accountability Act 2013*.

Risk management

The ongoing management of risk is a central theme in designing IHPA's governance practices. IHPA's *Risk Management Framework* considers how to identify, treat and monitor risks. It defines strategic governance mechanisms and assigns risks to particular roles to ensure that managers are responsible and accountable for defined risks. Tactical risks are managed through detailed policies, processes and systems. IHPA has implemented a system of risk delegates who are empowered to accept or decline tactical risks. Together, these risk management techniques have enabled the organisation to adopt an enterprise wide view of risk where staff use appropriate risk management tools that meet their immediate business needs and assist in achieving optimised business outcomes.

Our approach to risk allows managers to treat risks in different ways as required by the needs of each task. Tools are available that assist management to deal with strategic, operational and tactical risks. Assessing, treating and accepting risks have been integrated into our decision-making processes. The risk management approach adopted by IHPA is consistent with AS/NZS ISO 31000:2009 Risk management—Principles and Guidelines.¹

The Pricing Authority and senior management committees routinely consider emerging and ongoing risks that may impact upon IHPA achieving

1. AS/NZS ISO 31000:2009 Risk management—Principles and Guidelines (Standards Australia 2009)

its objectives. These periodic risk assessments allow IHPA to identify critical issues and take action to mitigate those risks. The reviews enable management to take advantage of opportunities as they arise. IHPA's *Strategic Risk Register* was regularly reviewed and updated in 2013–14, and each revision of the register endorsed by IHPA's Executive, the Audit, Risk and Compliance (ARC) Committee and the Pricing Authority.

IHPA has a mature enterprise risk management framework in place and risk management is considered a business as usual activity for all IHPA staff.

Compliance

IHPA has a broad range of compliance obligations including key statutory obligations set out in the *National Health Reform Act 2011* (the Act) and the National Health Reform Agreement (NHRA) the *Financial Management and Accountability Act 1997* and the *Financial Management and Accountability Regulations*. Other legal and compliance obligations include those relating to employees, work health and safety, privacy, freedom of information, intellectual property, protective security, website accessibility and records management.

In the 2013–14 financial year, IHPA completed a number of significant compliance projects including: preparing for the introduction of the *Public Governance Performance and Accountability Act 2013* (PGPA Act), reforms to the *Privacy Act 1988* (Privacy Act) that came into force on 12 March 2014 and rehearsal of the disaster recovery plan.

A quarterly assurance register of compliance with the Act and the NHRA was completed. This register assigns responsibility for each section of the Act and schedule in the agreement to particular managers who are required to provide quarterly formal confirmations to the compliance team that they have met their obligations under the Act and the NHRA.

A system of controls monitors approved delegates' use of powers defined in the Act and NHRA. This system designed in a previous financial year continued to provide the Pricing Authority with assurance that IHPA is correctly using its powers.

The Act and NHRA compliance registers and controls were tabled and approved by the Pricing Authority and provided to IHPA's ARC committee.

In preparation for the PGPA Act, IHPA briefed staff and the Pricing Authority on the duties they would have as Officials under the PGPA Act. IHPA also reviewed and updated key policies, and financial authorisation documents.

To ensure compliance with the Privacy Act, IHPA undertook an extensive review of privacy compliance practices, updated its privacy policy, and developed privacy procedures and notices.

During the year, IHPA finalised a range of record management policies, processes and business rules that are used to determine when records must be kept in IHPA's record management system or when to dispose of documents and files. These rules were checked by National Archives Australia who, in quarter two of financial year 2013–14, issued IHPA with a records authority.

IHPA has an ongoing program of assessing if its compliance and controls should be expanded or reduced to meet the current risks contained in its legal and compliance obligations.

Audit, Risk and Compliance committee

IHPA's Audit, Risk and Compliance (ARC) committee provides independent advice to assist the Chief Executive Officer, the Executive Committee and the Pricing Authority manage IHPA's financial management and organisational risk. Assisted by internal and external auditors, it oversees the production of financial statements and quality assured the strategic risk register.

The ARC committee is made up of three external members who have experience in business, the health sector and government. At 30 June 2014, members of the ARC committee comprised:

- Robert Butterworth, Chair and Independent member
- Angela Diamond, Independent member
- Alan Bansemer, Pricing Authority member.

Three management representatives including the Chief Financial Officer/Chief Operating Officer, Finance Manager and Risk and Compliance Manager also attend. In 2013–14, the committee met five times.

Fraud Control Plan

IHPA has a mandatory obligation to implement a *Fraud Control Plan* that addresses its operational risks.² We recognise that minimising fraud risk demands that staff and suppliers operate to the highest standards of ethics and integrity. The preparation and regular review of the *Fraud Control Plan* is considered to be an essential component of effective governance.

In 2013–14, IHPA updated its *Fraud Control Plan* to encompass new requirements to avoid and report corrupt conduct. It also refined the plan and the fraud risk register following recommendations from an internal audit. Comprehensive fraud and anti-corruption training was provided to all IHPA staff.

Fraud control is recognised as an element of the total risk and controls system. Effective fraud mitigation is achieved by integrating fraud control into IHPA's overall systems of risk management and controls are monitored that are designed to identify both data and financial fraud.

IHPA's revised *Fraud and Anti-Corruption Control Plan* was tabled at and approved by the Pricing Authority and endorsed by the IHPA Executive and the ARC committee.

Internal audit

To ensure continuous monitoring of its risk profile and governance practices, IHPA has engaged internal auditors who have developed an audit plan relevant to IHPA's business operations. Audit remediation plans are approved by IHPA's Executive and confirmed by the ARC committee.

External oversight

In 2013–14 no judicial administrative tribunal decisions relating to IHPA were handed down.

The Australian Government Solicitor provided advice on IHPA's management of Pricing Authority protected data and concluded that IHPA was managing these data sets in accordance with the Australian Government, state and territory privacy requirements.

A specialised external ICT security company was commissioned to undertake an assessment of IHPA's computer systems' compliance with the Australian Government's *Information Security Manual*. During the course of the audit substantial compliance was noted and all findings were remediated.

A Certificate of Compliance was sent to the Auditor-General confirming compliance with IHPA's obligations under the Australian Government *Protective Security Policy Framework*.

There were no reports on the operations of IHPA conducted by the Parliamentary Committee of the Commonwealth Ombudsman in 2013–14.

Purchasing/contracting

In 2013–14, IHPA complied with the government's purchasing policies as stated in the Commonwealth Government Procurement Rules³. Our procurement framework encourages competition, value for money, transparency and accountability. All contracts were awarded after ensuring the efficient, effective, economical and ethical use of Australian Government resources.

2. See section 45 of the *Financial Management and Accountability Act 1997* (Cth).

3. Available at: www.finance.gov.au

In 2013–14 no contracts were exempt from reporting on AusTender on the basis that publishing contract details would disclose exempt matters under the *Freedom of Information Act 1982*.⁴ All IHPA awarded contracts valued at \$100,000 (GST inclusive) or greater, contained standard clauses granting the Auditor-General access to contractor's premises.

Consultants

IHPA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to either:

- investigate or diagnose a defined issue or problem;
- carry out defined reviews or evaluations; or
- provide independent advice, information or creative solutions to assist in the decision making.

Prior to engaging consultants, IHPA takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the *Financial Management and Accountability Act 1997 (FMA Act)* and related

4. AusTender provides centralised publication of Australian Government business opportunities, annual procurement plans, multi-use lists and contracts awarded.

regulations including the CPRs and relevant internal policies. The selection process may involve open tender, prequalified tender, limited tender, or a pre-eminent expert or consultant who had previously undertaken closely related work for the organisation, or a consultant known to have the requisite skills where the value of the project did not justify the expense or delay associated with seeking tenders.

Administered

During 2013–14 eight new consultancy contracts were entered into involving total actual Administered expenditure of \$2.253 million. In addition, 10 ongoing consultancy contracts were active during 2013–14, involving total actual Administered expenditure of \$2.317 million.

Departmental

During 2013–14 one new consultancy contract was entered into involving total actual Departmental expenditure of \$0.010 million. There was one ongoing consultancy contract active during 2013–14, involving total actual Departmental expenditure of \$0.051 million.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au

Table 8: Comparison expenditure on consultancy contracts

	2010–11	2011–12	2012–13	2013–14
Administered	N/A	\$0.015m	\$3.352m	\$4.57m
Departmental	N/A	\$0	\$0.045m	\$0.061m

Management of human resources

IHPA values the work, talent and contribution of its people and has created organisation-wide development strategies aimed at enhancing the skills, expertise and intellectual capital of the IHPA workforce. IHPA facilitates an atmosphere of open communication and welcomes ideas and innovation. IHPA's workplace encourages people to work with a strong team ethic, to respect diversity, develop a collaborative culture and take pride in delivering quality outcomes for our stakeholders.

This year, human resource management focussed on managing and developing staff to achieve organisational objectives. All new staff attended induction courses and learning and development initiatives included workshops covering work, health and safety, fraud control, mental health and performance management. The development of advanced project management skills was identified as a priority and applicable staff were able to enhance their skills during scheduled in-house project management training sessions. Nominated staff were given the option of completing a tertiary qualification in project management to further develop their skills.

To deal with the challenges of recruiting technical positions in the Sydney market, a number of techniques were used to attract staff including: use of specialised recruitment agencies, social media and a range of online advertising. IHPA continues to meet its obligations for recruitment under the interim recruitment arrangements, announced in October 2013. IHPA applied for exemptions from these arrangements on five occasions, for key Executive positions.

Workforce planning and staff retention and turnover

Workforce planning activities were focussed to ensure that IHPA's organisational structure is able to meet the developing needs of the organisation,

ensuring IHPA is adequately resourced and able to meet its legislative objectives and functions.

IHPA's agency structure determines the number of positions and appropriate classification levels in line with the Australian Public Service Work Level Standards. This structure is subject to a process of ongoing review to ensure that resources are optimised for the achievement of organisational goals.

Issues related to high staff turnover or ongoing retention of staff did not present as a high risk during this financial year.

Table 9: APS levels salary structure at 30 June 2014

Classification	Salary range (incorporating Enterprise Agreement and Individual Flexibility Agreements)
Executive Level (EL)	
EL 2	\$112,992–\$168,750
EL 1	\$94,705–\$123,240
Australian Public Service (APS)	
APS Level 6	\$77,067–\$92,250
APS Level 5	\$68,843–\$74,451
APS Level 4	\$64,229–\$67,865
APS Level 3	\$56,691–\$62,837
APS Level 2	\$49,056–\$53,533
APS Level 1	\$41,974–\$47,140

Non-salary benefits

Non Senior Executive Service (SES) staff are entitled to the following benefits:

- Access to the Employee Assistance Program
- Extended purchase leave
- Maternity and adoption leave
- Parental leave
- Leave for personal compelling reasons and exceptional circumstances
- Access to paid leave at half pay
- Flextime (APS staff)

Table 10: Staff numbers by classification, gender and full-time/part-time status at 30 June 2014

Classification	Female			Male			Total
	Total	F/T	P/T	Total	F/T	P/T	
HOPO	0	0	0	1	1	0	1
SES	0	0	0	1	1	0	1
EL2	3	2	1	7	7	0	10
EL1	17	17	0	5	5	0	22
APS Level 6	8	8	0	4	4	0	12
APS Level 5	1	1	0	1	1	0	2
APS Level 4	4	4	0	1	1	0	5
APS Level 3	0	0	0	0	0	0	0
TOTAL	33	32	1	20	20	0	53

Key: F/T = full time, P/T = part time

HOPO = Holder of Public Office (a statutory appointment—currently the CEO)

Note: Staff numbers by classification are based on actual not nominal classification.

Non-ongoing includes staff on temporary moves from other APS agencies including the Department of Health staff.

Table 11: Staff numbers by classification, gender and ongoing/non-ongoing status at 30 June 2014

Classification	Female			Male			Total
	Total	Ongoing	Non-ongoing	Total	Ongoing	Non-ongoing	
HOPO	0	0	0	1	0	1	1
SES	0	0	0	1	0	1	1
EL2	3	3	0	7	7	0	10
EL1	17	17	0	5	2	3	22
APS Level 6	8	7	1	4	3	1	12
APS Level 5	1	1	0	1	1	0	2
APS Level 4	4	2	2	1	1	0	5
APS Level 3	0	0	0	0	0	0	0
TOTAL	33	30	3	20	14	6	53

- Flexible working locations and home-based work where appropriate
- Access to laptop computers, dial-in facilities, electronic tablets and mobile phones
- Study assistance
- Support for professional and personal development
- Refund of health and wellbeing expenses including provision of eyesight testing and reimbursement of prescription glasses
- Family care rooms
- Influenza vaccinations
- Access to financial advice for staff 54 years and older
- Access to salary packaging.

Senior Executive Service remuneration:

- SES officers are employed under the terms of a determination made under s. 24 of the *Public Service Act 1999*. The amount of remuneration received by SES officers in IHPA is determined on an individual basis by the CEO.

Training and development

Training and development this year has focussed on building capabilities of staff including project management training, performance development training and internal sessions covering governance and compliance obligations of managers and staff.

We will continue to build capability by offering opportunities for staff to undertake professional development. Staff currently have access to the Department of Health's 'face-to-face' and online learning and development opportunities. These will be enhanced through access to professional and industry specific training to further develop the skills of IHPA people.

Work, health and safety (WHS)

IHPA's Workplace Health and Safety Committee continued in 2013–14 in accordance with the *Work Health and Safety Act 2011*. The committee held four meetings during the year and dealt with a range of WHS matters.

The committee is chaired by the Human Resources Manager, the committee membership includes two management representatives and two health and safety representatives. The role of the committee is to consider and deal with WHS issues and provide independent assurance to the CEO and the IHPA Executive on the health and safety of IHPA staff.

Quarterly WHS inspections were carried out by a management representative and a nominated health and safety representative. WHS risks were identified and remediation action was recommended to the IHPA Executive for consideration.

The committee also offered an optional wellbeing survey to all staff to complete. The aim of the survey was to provide IHPA with an understanding how work place characteristics influence employee health and well-being. The results from the survey helped us review and adapt how we operate internally and further identify measures and initiatives to build and strengthen a workplace that promotes wellness.

Workplace agreements

The *Public Service Act 1999* provides the employment framework for IHPA.

All APS and non-APS Enterprise Agreements had a nominal expiry date 1 July 2014. Under the *Fair Work Act 2009*, agreements continue to operate after their nominal expiry date until they are replaced or terminated.

IHPA is developing its bargaining position in accordance with the Australian Government Public Sector Workplace Bargaining Policy 2014.

A number of human resource policies were developed during the year covering employee entitlements such as parental leave, study bank and flexible working arrangements.

Individual Flexibility Agreements (IFAs)

As at 30 June 2014, seven non-SES staff members (5 × EL2, 1 × EL1 and 1 × APS6) had IFAs covering specific conditions of employment.

Performance pay

Access to the Performance Pay Scheme was withdrawn from 1 April 2014. No performance pay was issued during this financial year.

Ethical standards

IHPA is committed to promoting and maintaining behavioural standards contained in the Australian Public Sector (APS) Values and Code of Conduct as set out in the *Public Service Act 1999*. The *IHPA Ethics and Integrity Handbook* was updated reflecting changes in legislation and made available on the IHPA intranet. Induction programs and new starter packs provide information and guidance material covering the Australian Public Service Commission's APS values and Code of Conduct. Managers and employees also have access to supplementary APS Values and Code of Conduct information via the Department of Health's intranet.

Compliance with Carer Recognition Act 2010

IHPA has due regard to Australia's Carers Statement. Staff will be made aware of the statement as human resource policies and procedures on this topic are developed and implemented.

Disability reporting

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the *Commonwealth Disability Strategy*. In 2007–08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010–11, departments and agencies have no longer been required to report on these functions.

The *Commonwealth Disability Strategy* has been overtaken the new *National Disability Strategy 2010–2020* which sets out a ten year national policy framework to improve the lives of people with disability, promote participation and create a more

inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. The first of these reports will be available in 2014, and can be found at www.dss.gov.au.

Leave reporting

IHPA presented a detailed monthly unplanned leave report to the CEO. The report ensured leave was being entered accurately and within the correct pay periods. It also identified that IHPA's unplanned leave ratio at 30 June 2014 was below the Australian Public Service Commission average of 11 days per year.

Equal employment opportunity

IHPA is an inclusive organisation that values fairness, equity and diversity consistent with the APS Values and Code of Conduct. The organisation is committed to the principles of workplace diversity and equity in employment, which include recognising, respecting, valuing and utilising individual difference. Comprehensive diversity and harassment policies are being developed to underpin this commitment. IHPA will develop a Workplace Diversity Program to assist in giving effect to the APS Values and to address the removal of employment-related bias.

Workplace diversity

IHPA developed an *Agency Multicultural Plan for 2013–15* (AMP) and published it on IHPA's website. The key areas of focus in this AMP cycle is 'engagement' and 'responsiveness'. The delivery of IHPA's work program requires effective policy development, engagement and communication strategies with all stakeholders, including culturally and linguistically diverse communities to achieve IHPA's legislative requirements.



5

Financial
management

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Financial performance

The Independent Hospital Pricing Authority's (IHPA) financial records are classified as either Departmental or Administered. Departmental statements provide information on assets, liabilities, income and expenses controlled by IHPA. Administered statements provide financial information on dealing with matters managed by IHPA on behalf of government. Administered accounts report external expenditure dealing with the classification, counting, costing and pricing of patient activities in public hospitals.

IHPA has received an unqualified audit report from the Australian National Audit Office on its 2013–14 Financial Statements.

IHPA financial overview

IHPA's operating results for 2013–14 reflect 12 months of operation.

The Statement of Comprehensive Income for the Departmental Item shows a surplus of \$3.606 million (2012–13: \$4.155 million). During the financial year, IHPA took advantage of maturing business processes that enabled tight control of expenditure on Departmental expenses and operations to function at below planned staffing levels.

Material balances in the Departmental Statement of Comprehensive Income include:

1. Revenue from Government—\$13.407 million in 2013–14 which is \$0.703 million less than 2012–13 (\$14.110 million).
2. Sales of goods and services at \$0.448 million was below the 2012–13 figure of \$0.597 million. These revenues predominantly arose from overseas licence sales of intellectual property of medical diagnosis classification systems.
3. Employee benefits at \$7.090 million was above the 2012–13 figure of \$6.428 million and reflected an ongoing under achievement of budgeted headcount.
4. Suppliers decreased to \$2.778 million in 2013–14 from \$3.820 million in 2012–13 due to management achieving efficiencies from use of more mature business processes.

Administered expenses in 2013–14 were \$9.862 million compared with \$7.418 million in 2012–13.

Administered expenditure was directed towards data assurance and classification development activities including the development of subacute, emergency department and mental health classification systems and management of costing studies used to update or develop diagnostic resource group weightings and assist in calculating the National Efficient Price.

The administered accounts contain revenues and expenses for IHPA's June 2014 Activity Based Funding conference. With revenues at \$0.366 million and expenses at \$0.303 million the conference was run with a financial surplus.

Budget performance

During the year, IHPA kept expenditure within available budget and has developed an organisational culture that has a strong focus on cost control. Procurement and personnel resource proposals are rigorously scrutinised and only approved in accordance with business needs.

Independent auditor's report



INDEPENDENT AUDITOR'S REPORT

To the Minister for Health

I have audited the accompanying financial statements of the Independent Hospital Pricing Authority for the year ended 30 June 2014, which comprise: a Statement by the Chief Executive and Chief Financial Officer; Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Cash Flow Statement; Schedule of Administered Commitments and Notes to and forming part of the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Chief Executive's Responsibility for the Financial Statements

The Chief Executive of the Independent Hospital Pricing Authority is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Independent Hospital Pricing Authority's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Independent Hospital Pricing Authority's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chief Executive of the Independent Hospital Pricing Authority, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Independent Hospital Pricing Authority:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders, including the Independent Hospital Pricing Authority's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Puspa Dash
Executive Director

Delegate of the Auditor-General

Canberra
15 September 2014

Statement by officers

Independent Hospital Pricing Authority

Statement by the Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2014 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



Dr Tony Sherbon

Chief Executive Officer

15 September 2014



Peter Hadfield

Chief Financial Officer

15 September 2014

Financial statements

Statement of Comprehensive Income

for the period ended 30 June 2014

	Notes	2014 \$	2013 \$
NET COST OF SERVICES EXPENSES			
Employee benefits	3A	7,090,047	6,427,644
Suppliers	3B	2,778,359	3,819,970
Depreciation and amortisation	3C	377,858	271,140
Finance costs	3D	7,264	-
Write-down and impairment of assets	3E	30,573	-
Losses from asset sales	3F	489	340
Other expenses	3G	30,759	107,678
Total expenses		10,315,349	10,626,772
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	448,152	597,216
Other revenue	4B	8,210	24,992
Total own-source revenue		456,362	622,208
Gains			
Other gains	4C	58,000	50,000
Total gains		58,000	50,000
Total own-source income		514,362	672,208
Net cost of services		9,800,987	9,954,564
Revenue from Government	4D	13,407,000	14,110,000
Surplus on continuing operations		3,606,013	4,155,436
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserve		16,374	-
Total comprehensive income		3,622,387	4,155,436

The above statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2014

	Notes	2014 \$	2013 \$
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	312,972	192,739
Trade and other receivables	5B	20,125,217	18,207,092
Total financial assets		20,438,189	18,399,831
Non-Financial Assets			
Buildings	6A, 6C, 7	795,700	936,982
Plant and equipment	6B, 6C, 7	264,100	341,238
Intangibles	6D, 6E	93,926	97,129
Other non-financial assets	6F	44,177	44,178
Total non-financial assets		1,197,903	1,419,527
Total assets		21,636,092	19,819,358
LIABILITIES			
Payables			
Suppliers	8A	375,515	223,898
Other payables	8B	731,615	2,912,463
Total payables		1,107,130	3,136,361
Provisions			
Employee provisions	9A	848,664	832,346
Other provisions	9B	161,966	154,706
Total provisions		1,010,630	987,052
Total liabilities		2,117,760	4,123,413
Net assets		19,518,332	15,695,945
EQUITY			
Entity Interest			
Contributed equity		400,000	200,000
Asset revaluation reserve		16,374	–
Retained surplus		19,101,958	15,495,945
Total entity interest		19,518,332	15,695,945
Total equity		19,518,332	15,695,945

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period ended 30 June 2014

	Retained earnings		Contributed equity/capital		Asset revaluation reserve (leasehold assets)		Total equity	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Opening balance								
Balance carried forward from previous period	15,495,945	11,340,509	200,000	-	-	-	15,695,945	11,340,509
Comprehensive income								
Other comprehensive income (revaluation of leasehold assets)	-	-	-	-	16,374	-	16,374	-
Surplus for the period	3,606,013	4,155,436	-	-	-	-	3,606,013	4,155,436
Total comprehensive income	3,606,013	4,155,436	-	-	16,374	-	3,622,387	4,155,436
Transactions with owners								
Contributions by owners								
Departmental capital budget	-	-	200,000	200,000	-	-	200,000	200,000
Sub-total transactions with owners	-	-	200,000	200,000	-	-	200,000	200,000
Closing balance as at 30 June	19,101,958	15,495,945	400,000	200,000	16,374	-	19,518,332	15,695,945

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the period ended 30 June 2014

	Notes	2014 \$	2013 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		11,516,340	7,066,171
Sales of goods and rendering of services		677,488	2,090,481
Other—cash lease incentive		-	655,245
Net GST received		176,543	1,181,593
Other—revenue		8,210	24,657
Other—employee provisions		50,082	522,251
Total cash received		12,428,663	11,540,398
Cash used			
Employees		(7,890,129)	(6,228,400)
Suppliers		(2,723,964)	(5,046,749)
Section 31 receipts transferred to Official Public Account		(1,723,416)	-
Total cash used		(12,337,509)	(11,275,149)
Net cash from operating activities	10	91,154	265,249
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of plant and equipment		129	645
Total cash received		129	645
Cash used			
Purchase of property, plant and equipment		(87,036)	(149,403)
Purchase of software		(84,014)	(108,702)
Total cash used		(171,050)	(258,105)
Net cash used by investing activities		(170,921)	(257,460)
FINANCING ACTIVITIES			
Cash received			
Contributed equity—Departmental capital budget		200,000	-
Total cash received		200,000	-
Net cash from financing activities		200,000	-
Net increase in cash held		120,233	7,789
Cash and cash equivalents at the beginning of the reporting period		192,739	184,950
Cash and cash equivalents at the end of the reporting period	5A	312,972	192,739

The above statement should be read in conjunction with the accompanying notes.

Schedule of Commitments

as at 30 June 2014

	2014 \$	2013 \$
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments	275,610	291,125
Total commitments receivable	275,610	291,125
Commitments payable		
Other commitments		
Operating leases ¹	2,421,335	3,004,469
Other ²	612,121	197,908
Total other commitments	3,033,456	3,202,377
Total commitments payable	3,033,456	3,202,377
Net commitments by type	2,757,846	2,911,252
BY MATURITY		
Commitments receivable		
Net GST recoverable		
One year or less	113,847	75,488
From one to five years	161,763	215,637
Total Net GST recoverable	275,610	291,125
Total commitments receivable	275,610	291,125
Commitments payable		
Operating lease commitments		
One year or less	641,946	632,459
From one to five years	1,779,389	2,372,010
Total operating lease commitments	2,421,335	3,004,469
Other Commitments		
One year or less	612,121	197,908
Total other commitments	612,121	197,908
Total commitments payable	3,033,456	3,202,377
Net commitments by maturity	2,757,846	2,911,252

Notes:

1. The operating lease is an accommodation lease that relates to IHPA's premises in Oxford Street Sydney. The lease is effectively non-cancellable. The lease commenced on 1 June 2012 for a period of 6 years. There is no option in the lease to extend the lease term. As part of the lease agreement, a cash lease incentive of \$655,245 was received from the landlord on 13 July 2012.
2. Other commitments relate to contracts for purchases of goods and services entered into by IHPA where no liability currently exists.
3. Commitments are GST inclusive where relevant.

The above schedule should be read in conjunction with the accompanying notes.

Administered Schedule of Comprehensive Income

for the period ended 30 June 2014

	Notes	2014 \$	2013 \$
NET COST OF SERVICES EXPENSES			
Suppliers	15A	9,862,098	7,418,248
Total expenses		9,862,098	7,418,248
INCOME			
Revenue			
Non-taxation revenue			
Sale of goods and rendering of services	16	567,436	1,854,686
Total non-taxation revenue		567,436	1,854,686
Total Income		567,436	1,854,686
Net cost of services		(9,294,662)	(5,563,562)
Deficit on continuing operations		(9,294,662)	(5,563,562)
Total Deficit		(9,294,662)	(5,563,562)
Total comprehensive loss		(9,294,662)	(5,563,562)

The above schedule should be read in conjunction with the accompanying notes.

Administered Schedule of Assets and Liabilities

as at 30 June 2014

	Notes	2014 \$	2013 \$
ASSETS			
Financial assets			
Cash and cash equivalents	17A	-	4,409
Trade and other receivables	17B	274,438	1,761,969
Total financial assets		274,438	1,766,378
Non-financial assets			
Intangibles	18A,18B	288,434	-
Total non-financial assets		288,434	-
Total assets administered on behalf of Government		562,872	1,766,378
LIABILITIES			
Payables			
Suppliers	19A	2,151,801	2,255,927
Other payables	19B	37,952	4,409
Total payables		2,189,753	2,260,336
Total liabilities administered on behalf of Government		2,189,753	2,260,336
Net liabilities		(1,626,881)	(493,958)

The above schedule should be read in conjunction with the accompanying notes.

Administered Reconciliation Schedule

	Notes	2014 \$	2013 \$
Opening administered assets less administered liabilities as at 1 July 2013		(493,958)	(1,346,442)
Prior year adjustment*		(136,367)	–
Adjusted opening administered assets less administered liabilities		(630,325)	(1,346,442)
Net cost of services			
Income	16	567,436	1,854,686
Expenses			
Payments to Non-CAC Act bodies	15A	(9,862,098)	(7,418,248)
Transfers (to)/from Australian Government: Appropriation transfers from Official Public Account (OPA)			
Annual appropriations to Non-CAC Act bodies		8,923,930	8,208,424
Appropriation transfers to OPA			
Transfers to OPA		(625,824)	(1,792,378)
Closing administered assets less administered liabilities as at 30 June 2014		(1,626,881)	(493,958)

*Refer to Note 1.19 for details.

This schedule should be read in conjunction with the accompanying notes.

Administered Cash Flow Statement

for the period ended 30 June 2014

	Notes	2014 \$	2013 \$
OPERATING ACTIVITIES			
Cash received			
Sales of goods and rendering of services		2,098,001	298,346
Net GST received		677,490	547,884
Total cash received		2,775,491	846,231
Cash used			
Suppliers		(9,220,323)	(8,811,887)
Total cash used		(9,220,323)	(8,811,887)
Net cash flows used by operating activities		(6,444,832)	(7,965,656)
INVESTING ACTIVITIES			
Cash used			
Purchase of other intangibles		(288,434)	-
Total cash used		(288,434)	-
Net cash flows used by investing activities		(288,434)	-
Net decrease in cash held		(6,733,266)	(7,965,656)
Cash and cash equivalents at the beginning of the reporting period		4,409	59,988
Cash from Official Public Account for:			
Appropriations		8,923,930	8,208,424
Total cash from official public account		8,928,339	8,268,412
Cash to Official Public Account for:			
Appropriations		(2,195,073)	(298,346)
Total cash to official public account		(2,195,073)	(298,346)
Cash and cash equivalents at the end of the reporting period	17A	-	4,409

This schedule should be read in conjunction with the accompanying notes.

Schedule of Administered Commitments

as at 30 June 2014

	2014 \$	2013 \$
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments	1,311,561	1,560,403
Total commitments receivable	1,311,561	1,560,403
Commitments payable		
Other commitments		
Other ¹	14,886,222	17,712,745
Total other commitments	14,886,222	17,712,745
Total commitments payable	14,886,222	17,712,745
Net commitments by type	13,574,661	16,152,342
BY MATURITY		
Commitments receivable		
Net GST recoverable		
One year or less	653,275	496,705
From one to five years	658,286	1,063,698
Total Net GST recoverable	1,311,561	1,560,403
Total commitments receivable	1,311,561	1,560,403
Commitments payable		
Other commitments		
One year or less	7,645,074	6,013,197
From one to five years	7,241,148	11,699,548
Total other commitments	14,886,222	17,712,745
Total commitments payable	14,886,222	17,712,745
Net commitments by maturity	13,574,661	16,152,342

Notes:

1. Other commitments relate to contracts for the purchase of goods and services that the supplier has yet to provide the goods or services.
2. Commitments are GST inclusive where relevant.

The above schedule should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

For the year ended 30 June 2014

Note 1: Summary of Significant Accounting Policies

The Independent Hospital Pricing Authority (IHPA) is an independent government agency established under Commonwealth legislation on 15 December 2011. It is a prescribed agency under the *Financial Management and Accountability Act 1997* and its roles and functions are set out in the *National Health Reform Act 2011*.

1.1 Objectives of the Independent Hospital Pricing Authority

The objective of IHPA is to:

- determine the National Efficient Price and National Efficient Cost for public hospital services;
- develop national classifications for Activity Based Funding;
- update the *Three Year Data Plan*; and
- resolve disputes on cost-shifting and cross-border issues.

IHPA is structured to meet one outcome:

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.

IHPA activities contributing to this outcome are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by IHPA in its own right.

Administered activities involve the management or oversight by IHPA, on behalf of the Government, of items controlled or incurred by the Government. The administered activities IHPA conducts on behalf of the Government include the development of national classifications used to classify activity in public hospitals for the purposes of activity based funding and determination of the national efficient price.

The continued existence of IHPA in its present form and with its present programs is dependent on Government policy and on continuing appropriations by Parliament for IHPA's administration and programs.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth (2014) HCA 23*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

The 2014–15 Budget proposed the merger of IHPA with a number of other Commonwealth entities to create a new Health Productivity and Performance Commission. This is subject to consultation with the states and territories and currently, no details are available on the role or the timeframe for creation of the merged entity.

From the date of creation to 30 June 2014, IHPA was a prescribed agency under the *Financial Management and Accountability Act 1997*. From 1 July 2014 onwards, IHPA will be governed under the *Public Governance, Performance and Accountability Act 2013* as a Corporate entity. A consequence of this change is that from 1 July 2014, IHPA will no longer be required to maintain separate accounting records for Administered revenue, expenses, assets and liabilities and cashflows as these will be accounted for as part of IHPA's Departmental item.

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 49 of the *Financial Management and Accountability Act 1997*.

The financial statements have been prepared in accordance with:

- a) Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest dollar.

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow to IHPA or a future sacrifice of economic benefits will be required, and the amounts of the assets or liabilities can be reliably measured.

However, assets and liabilities arising under executory contracts are not recognised unless required by an accounting standard. Liabilities and assets that are not recognised are reported in the Schedule of Commitments or the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. Of the new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board that are applicable to the current period, none have had a material impact on IHPA.

Future Australian Accounting Standard Requirements

The following new accounting standards, amendments to accounting standards and interpretations were issued by the Australian Accounting Standards Board prior to the signing of the statement by the Chief Executive and Chief Financial Officer and are expected to have a material impact on IHPA's financial statements for future reporting periods:

- AASB 1055 *Budgetary Reporting*
- AASB 9 *Financial Instruments*.

1.5 Revenue

Revenue generated from the sale of goods is recognised when:

- a) the risks and rewards of ownership have been transferred to the buyer;
- b) IHPA retains no managerial involvement or effective control over the goods;
- c) the revenue and transaction costs incurred can be reliably measured; and
- d) it is probable that the economic benefits associated with the transaction will flow to IHPA.

Revenue generated from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) the probable economic benefits associated with the transaction will flow to IHPA.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed at end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

Revenue from Government

Amounts appropriated for departmental purposes for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when IHPA gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

1.6 Gains

Resources Received Free of Charge

Resources received free of charge are recognised as gains when the fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains depending on their nature i.e. whether they have been generated in the course of the ordinary activities of IHPA.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government agency or authority as a consequence of a restructuring of administrative arrangements.

Sale of Assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer. The gain on disposal is calculated as the difference between the carrying amount of the non-current asset at the time of disposal and the net proceeds on disposal.

1.7 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCB) are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.8 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting. The average sick leave taken in future years by employees of IHPA is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including IHPA's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. IHPA recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

The majority of IHPA's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

IHPA makes employer contributions to the Australian Government and various other superannuation schemes at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of IHPA's employees. IHPA expenses contributions to defined-benefit and defined-contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the financial year.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

IHPA has no finance leases (2013: nil).

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

Where a lease incentive is included in an operating lease in the form of cash, free leasehold improvements or rent-free periods, the net value of the minimum lease payments is expensed on a straight-line basis over the term of the lease.

1.10 Fair Value Measurement

IHPA deems any transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

1.11 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

- a) cash on hand;
- b) deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value; and
- c) cash held by outsiders.

1.12 Financial Assets

IHPA classifies its financial assets as loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each balance date.

1.13 Financial Liabilities

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced.

1.14 Contingent Liabilities and Contingent Assets

Quantifiable Contingencies

As at 30 June 2014, IHPA had no quantifiable contingencies (2012–2013: nil).

Unquantifiable Contingencies

As at 30 June 2014, IHPA had no unquantifiable contingencies (2012–2013: Nil).

Significant Remote Contingencies

As at 30 June 2014, IHPA had no material remote contingencies (2012–2013: nil).

1.15 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case,

assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

1.16 Leasehold Improvements, Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). Property, plant and equipment acquired at no cost or for a nominal charge are recognised initially at fair value.

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. A corresponding provision for the "make good" is taken up.

Revaluations

Following initial recognition at cost, property, plant and equipment were carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised through the Statement of Comprehensive Income. Revaluation decrements for a class of assets are recognised directly through the Statement of Comprehensive Income except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to IHPA using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives, which are the same as last year:

Asset Class	Useful Life 2013–14	Useful Life 2012–13
Leasehold improvements	Lease term	Lease term
Other plant and equipment	3–10 years	3–10 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 3C.

Impairment

All assets were assessed for impairment as at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if IHPA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.17 Intangibles

IHPA's intangible assets comprise software purchases. These assets are carried at cost less accumulated amortisation and accumulated impairment losses if purchased for \$2,000 or more. Intangibles costing less than \$2,000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of IHPA's software is 3 years (2013: 3 years).

All software assets were assessed for indications of impairment as at 30 June 2014.

1.18 Taxation

IHPA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST except:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

1.19 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by IHPA for use by the Government rather than by IHPA is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by IHPA on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

Revenue

All administered revenues are revenues relating to ordinary activities performed by IHPA on behalf of the Australian Government. As such, administered appropriations are not revenues of IHPA.

Revenue is generated from conference fees that are charged for attendance at IHPA's annual Activity Based Funding Conference. Administered revenue is recognised on an accruals basis when the attendee has registered for the conference at which time the conference fee is payable and can also be reliably measured. Administered revenue is recognised at its nominal amount due and an expense is recognised for any impaired debts.

Collectability of debts is reviewed at end of the reporting period. Impairment allowances are made when collectability of the debt is judged to be less, rather than more, likely.

Suppliers

The administered activities IHPA conducts on behalf of the Government include the development of national classifications used to classify activity in public hospitals for the purposes of activity based funding and determination of the national efficient price.

Prior Period Error

The 2012–13 comparative balances for Other Payables and Net Liabilities in the Administered Schedule of Assets and Liabilities were understated by \$136,367. This amount was incorrectly classified in 2012–13 as Cash transferred from the Official Public Account (OPA) instead of being classified as GST liability. Accordingly, annual appropriations to Non-CAC Act bodies in the Administered Reconciliation Schedule in 2012–13 was overstated by \$136,367. This has been corrected in 2013–14 as an adjustment to the opening balance of Administered assets less Administered liabilities.

Contingent Liabilities and Contingent Assets

Quantifiable Contingencies

As at 30 June 2014, IHPA had no quantifiable contingencies (2012–2013: nil).

Unquantifiable Contingencies

As at 30 June 2014, IHPA had no unquantifiable contingencies (2012–2013: nil).

Significant Remote Contingencies

As at 30 June 2014, IHPA had no material remote contingencies (2012–2013: nil).

Note 2: Events After the Reporting Period

Departmental

There were no significant events occurring after 30 June 2014 with the potential to significantly affect the ongoing structure and financial activities of the Independent Hospital Pricing Authority (30 June 2013: nil).

Administered

There was no subsequent event that had the potential to significantly affect the ongoing structure and financial activities of the Independent Hospital Pricing Authority (30 June 2013: nil).

Note 3: Expenses

	2014 \$	2013 \$
Note 3A: Employee Benefits		
Wages and salaries	5,567,647	5,037,481
Superannuation:		
Defined contribution plans	327,657	295,941
Defined benefit plans	587,587	530,711
Leave and other entitlements	547,269	561,491
Separation and redundancies	59,887	2,020
Total employee benefits	7,090,047	6,427,644
Note 3B: Supplier		
Goods and services supplied or rendered		
Contractors and consultants	422,643	1,068,972
Recruitment and relocation costs	72,108	320,703
Travel and training costs	537,117	749,891
Communications and information technology goods and services	592,506	615,735
Legal expenses and audit fees	237,769	212,660
Other	404,488	373,257
Total goods and services supplied or rendered	2,266,631	3,341,218
Goods supplied in connection with		
Related parties	3,020	–
External parties	129,382	218,425
Total goods supplied	132,402	218,425
Services rendered in connection with		
Related parties	264,027	495,123
External parties	1,870,202	2,627,670
Total services rendered	2,134,229	3,122,793
Total goods and services supplied or rendered	2,266,631	3,341,218
Other suppliers		
Operating lease rentals – external parties:		
Minimum lease payments	445,730	396,290
Workers compensation expenses	65,998	82,462
Total other supplier expenses	511,728	478,752
Total supplier expenses	2,778,359	3,819,970

	2014 \$	2013 \$
Note 3C: Depreciation and Amortisation		
Depreciation		
Plant and equipment	101,359	73,229
Leasehold improvements	189,281	186,338
Total depreciation	290,640	259,568
Amortisation		
Intangibles	87,218	11,572
Total amortisation	87,218	11,572
Total depreciation and amortisation	377,858	271,140
Note 3D: Finance Costs		
Unwinding of discount on make good	7,264	-
Total finance costs	7,264	-
Note 3E: Write-Down and Impairment of Assets		
Asset write-downs and impairments from:		
Revaluation decrements—plant and equipment	30,573	-
Total write-down and impairment of assets	30,573	-
Note 3F: Losses from Asset Sales		
Plant and equipment:		
Proceeds from sale	(129)	(645)
Carrying value of assets sold	618	985
Total losses from asset sales	489	340
Note 3G: Other Expenses		
Royalty payments	30,759	107,678
Total other expenses	30,759	107,678

Note 4: Own-Source Income

	2014 \$	2013 \$
OWN-SOURCE REVENUE		
Note 4A: Sale of Goods and Rendering of Services		
Rendering of services — external parties	448,152	597,216
Total sale of goods and rendering of services	448,152	597,216
Note 4B: Other Revenue		
Other	8,210	24,992
Total other revenue	8,210	24,992
Note 4C: Other Gains		
Resources received free of charge	58,000	50,000
Total other gains	58,000	50,000
REVENUE FROM GOVERNMENT		
Note 4D: Revenue from Government		
Appropriations:		
Departmental appropriations	13,407,000	14,110,000
Total revenue from Government	13,407,000	14,110,000

Note 5: Financial Assets

	2014 \$	2013 \$
Note 5A: Cash and Cash Equivalents		
Cash on hand or on deposit	312,972	192,739
Total cash and cash equivalents	312,972	192,739
Note 5B: Trade and Other Receivables		
Goods and Services receivable in connection with		
External parties	34,537	-
Total receivables for goods and services	34,537	-
Appropriations receivable:		
For existing programs—Departmental Appropriations	19,747,624	17,856,964
For existing programs—Departmental Capital Budget	200,000	200,000
Total appropriations receivable	19,947,624	18,056,964
Other receivables:		
Receivable from Department of Health	52,319	41,678
Receivable from other Federal Government agencies	3,276	-
GST receivable from the Australian Taxation Office	49,980	45,917
Other	37,481	62,533
Total other receivables	143,056	150,128
Total trade and other receivables (gross)	20,125,217	18,207,092
Less impairment allowance account:		
Goods and services	-	-
Other	-	-
Total impairment allowance account	-	-
Total trade and other receivables (net)	20,125,217	18,207,092
Receivables are expected to be recovered in:		
No more than 12 months	20,125,217	18,207,092
Total trade and other receivables (net)	20,125,217	18,207,092
Receivables are aged as follows:		
Not overdue	20,125,217	18,207,092
Total receivables (gross)	20,125,217	18,207,092

Note 6: Non-Financial Assets

	2014 \$	2013 \$
Note 6A: Buildings		
Leasehold improvements		
Gross carrying value (at fair value)	795,700	1,129,473
Accumulated depreciation	-	(192,491)
Total leasehold improvements	795,700	936,982
Total buildings	795,700	936,982
Note 6B: Plant and equipment		
Gross carrying value (at fair value)	264,100	414,834
Accumulated depreciation	-	(73,596)
Total plant and equipment	264,100	341,238
Total buildings, plant and equipment	1,059,800	1,278,220

Impairment of \$30,573 was identified for plant and equipment.

No Buildings, plant or equipment is expected to be sold or disposed of within the next 12 months.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 7. On 30 June 2014, an independent valuer, Australian Valuation Solutions, conducted the revaluation. A revaluation increment of \$16,374 for leasehold improvements (2013: \$nil) was credited to the asset revaluation reserve by asset class and included in the equity section of the Statement of Financial Position. A revaluation decrement of \$30,573 for plant and equipment (2013: \$nil) was expensed in the Statement of Comprehensive Income.

Note 6C: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2014

	Buildings \$	Plant & equipment \$	Total \$
As at 1 July 2013			
Gross book value	1,129,473	414,834	1,544,307
Accumulated depreciation and impairment	(192,491)	(73,596)	(266,087)
Net book value 1 July 2013	936,982	341,238	1,278,220
Additions:			
By purchase	31,625	55,411	87,036
Revaluations recognised in other comprehensive income	16,374	-	16,374
Impairments recognised in net cost of services	-	(30,573)	(30,573)
Depreciation	(189,281)	(101,359)	(290,640)
Disposals:			
Carrying value	-	(1,338)	(1,338)
Accumulated depreciation	-	721	721
Net book value 30 June 2014	795,700	264,100	1,059,800
Net book value as of 30 June 2014 represented by:			
Gross book value	795,700	264,100	1,059,800
Accumulated depreciation and impairment	-	-	-
Net book value 30 June 2014	795,700	264,100	1,059,800

Note 6C: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2013

	Buildings \$	Plant & equipment \$	Total \$
As at 1 July 2012			
Gross book value	1,011,625	378,065	1,389,690
Accumulated depreciation and impairment	(5,543)	(2,221)	(7,764)
Net book value 1 July 2012	1,006,082	375,844	1,381,926
Additions:			
By purchase	11,732	149,402	161,134
Cost	(5,178)	–	(5,178)
Accumulated depreciation	892	–	892
Depreciation expense	(186,339)	(73,229)	(259,568)
Other movements—reclassification of opening book value	111,294	(111,294)	–
Other movements—reclassification of opening accumulated depreciation	(1,501)	1,501	–
Disposals:			
Cost	–	(1,339)	(1,339)
Accumulated depreciation	–	353	353
Net book value 30 June 2013	936,982	341,238	1,278,220
Net book value as of 30 June 2013 represented by:			
Gross book value	1,129,473	414,834	1,544,307
Accumulated depreciation and impairment	(192,491)	(73,596)	(266,087)
Net book value 30 June 2013	936,982	341,238	1,278,220

Note 6D: Intangibles

	2014 \$	2013 \$
Computer software:		
Purchased	192,716	108,701
Accumulated amortisation	(98,790)	(11,572)
Total computer software	93,926	97,129
Total intangibles	93,926	97,129

No indicators of impairment were found for intangible assets.

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 6E: Reconciliation of the Opening and Closing Balances of Intangibles 2014

	Computer software purchased \$	Total \$
As at 1 July 2013		
Gross book value	108,702	108,702
Accumulated amortisation and impairment	(11,572)	(11,572)
Net book value 1 July 2013	97,130	97,130
Additions:		
By purchase or internally developed	84,014	84,014
Amortisation	(87,218)	(87,218)
Net book value 30 June 2014	93,926	93,926
Net book value as of 30 June 2013 represented by:		
Gross book value	192,716	192,716
Accumulated amortisation and impairment	(98,790)	(98,790)
Net book value 30 June 2014	93,926	93,926

Note 6E: Reconciliation of the Opening and Closing Balances of Intangibles 2013

	Computer software purchased \$	Total \$
As at 1 July 2012		
Gross book value	-	-
Accumulated amortisation and impairment	-	-
Net book value 1 July 2012	-	-
Additions:		
By purchase or internally developed	108,701	108,701
Amortisation	(11,572)	(11,572)
Net book value 30 June 2013	97,129	97,129
Net book value as of 30 June 2013 represented by:		
Gross book value	108,701	108,701
Accumulated amortisation and impairment	(11,572)	(11,572)
Net book value 30 June 2013	97,129	97,129

Note 6F: Other Non-Financial Assets

	2014	2013
	\$	\$
Prepayments	44,177	44,178
Total other non-financial assets	44,177	44,178
Total other non-financial assets — are expected to be recovered in:		
No more than 12 months	44,177	44,178
Total other non-financial assets	44,177	44,178

No indicators of impairment were found for other non-financial assets.

Note 7: Fair Value Measurement

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Note 7A: Fair Value Measurement

Fair value measurements at the end of the reporting period by hierarchy for non-financial assets in 2014.

	Fair value \$	Fair value measurements at the end of the reporting period using		
		Level 1 inputs \$	Level 2 inputs \$	Level 3 inputs \$
Non-financial assets:				
Leasehold improvements	795,700	-	-	795,700
Plant and equipment	264,100	-	264,100	-
Total non-financial assets	1,059,800	-	264,100	795,700
Assets not measured at fair value in the statement of financial position:				
Non-financial assets¹	-	-	-	-

Note:

1. IHPA did not measure any non-financial assets at fair value on a non-recurring basis as at 30 June 2014.

Fair value Measurement—Highest & Best Use

IHPA's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all controlled assets is considered their highest and best use.

Note 7B: Level 1 and Level 2 transfers for recurring fair value measurements

There have been no transfers between levels of the hierarchy during the year.

IHPA's policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.10.

Note 7C: Valuation technique and inputs for Level 2 and Level 3 fair value measurements**Level 2 and 3 fair value measurements—valuation technique and the inputs used for assets in 2014**

Non-financial assets:	Category (Level 2 or Level 3)	Fair value \$	Valuation technique(s) ¹	Inputs used	Range (weighted average) ²
Leasehold improvements (Fitout)	Level 3	795,700	Depreciated Replacement Cost (DRC)	Replacement Cost New (price per square metre)	N/A
				Consumed economic benefit/Obsolescence of asset	16.67%–16.67% (16.67%) per annum
			Net Present Value	Current obligation costs (price per square metre)	\$100–\$250
				Indexation rates	0.55%–2.76% per annum
				Discount rate	4.02%
Plant and equipment	Level 2	264,100	Market Approach	Adjusted market transactions	N/A
			Depreciated Replacement Cost (DRC)	Replacement Cost New (price per square metre)	N/A
				Consumed economic benefit/Obsolescence of asset	N/A

Notes:

1. There has been no changes to valuation techniques.
2. Significant unobservable inputs only. Not applicable for assets or liabilities in the Level 2 category.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

Recurring and non-recurring Level 3 fair value measurements—valuation processes

This is the first time IHPA has undertaken a comprehensive valuation of all their non-financial assets. IHPA tests the procedures of the valuation model as an internal management review at least once every 12 months (with a formal revaluation undertaken once every three years). If a particular asset class experiences significant and volatile changes in fair value (i.e. where indicators suggest that the value of the class has changed materially since the previous reporting period), that class is subject to specific valuation in the reporting period, where practicable, regardless of the timing of the last specific valuation. IHPA has engaged Australian Valuation Solutions (AVS) to provide written assurance that the models developed comply with AASB 13.

Significant Level 3 inputs utilised by IHPA are derived and evaluated as follows:

Consumed economic benefit/Obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the cost (Depreciated Replacement Cost or DRC) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit/asset obsolescence (accumulated Depreciation). Consumed economic benefit/asset obsolescence has been determined based on professional judgment regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

Current Restoration Costs, indexation rates and discount rate

Applicable makegood provisions have been determined in accordance with Australian Accounting Guidance Note 2010/1 Accounting for Decommissioning, Restoration and Similar Provisions ('Make Good'). Current restoration costs have been established based on analysed transactions, costing publications and industry sources. Current restoration costs have been indexed to the obligation date (generally the expiry of the lease term) using industry building cost indexes relevant to the asset's city and then discounted, where the time value of money is material using the Australian government 10-year bond rate. The estimated provision is depreciated in line with the corresponding leasehold improvement asset.

Recurring Level 3 fair value measurements — sensitivity of inputs

Consumed economic benefit/Obsolescence of asset

The significant unobservable inputs used in the fair value measurement of IHPA's leasehold improvements and plant and equipment asset classes relate to the consumed economic benefit/asset obsolescence. A significant increase (decrease) in this input would result in a significantly lower (higher) fair value measurement.

Current Restoration Costs, indexation rates and discount rate

The significant unobservable inputs used in the fair value measurement of IHPA's leasehold restoration cost (make good) asset class relate to the current restoration costs, escalation rates and discount rates. A significant increase (decrease) in this cost new and (or) escalation rate and decrease (increase) in the discount rate would result in a significantly higher (lower) fair value measurement.

Note 7D: Reconciliation for recurring Level 3 fair value measurements**Recurring Level 3 fair value measurements—reconciliation for assets**

	Non-financial assets		
	Leasehold improvements 2014 \$	Plant and equipment 2014 \$	Total 2014 \$
Opening balance¹	936,982	–	936,982
Total gains/(losses) in accumulated depreciation	(172,907)	–	(172,907)
Purchases	31,625	–	31,625
Sales	–	–	–
Issues	–	–	–
Settlements	–	–	–
Transfers into Level 3 ²	–	–	–
Transfers out of Level 3 ²	–	–	–
Closing balance	795,700	–	795,700
Changes in unrealised gains/(losses) recognised	–	–	–

Notes:

1. Opening balance as determined in accordance with AASB 13
2. There have been no transfers between levels of the hierarchy during the year.

IHPA's policy for determining when transfers between levels are deemed to have occurred can be found in Note 1.

Note 8: Payables**Note 8A: Suppliers**

	2014 \$	2013 \$
Trade creditors and accruals	375,515	223,898
Total suppliers' payables	375,515	223,898
Suppliers payables expected to be settled within 12 months:		
Related parties	99,496	40,940
External parties	168,341	182,958
Total	267,837	223,898
Suppliers payables expected to be settled in greater than 12 months:		
External parties	107,678	–
Total	107,678	–
Total suppliers payables	375,515	223,898

Settlement was usually made within 30 days.

Note 8B: Other Payables

	2014	2013
	\$	\$
Payable to Department of Health	98,253	587,235
Wages and salaries	154,837	191,896
Superannuation	25,210	29,403
Lease incentive	427,729	536,937
GST payable	18,925	17
Payable to Intra IHPA — administered	-	1,556,340
Other—credit card	6,661	10,636
Total other payables	731,615	2,912,463
Total other payables are expected to be settled in:		
No more than 12 months	422,194	2,484,733
More than 12 months	309,421	427,730
Total other payables	731,615	2,912,463

Note 9: Provisions**Note 9A: Employee Provisions**

	2014	2013
	\$	\$
Leave	848,664	832,346
Total employee provisions	848,664	832,346
Employee provisions are expected to be settled in:		
No more than 12 months	347,979	343,597
More than 12 months	500,685	488,749
Total employee provisions	848,664	832,346

Note 9B: Other Provisions

Provision for restoration obligations	161,966	154,706
Total other provisions	161,966	154,706
Other provisions are expected to be settled in:		
More than 12 months	161,966	154,706
Total other provisions	161,966	154,706

Note 9B: Other Provisions (cont'd)

	Provision for restoration \$	Total \$
Carrying amount 1 July 2013	154,706	-
Additional provisions made	-	154,706
Amounts used	-	-
Unwinding of discount or change in discount rate	7,260	-
Closing balance 30 June 2014	161,966	154,706

Note 10: Cash Flow Reconciliation

	2014 \$	2013 \$
Reconciliation of cash and cash equivalents as per statement of financial position to cash flow statement		
Cash and cash equivalents as per:		
Cash Flow Statement	312,972	192,739
Statement of Financial Position	312,972	192,739
Difference	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(9,800,987)	(9,954,565)
Add revenue from Government	13,407,000	14,110,000
Adjustments for non-cash items		
Depreciation/amortisation	377,858	271,140
Fit-out expensed	-	4,285
Net write down of non-financial assets	30,573	-
Loss on disposal of assets	489	340
Changes in assets/liabilities		
(Increase)/decrease in net receivables	(1,918,125)	(5,574,435)
(Increase)/decrease in prepayments	-	(44,178)
Increase/(decrease) in employee provisions	16,318	346,415
Increase/(decrease) in supplier payables	151,616	(183,092)
Increase/(decrease) in other payables	(1,691,866)	(132,041)
Increase/(decrease) in other provisions	7,260	(335)
Increase/(decrease) in inter agency payable for expenses paid by the Dept of Health	(488,982)	(134,625)
Increase in payable to Administered item	-	1,556,340
Net cash from operating activities	91,154	265,249

Note 11: Senior Executive Remuneration

Note 11A: Senior Executive Remuneration Expenses for the Reporting Period

	2014 \$	2013 \$
Short-term employee benefits:		
Salary	464,745	616,005
Other	119,806	111,190
Total short-term employee benefits	584,551	727,195
Post-employment benefits:		
Superannuation	84,752	108,263
Total post-employment benefits	84,752	108,263
Other long-term employee benefits:		
Annual leave accrued	34,369	88,744
Long-service leave	11,656	10,676
Total other long-term employee benefits	46,025	99,420
Total senior executive remuneration expenses	715,328	934,878

Notes:

1. Note 11A is prepared on an accrual basis.
2. Note 11A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$195,000.

Note 11B: Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reporting Period

Average annual reportable remuneration ¹	2014					
	Substantive Senior Executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration \$
Total remuneration (including part-time arrangements):						
\$255,000 to \$284,999	1	233,008	35,827	379	-	269,214
\$405,000 to \$434,999	1	385,540	46,383	-	-	431,923
Total	2					

Average annual reportable remuneration ¹	2013					
	Substantive Senior Executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration \$
Total remuneration (including part-time arrangements):						
\$195,000 to \$224,999	1	177,232	26,296	-	-	203,528
\$255,000 to \$284,999	1	238,592	32,714	384	-	271,690
\$405,000 to \$434,999	1	368,180	50,189	-	-	418,369
Total	3					

Notes:

- This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
- 'Reportable salary' includes the following:
 - gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
 - reportable employer superannuation contributions; and
 - exempt foreign employment income.
- The 'contributed superannuation' amount is the average cost to the entity for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.
- 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
- 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 11C: Average Annual Reportable Remuneration Paid to Other Highly Paid Staff during the Reporting Period

Average annual reportable remuneration ¹	2014					Total reportable remuneration \$
	Other highly paid staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	
Total reportable remuneration (including part-time arrangements):						
\$195,000 to \$224,999	1	168,315	30,038	1,399	20,172	219,924
Total	1					

There were no employees whose salary was \$195,000 or more in 2012–13.

Notes:

- This table reports staff:
 - who were employed by the entity during the reporting period;
 - whose reportable remuneration was \$195,000 or more for the reporting period; and
 - were not required to be disclosed in Table B or director disclosures.
 Each row is an averaged figure based on headcount for individuals in the band.
- 'Reportable salary' includes the following:
 - gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
 - reportable employer superannuation contributions; and
 - exempt foreign employment income.
- The 'contributed superannuation' amount is the average cost to the entity for the provision of superannuation benefits to other highly paid staff in that reportable remuneration band during the reporting period.
- 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
- 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 12: Remuneration of Auditors

Financial statement audit services were provided free of charge to IHPA by the Australian National Audit Office (ANAO) who contracted Moore Stephens to undertake the audit on their behalf.

	2014 \$	2013 \$
Fair value of the services provided		
Financial statement audit services	58,000	50,000
Total	58,000	50,000

No other services were provided by the auditors of the financial statements.

Note 13: Financial Instruments

	2014 \$	2013 \$
Note 13A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	312,972	192,739
Receivable from the Department of Health	52,319	41,678
Receivable from other Federal Government agencies	3,276	–
Other receivable	72,018	62,533
Total	440,585	296,950
Carrying amount of financial assets	440,585	296,950
Financial Liabilities		
At amortised cost:		
Payable to the Department of Health	98,253	587,235
Trade creditors and accruals	375,515	223,898
Other payables—credit card	6,661	10,636
Total	480,429	821,769
Carrying amount of financial liabilities	480,429	821,769

Note 13B: Credit Risk

IHPA was exposed to minimal credit risk as its loans and receivables only comprise cash and other receivables. The maximum exposure to credit risk for other receivables is the risk that arises from potential default of a debtor. Other receivables are managed through IHPA's policies and procedures which provide guidance to employees in debt management and recovery. Accordingly, IHPA has no significant exposures to any concentrations of credit risk.

Credit quality of financial instruments

	Not past due nor impaired 2014 \$	Not past due nor impaired 2013	Past due but not impaired 2014 \$	Past due but not impaired 2013
Other receivables	127,613	62,533	–	41,678
Total	127,613	62,533	–	41,678

Ageing of financial assets that were past due but not impaired for 2014

	0 to 30 days \$	Total \$
Other receivables	127,613	127,613
Total	127,613	127,613

Ageing of financial assets that were past due but not impaired for 2013

	0 to 30 days \$	Total \$
Other receivables	41,678	41,678
Total	41,678	41,678

Note 13C: Liquidity Risk

IHPA's financial liabilities comprise payables. The exposure to liquidity risk is negligible for IHPA as it does not have any borrowings. It is also highly unlikely that IHPA will encounter difficulty in meeting its obligations. This is because annual funding is provided to IHPA from the Australian Government and other funding mechanisms are available to IHPA such as the Advance to the Finance Minister. Internal policies and procedures have also been put in place to ensure IHPA has appropriate resources available to meet its financial obligations.

Maturities for non-derivative financial liabilities 2014

	2014 within 1 year \$	2013 within 1 year \$
Trade creditors and accruals	375,515	223,898
Other	104,914	597,871
Total	480,429	821,769

Note 13D: Market Risk

IHPA holds basic financial instruments that do not expose it to material market risks. IHPA is not exposed to significant 'interest rate risk', 'currency risk' or 'other price risk'.

Note 14: Financial Assets Reconciliation

	Notes	2014 \$	2013 \$
Financial assets			
Total financial assets as per statement of financial position		20,438,189	18,399,831
Less: non-financial instrument components:			
Appropriations receivable	5B	19,747,624	17,856,964
Other receivables	5B	49,980	45,917
Total non-financial instrument components		19,797,604	17,902,880
Total financial assets as per financial instruments note	13A	640,585	496,950

Note 15: Administered—Expenses

Note 15A: Suppliers

	2014 \$	2013 \$
Goods and services supplied or rendered		
Consultants	3,164,422	3,119,127
Contractors	6,437,621	4,227,720
Travel	24,509	8,215
Other	235,546	63,186
Total goods and services supplied or rendered	9,862,098	7,418,248
Goods supplied in connection with		
Related parties	-	232
External parties	1,145	43,028
Total goods supplied	1,145	43,260
Services rendered in connection with		
Related parties	1,450,789	8,564
External parties	8,410,164	7,366,424
Total services rendered	9,860,953	7,374,988
Total goods and services supplied or rendered	9,862,098	7,418,248
Total suppliers expenses	9,862,098	7,418,248

Note 16: Administered—Income

	2014 \$	2013 \$
REVENUE		
Non-Taxation Revenue		
Note 16: Sale of Goods and Rendering of Services		
Rendering of services—external parties	(567,436)	(1,854,686)
Total sale of goods and rendering of services	(567,436)	(1,854,686)

Note 17: Administered—Financial Assets

	2014 \$	2013 \$
Note 17A: Cash and Cash Equivalents		
Cash on hand or on deposit	-	4,409
Total cash and cash equivalents	-	4,409
Note 17B: Trade and Other Receivables		
Goods and services receivable in connection with		
External parties	28,352	-
Total receivables for goods and services	28,352	-
Other receivables:		
Amount receivable from Departmental item	-	1,556,340
GST receivable from Australian Taxation Office	246,086	205,629
Total other receivables	246,086	1,761,969
Total trade and other receivables (gross)	274,438	1,761,969
Receivables are expected to be recovered in:		
No more than 12 months	274,438	1,761,969
Total trade and other receivables (net)	274,438	1,761,969
Receivables were aged as follows:		
Not overdue	274,438	1,761,969
Total receivables (gross)	274,438	1,761,969

Credit terms for goods and services were within 30 days (2013: 30 days).

Note 18: Administered—Non-Financial Assets

Note 18A: Intangibles

	2014 \$	2013 \$
Other intangibles:		
Purchased	288,434	-
Total other intangibles	288,434	-
Total intangibles	288,434	-

No indicators of impairment were found for intangible assets.

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 18B: Reconciliation of the Opening and Closing Balances of Intangibles (2013–14)

	Other intangibles purchased	Total
	\$	\$
As at 1 July 2013		
Gross book value	-	-
Accumulated amortisation and impairment	-	-
Net book value 1 July 2013	-	-
Additions:		
By purchase or internally developed	288,434	288,434
Net book value 30 June 2014	288,434	288,434
Net book value as of 30 June 2014 represented by:		
Gross book value	288,434	288,434
Accumulated amortisation and impairment	-	-
	288,434	288,434

Note 19: Administered—Payables

	2014	2013
	\$	\$

Note 19A: Suppliers

Trade creditors and accruals	2,151,801	2,255,927
Total suppliers	2,151,801	2,255,927

Supplier payables expected to be settled within 12 months:

External parties	2,151,801	2,255,927
Total Suppliers	2,151,801	2,255,927

Settlement was usually made within 30 days.

Note 19B: Other Payables

GST payable	37,952	4,409
Total other payables	37,952	4,409

Total other payables are expected to be settled in:

No more than 12 months	37,952	4,409
Total other payables	37,952	4,409

Note 20: Administered—Cash Flow Reconciliation

	2014 \$	2013 \$
Reconciliation of cash and cash equivalents as per Administered Schedule of Assets and Liabilities to Administered Cash Flow Statement		
Cash and cash equivalents as per:		
Administered Cash Flow Statement	-	4,409
Schedule of Administered Assets and Liabilities	-	4,409
Difference	-	-
Reconciliation of net cost of services to net cash used by operating activities		
Net cost of services	(9,294,662)	(5,563,562)
Changes in assets/liabilities		
(Increase)/decrease in net receivables	1,413,859	(1,608,980)
Increase/(decrease) in supplier payables	1,435,971	(793,115)
Net cash used by operating activities	(6,444,832)	(7,965,657)

Note 21: Administered—Financial Instruments

	2014 \$	2013 \$
Note 21A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash on hand or on deposit	-	4,409
Goods and services receivable	28,352	-
Receivable from Departmental item	-	1,556,340
Total loans and receivables	28,352	1,560,749
Total financial assets	28,352	1,560,749
Financial Liabilities		
At amortised cost:		
Trade creditors and accruals	2,151,801	2,255,927
Total financial liabilities at amortised cost	2,151,801	2,255,927
Total financial liabilities	2,151,801	2,255,927

Note 21B: Fair Value of Financial Instruments

Financial Assets

The fair values of all monetary financial assets approximate their carrying amounts.

Financial Liabilities

The fair values of all monetary financial liabilities approximate their carrying amounts.

Note 21C: Credit Risk

IHPA was exposed to minimal credit risk as its loans and receivables only comprise cash and other receivables. The maximum exposure to credit risk for other receivables is the risk that arises from potential default of a debtor. Other receivables are managed through IHPA's policies and procedures which provide guidance to employees in debt management and recovery. Accordingly, IHPA has no significant exposures to any concentrations of credit risk.

Credit quality of financial instruments

	Not past due nor impaired 2014 \$	Not past due nor impaired 2013 \$
Other receivables	28,352	1,556,340
Total	28,352	1,556,340

Note 21D: Liquidity Risk

IHPA's financial liabilities comprise trade creditors and accruals. IHPA will be exposed to liquidity risk if it encounters difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely as IHPA was appropriated funding from the Australian Government which IHPA manages and controls to ensure it has adequate funds to meet payments as and when they fall due. Internal policies and procedures have also been put in place to ensure IHPA has appropriate resources available to meet its financial obligations.

Maturities for non-derivative financial liabilities 2014

	within 1 year \$	Total \$
Trade creditors and accruals	2,151,801	2,151,801
Total	2,151,801	2,151,801

Maturities for non-derivative financial liabilities 2013

	within 1 year \$	Total \$
Trade creditors and accruals	2,255,927	2,255,927
Total	2,255,927	2,255,927

Note 21E: Market Risk

IHPA holds basic financial instruments that do not expose it to material market risks. IHPA is not exposed to significant 'interest rate risk' or 'currency risk'.

Note 22: Administered Financial Assets Reconciliation

	Notes	2014 \$	2013 \$
Financial assets			
Total financial assets as per schedule of administered assets and liabilities		274,438	1,766,378
Less: non-financial instrument components			
Other receivables	17B	246,086	205,629
Total non-financial instrument components		246,086	205,629
Total financial assets as per financial instruments note	21A	28,352	1,560,749

Note 23: Appropriations

Table A: Annual Appropriations ('recoverable GST exclusive')

	2014 Appropriations						Total Appropriation \$	Appropriation applied in 2014 (current and prior years) \$	Variance ³ \$
	Appropriation Act			FMA Act					
	Annual Appropriation \$	Appropriation reduced ¹ \$	AFM ² \$	Section 30 \$	Section 31 \$	Section 32 \$			
DEPARTMENTAL									
Ordinary annual services	13,609,000	-	-	-	58,292	-	13,667,292	(11,716,340)	1,950,952
Total departmental	13,609,000	-	-	-	58,292	-	13,667,292	(11,716,340)	1,950,952
ADMINISTERED									
Ordinary annual services									
Administered items	12,090,000	(1,934,492)	-	-	-	-	10,155,508	(8,923,930)	1,231,578
Total administered	12,090,000	(1,934,492)	-	-	-	-	10,155,508	(8,923,930)	1,231,578

Notes:

- Appropriations reduced under *Appropriation Acts (No. 1, 3 and 5) 2013–14*: sections 10, 11 and 12 and under *Appropriation Acts (No. 2, 4 and 6) 2013–14*: sections 12, 13 and 14. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament.
As with departmental appropriations, the responsible Minister may decide that part or all of an administered appropriation is not required and request that the Finance Minister reduce that appropriation. For administered appropriations reduced under section 11 of *Appropriation Acts (No. 1, 3 and 5) 2013–14* and section 12 of *Appropriation Acts (No. 2, 4 and 6) 2013–14*, the appropriation is taken to be reduced to the required amount specified in Table D of this note once the annual report is tabled in Parliament.
- There was no Advance to the Finance Minister (AFM)—*Appropriation Acts (No. 1, 3 and 5) 2013–14*: section 13 and *Appropriation Acts (No. 2, 4 and 6) 2013–14*: section 15.
- Departmental appropriations applied in 2014 underachieved available funds as IHPA operated with average staffing levels that were below plan and the maturing of the agency has led to a stabilisation of controls and more consistent management of business risk. This has enabled savings in consulting and contractor budgets. The administered variance at \$1,232,578 is 10.2% of available appropriation. IHPA is meeting its obligations to develop classification systems and provide figures for purposes of supporting Activity Based Funding in public hospitals.

Table A: Annual Appropriations ('recoverable GST exclusive') (cont'd)

	2013 Appropriations						Total Appropriation \$	Appropriation applied in 2013 (current and prior years) \$	Variance ³ \$
	Appropriation Act			FMA Act					
	Annual Appropriation ² \$	Appropriation reduced ¹ \$	AFM \$	Section 30 \$	Section 31 \$	Section 32 \$			
DEPARTMENTAL									
Ordinary annual services	14,310,000	-	-	-	1,799,296	-	16,109,296	(10,866,913)	5,242,383
Total departmental	14,310,000	-	-	-	1,799,296	-	16,109,296	(10,866,913)	5,242,383
ADMINISTERED									
Ordinary annual services									
Administered items	12,589,000	(5,170,752)	-	-	-	-	7,418,248	(8,208,424)	(790,176)
Total administered	12,589,000	(5,170,752)	-	-	-	-	7,418,248	(8,208,424)	(790,176)

Notes:

- For administered appropriations reduced under section 11 of *Appropriation Acts (No. 1, 3 and 5) 2012-13* and section 12 of *Appropriation Acts (No. 2, 4 and 6) 2012-13*, the Appropriation is taken to be reduced to the required amount specified in Table D of this note once the annual report is tabled in Parliament. All administered appropriations may be adjusted by a Finance Minister's Determination, which is disallowable by Parliament.
- On 12 August 2013, the Finance Minister made a determination in accordance with section 11 of *Appropriations (Parliamentary Departments Act (No. 1))* to reduce the Departmental appropriation by \$6,000 to \$14,310,000.
- The variance for Departmental ordinary annual services has arisen as a result of Section 31 receipts negating the need to drawdown appropriation. Section 31 monies in 2012-13 included receipts for employee provisions for staff transferring to IHPA (\$0.5m), the receipt of a cash lease incentive (\$0.7m), savings in employee expenses as recruitment was slower than expected (\$0.9m) and the other savings in establishment costs (\$1.9m). The variance for Administered ordinary annual services reflects the unpaid invoices as at 30 June 2013.

Table B: Departmental Capital Budgets (DCB) ('recoverable GST exclusive')

	2014 Capital Budget Appropriations			Capital Budget Appropriations applied in 2014 (current and prior years)			Variance	
	<i>Appropriation Act</i>		<i>FMA Act</i>	Total Capital Budget Appropriation	Payments for non-financial assets ³	Payments for other purposes		Total payments
	Annual Capital Budget	Appropriation reduced ²	Section 32					
	\$	\$	\$	\$	\$	\$	\$	
DEPARTMENTAL								
Ordinary annual services — Departmental Capital Budget ¹	200,000	-	-	200,000	200,000	-	200,000	-

Notes:

1. Departmental Capital Budgets are appropriated through *Appropriation Acts (No. 1, 3 and 5)*. They form part of ordinary annual services, and are not separately identified in the *Appropriation Acts*. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.
2. Appropriations reduced under *Appropriation Acts (No. 1, 3 and 5) 2013–14*: sections 10, 11, 12 and 15 or via a determination by the Finance Minister.
3. Payments made on non-financial assets include purchases of assets, expenditure on assets which has been capitalised.

	2013 Capital Budget Appropriations			Capital Budget Appropriations applied in 2013 (current and prior years)			Variance	
	<i>Appropriation Act</i>		<i>FMA Act</i>	Total Capital Budget Appropriation	Payments for non-financial assets ³	Payments for other purposes		Total payments
	Annual Capital Budget	Appropriation reduced ²	Section 32					
	\$	\$	\$	\$	\$	\$	\$	
DEPARTMENTAL								
Ordinary annual services — Departmental Capital Budget ¹	200,000	-	-	200,000	-	-	-	200,000 ⁴

Notes:

1. Departmental Capital Budgets are appropriated through *Appropriation Acts (No. 1, 3 and 5)*. They form part of ordinary annual services, and are not separately identified in the *Appropriation Acts*. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.
2. Appropriations reduced under *Appropriation Acts (No. 1, 3 and 5) 2012–13*: sections 10, 11, 12 and 15 or via a determination by the Finance Minister.
3. Payments made on non-financial assets include purchases of assets, expenditure on assets which has been capitalised.
4. In 2012–13, IHPA's appropriation requirements were drawn down from ordinary services and the Departmental Capital Budget drawn down in 2013 was nil.

Table C: Unspent Annual Appropriations ('recoverable GST exclusive')

Authority	2014 \$	2013 \$
DEPARTMENTAL		
<i>Appropriation Act (No. 1) 2011–12</i>	-	3,939,702
<i>Appropriation Act (No. 1) 2011–12—DCB</i>	3,651,000	-
<i>Appropriation Act (No. 1) 2012–13</i>	2,689,624	14,110,000
<i>Appropriation Act (No. 1) 2012–13—DCB</i>	-	200,000
<i>Appropriation Act (No. 1) 2013–14</i>	13,719,972	-
<i>Appropriation Act (No. 1) 2013–14—DCB</i>	200,000	-
Total	20,260,596	18,249,702
ADMINISTERED		
<i>Appropriation Act (No. 1) 2012–13</i>	-	5,863,385
<i>Appropriation Act (No. 1) 2013–14</i>	3,858,703	-
Total	3,858,703	5,863,385

Note: Unspent annual appropriations include cash at bank as at 30 June.

Table D: Reduction in Administered Items ('recoverable GST exclusive')

2014						
Ordinary Annual Services	Amount required ³ — by <i>Appropriation Act</i>			Total amount required ³	Total amount appropriated ⁴	Total reduction ⁵
	Act (No.1)	Act (No.3)	Act (No.5)			
Outcome 1 ⁶	10,155,508.21	-	-	10,155,508.21	12,090,000.00	(1,934,491.79)

Notes:

- Numbers in this section of the table must be disclosed to the cent.
- Administered items for 2014 were reduced to these amounts when these financial statements were tabled in Parliament as part of IHPA's 2014 annual report. This reduction was effective in 2015, but the amounts were reflected in Table A in the 2014 financial statements in the column 'Appropriations reduced' as they were adjustments to 2014 appropriations.
- Amount required as per *Appropriation Act* (Act 1 s. 11; Act 2 s. 12).
- Total amount appropriated in 2014.
- Total reduction effective in 2015.
- Public Hospital Price Determinations.

2013						
Ordinary Annual Services	Amount required ³ — by <i>Appropriation Act</i>			Total amount required ³	Total amount appropriated ⁴	Total reduction ⁵
	Act (No.1)	Act (No.3)	Act (No.5)			
Outcome 1 ⁶	7,418,247.84	-	-	7,418,247.84	12,589,000.00	(5,170,752.16)

Notes:

- Numbers in this section of the table must be disclosed to the cent.
- Administered items for 2013 were reduced to these amounts when these financial statements were tabled in Parliament as part of IHPA's 2013 annual report. This reduction was effective in 2014, but the amounts were reflected in Table A in the 2013 financial statements in the column 'Appropriations reduced' as they were adjustments to 2013 appropriations.
- Amount required as per *Appropriation Act* (Act 1 s. 11; Act 2 s. 12).
- Total amount appropriated in 2013.
- Total reduction effective in 2014.
- Public Hospital Price Determinations.

Note 24: Compensation and Debt Relief

Compensation and Debt Relief—Departmental

No payments were made under section 73 of the *Public Service Act 1999* during the reporting period (2012–13: nil).

No 'Act of Grace' expenses were incurred during the reporting period (2012–13: nil).

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* (2012–13: nil).

No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period (2012–13: nil)

No ex-gratia payments were made during the reporting period (2012–13: nil).

Compensation and Debt Relief—Administered

No 'Act of Grace' expenses were incurred during the reporting period (2012–13: nil).

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* (2012–13: nil).

No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period (2012–13: nil).

No ex-gratia payments were made during the reporting period (2012–13: nil).

Note 25: Reporting of Outcomes

Note 25A: Net Cost of Outcome Delivery

	Outcome 1 ¹ 2014 \$	Outcome 1 ¹ 2013 \$
Departmental		
Expenses	10,315,349	10,626,772
Own-source income	514,362	672,208
Administered		
Expenses	9,862,098	7,418,248
Income	567,436	1,854,686
Net cost of outcome delivery	19,095,649	15,518,126

IHPA is structured to meet one outcome hence tables showing major classes of Departmental and Administered expense, income, assets and liabilities are not disclosed in this note.

Note 26: Net Cash Appropriation Arrangements

	2014 \$	2013 \$
Total comprehensive income less depreciation/amortisation expenses previously funded through revenue appropriations¹	4,000,245	4,426,576
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	(377,858)	(271,140)
Total comprehensive income — as per the Statement of Comprehensive Income	3,622,387	4,155,436

Note:

- From 2010–11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.



Appendices

Appendix A: **Further information**

Appendix B: **Resources statement and expenses by outcome**

Appendix C: **Acronyms and abbreviations**

Appendix D: **Glossary**

Appendix E: **Compliance index**

Appendix F: **Index**

Appendix A: Further information

Freedom of Information

The *Freedom of Information Act 1982* (FOI Act) promotes disclosure of government information and expressly recognises that public access to government information is to be provided promptly and at the lowest reasonable cost.

The Information Publication Scheme (IPS) was established by Part II of the FOI Act with effect from 1 May 2011. This requirement has replaced the previous requirement for agencies to publish a Section 8 statement in their annual report.

Our Information Publication Scheme is available on our website at www.iHPA.gov.au. This includes information about the type of documents we hold and our FOI procedures, facilities and contact details.

More information about the classes of personal information we hold is available at the Office of the Australian Information Commissioner website at www.privacy.gov.au.

How to lodge an FOI request

If you want to view one or more documents, you must send us a request in writing, by mail, fax or email. You need to include as much detail as possible about the document(s) you want to access. FOI application forms are available on our website. The FOI Act provides that charges may be imposed for processing requests. If access is granted to the documents under the FOI Act, you will be provided with either a copy of the document(s) or the opportunity to inspect them at our Sydney office.

More information

For more information, contact our FOI Officer using the following details:

FOI Officer

Independent Hospital Pricing Authority
PO Box 483
Darlinghurst NSW 1300

Email: FOI_IHPA@ihpa.gov.au

Phone: (02) 8215 1107

Fax: (02) 8215 1111

Ecologically sustainable development and environmental performance

S. 516A of the *Environment Protection and Biodiversity Conservation Act 1999* requires Australian Government organisations to detail their environmental performance and contribution to ecologically sustainable development in their annual reports.

We are committed to the principles of sustainable development and recognise our responsibility to the Australian Government and the wider community to make a contribution to minimise the impact of our operations on the environment.

IHPA has a range of efficiency measures in place to reduce its environmental impact and ensure efficient use of resources, effective waste management and pollution prevention.

These include:

- Recycling paper, cardboard and printer cartridges.
- Ensuring equipment such as desktop computers, photocopiers, dishwashers and printers incorporate energy saving features.
- Installing sensors to allow automatic turn-off of lighting in rooms not occupied.
- Providing facilities to allow staff to recycle a range of kitchen and general waste.
- Using teleconferences and video conferences wherever possible to cut down on travel and minimise our carbon footprint.
- Using flexible working locations and home-based work where appropriate
- Using 100% recycled paper
- Minimising the creation of paper records by promoting the use of our electronic document records management system TRIM.

IHPA will continue to develop and implement business solutions that are efficient, effective and environmentally sound.

Advertising and market research

IHPA conducted one advertising campaign during the period 1 July 2013–30 June 2014.

- Public consultation for *Pricing Framework for Australian Public Hospital Services 2015–16*

The amount paid was:

- Adcorp Australia—\$27,040.31 (including GST).

Further information is available in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available at www.finance.gov.au/advertising/index.html

Grant programs

IHPA did not administer any grant programs during the period 1 July 2013–30 June 2014.

Legal services expenditure

Details of the legal services expenditure for 2013–14 are provided in Table 7. The statement of legal expenditure is published in accordance with paragraph 11.1 (ba) of the *Legal Services Directions 2005*.

Table 12: Legal services expenditure 2013–14

Legal Service	Expenditure (Incl. GST)
Total external legal services expenditure	\$197,745.63
External expenditure on solicitors	\$196,427.24
External expenditure on counsel	–
Other disbursements on external legal services	\$1,318.39
Total internal legal services expenditure	–
Total legal services expenditure	\$197,745.63

Appendix B: Resource statement and expenses by outcome

IHPA Resource Statement 2013–14

	Actual available appropriation for 2013–14 \$'000	Payments made for 2013–14	Balance remaining 2013–14 \$'000
Ordinary annual services			
Appropriation receivable ¹	18,250	11,595	6,654
Departmental appropriation ²	13,607	–	13,607
Section 31 receipts	58	58	–
Total³	31,915	11,653	20,261
Administered expenses			
Outcome 1	12,090	10,156	–
Total	12,090	10,156	–
Total ordinary annual services [A]	44,005	21,809	–
Total available annual appropriations and payments	44,005	21,809	–
Total special appropriations [B]	–	–	–
Total resourcing and payments [A]+[B]	44,005	21,809	–
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	44,005	21,809	–

Notes:

1. Opening appropriation brought forward (\$18,057k) plus opening cash (\$193k).
2. *Appropriation Act* (No. 1) 2013–14.
3. Balance remaining (\$20,261k) made up of Financial Statements note 5B Appropriation Receivable \$19,948k plus cash at bank \$313k.

All figures are GST exclusive.

Expenses by outcome

	Budget 2013-14 \$'000	Actual expenses 2013-14 \$'000	Variation 2013-14 \$'000
Program 1.1: Public hospital price determinations			
Administered Expenses			
Ordinary Annual Services (<i>Appropriation Act No. 1</i>)	12,090	9,862	2,228
Departmental Expenses			
Departmental Appropriation	13,708	9,841	3,867
Expenses not requiring appropriation in the budget year	429	474	-45
Total expenses for Outcome 1	26,227	20,177	6,050
Administered Expenses	12,090	9,862	2,228
Departmental Expenses	14,137	10,315	3,822
		2012-13	2013-14
Average staffing level		52	53

Appendix C:

Acronyms and abbreviations

Term	Description
ABF	Activity Based Funding
ACSQHC	Australian Commission on Safety and Quality in Health Care
Act (the)	<i>National Health Reform Act 2011</i>
ANAO	Australian National Audit Office
AIHW	Australian Institute for Health and Welfare
APC	Admitted Patient Care
APS	Australian Public Service
APSC	Australian Public Service Commission
AR-DRG	Australian Refined Diagnosis Related Group
ASGC-RA	Australian Standard Geographical Classification — Remoteness Areas system
CAC	Clinical Advisory Committee
CEO	Chief Executive Officer
COAG	Council of Australian Governments
CFO	Chief Financial Officer
CSO	Community Service Obligations
DSS	Data Set Specification
ED	Emergency Department
EL	Executive Level
ES	Emergency Services
HOPO	Holder of Public Office
ICD-10-AM	International Statistical Classification of Diseases and Related Health Problems, Tenth Revision, Australian Modification

Term	Description
ICT	Information and Communication Technology
IFA	Individual Flexibility Arrangements
IHPA	Independent Hospital Pricing Authority
JAC	Jurisdictional Advisory Committee
LHN	Local Hospital Network
NAP	Non-admitted Patient
NEC	National Efficient Cost
NEP	National Efficient Price
NHCDC	National Hospital Cost Data Collection
NHFB	National Health Funding Body
NHPA	National Health Performance Authority
NHRA	National Health Reform Agreement (2011)
NMDS	National Minimum Data Sets
NWAU	National Weighted Activity Unit
PBS	<i>Portfolio Budget Statements</i>
PHED	Public Hospital Establishment Data
PICU	Paediatric Intensive Care Unit
SES	Senior Executive Service
TAC	Technical Advisory Committee
TTR	Teaching, Training and Research
UDG	Urgency Disposition Groups
URG	Urgency Related Group
WHS	Work, Health and Safety

Appendix D: Glossary

Activity Based Funding—an activity comprising in-scope public hospital services which will be funded by the Australian Government in the 2012–13 financial year in the manner described at clause A32.c of the National Health Reform Agreement 2011. An ABF Activity may take the form of a separation, presentation or service event.

Adjustment—an amount added to, or subtracted from a Price Weight, in recognition of legitimate and unavoidable variations in the cost of service delivery.

Agreement—the National Health Reform Agreement (NHRA) between the Australian Government and state and territory governments, dated 2 August 2011.

www.yourhealth.gov.au/internet/yourhealth/publishing.nsf/Content/nhra-justreleased

AR-DRG—refers to a group within the classification system known as Australian Refined Diagnostic Related Groups version 6.x (also known as AR-DRG v. 6.x).

ASGC-RA—the Australian Standard Geographical Classification—Remoteness Areas system, developed by the ABS (ABS publication 1216.0).

Block funding—refers to a way of funding hospitals that is not tied to outputs.

Carer Recognition Act 2010—an Act to provide for the recognition of carers, and for related purposes.

www.comlaw.gov.au/Details/C2010A00123

Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)—the Australian Government’s central piece of environmental legislation. It provides a legal framework to protect and manage nationally and internationally important flora, fauna, ecological communities and heritage places—defined in the EPBC Act as matters of national environmental significance.

www.environment.gov.au/epbc/

Emergency Department Service—the provision of care to a person by an Emergency Department.

Financial Management and Accountability Act 1997 (FMA Act)—provides the framework for the proper management of public money and public property by the Executive arm of the Australian Government. Public money and public property is defined in the Act as money and property in the custody or control of the Australian Government.

www.finance.gov.au/financial-framework/fma-legislation/fma-act.html

Freedom of Information Act 1982—gives members of the public rights of access to official documents of the Australian Government and of its agencies.

www.comlaw.gov.au/Series/C2004A02562

Health and Safety Act 2011—an Act relating to work health and safety, and for related purposes.

www.comlaw.gov.au/Details/C2011A00137

Metadata—is often called ‘data about data’. More precisely, it is the underlying definition or structured description of the content, quality, condition or other characteristics of data.

METeOR—Australia’s repository for national metadata standards for health, housing and community services statistics and information.

National Efficient Price—the price that IHPA has determined as the price that will be paid for a NWAU.

National Health Reform Act 2011—an Act relating to National Health Reform based on the National Health Reform Agreement.
www.comlaw.gov.au/Details/C2011C00952

National Weighted Activity Unit—the unit of measure in the national ABF system. It allows activity across different setting to be compared on the basis of resource use.

Outer Regional—an area that is classified as Outer Regional Australia under the ASGC-RA.

Public Service Act 1999—the principal Act governing the establishment and operation of, and employment in, the Australian Public Service.
www.comlaw.gov.au/Series/C2004A00538

Price Weight—the weight assigned to an ABF Activity.

Remote—an area that is classified as remote Australia under ASGC-RA.

Remoteness Area Adjustment—the Outer Regional Adjustment, the Remote Area Adjustment and the Very Remote Area Adjustment.

State—the State of New South Wales, the State of Victoria, the State of Queensland, the State of Western Australia, the State of South Australia, the State of Tasmania, the Australian Capital Territory and the Northern Territory of Australia, as applicable.

Tier 2—the classification system for non-admitted patients that IHPA is currently using.

Triage—a process of assessment of a patient on arrival to the emergency department to determine the priority for medical care based on the clinical urgency of the patient’s presenting condition. Triage enables allocation of limited resources to obtain the maximum clinical utility for all patients presenting to the emergency department.

UDG—refers to a group within the classification system known as Urgency Disposition Groups. It classifies a patient attending the emergency department based on the combination of triage and disposition. Refer to Appendix B, table 2 of the National Efficient Price Determination 2013–14 for a full list of UDGs.

[www.ihipa.gov.au/internet/ihipa/publishing.nsf/Content/NEP-determ-12-13/\\$File/NEPDetermination2012-2013.pdf](http://www.ihipa.gov.au/internet/ihipa/publishing.nsf/Content/NEP-determ-12-13/$File/NEPDetermination2012-2013.pdf)

URG—refers to a group within the classification system known as Urgency Related Groups. It is applied across disposition categories (admitted and non-admitted). Refer to Appendix B, table 3 of the National Efficient Price Determination 2012/13 for a full list of the UDGs.

[www.ihipa.gov.au/internet/ihipa/publishing.nsf/Content/NEP-determ-12-13/\\$File/NEPDetermination2012-2013.pdf](http://www.ihipa.gov.au/internet/ihipa/publishing.nsf/Content/NEP-determ-12-13/$File/NEPDetermination2012-2013.pdf)

Appendix E: Compliance index

Part of Report	Description	Requirement	Page
	Letter of transmittal	Mandatory	iv
	Table of contents	Mandatory	i
	Index	Mandatory	111–112
	Glossary	Mandatory	106–107
	Contact officer(s)	Mandatory	ii
	Internet home page address and Internet address for report	Mandatory	ii
Review by Secretary (CEO)	Review by departmental secretary (CEO)	Mandatory	10
	Summary of significant issues and developments	Suggested	11
	Overview of department's performance and financial results	Suggested	28–35
	Outlook for following year	Suggested	11
	Significant issues and developments—portfolio	Portfolio departments—suggested	7, 33
Departmental Overview	Role and functions	Mandatory	3–5
	Organisational structure	Mandatory	12
	Outcome and program structure	Mandatory	28–35
	Where outcome and program structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	N/A
	Portfolio structure	Portfolio departments—mandatory	14–21
Report on Performance	Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	28–35
	Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	33
	Where performance targets differ from the PBS/ PAES, details of both former and new targets, and reasons for the change	Mandatory	N/A
	Narrative discussion and analysis of performance	Mandatory	28–35, 48
	Trend information	Mandatory	N/A
	Significant changes in nature of principal functions/ services	Suggested	N/A
	Performance of purchaser/provider arrangements	If applicable, suggested	40
	Factors, events or trends influencing departmental performance	Suggested	N/A
	Contribution of risk management in achieving objectives	Suggested	38–39
	Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	N/A

Part of Report	Description	Requirement	Page
Report on Performance (cont'd)	Discussion and analysis of the department's financial performance	Mandatory	47–99
	Discussion of any significant changes in financial results from the prior year, from budget or anticipated to have a significant impact on future operations.	Mandatory	67
	Agency resource statement and summary resource tables by outcomes	Mandatory	103
Management and Accountability			
Corporate Governance	Agency heads are required to certify that their agency complies with the Commonwealth Fraud Control Guidelines.	Mandatory	37, 40
	Statement of the main corporate governance practices in place	Mandatory	37
	Names of the senior executive and their responsibilities	Suggested	12
	Senior management committees and their roles	Suggested	18, 21, 37
	Corporate and operational plans and associated performance reporting and review	Suggested	37
	Internal audit arrangements including approach adopted to identifying areas of significant financial or operational risk and arrangements to manage those risks	Suggested	40
	Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	45
	How nature and amount of remuneration for SES officers is determined	Suggested	44, 82
External Scrutiny	Significant developments in external scrutiny	Mandatory	40
	Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner	Mandatory	40
	Reports by the Auditor-General, a Parliamentary Committee or Commonwealth Ombudsman or an agency capability review	Mandatory	48–50
Management of Human Resources	Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	37, 40
	Workforce planning, staff turnover and retention	Suggested	42, 43
	Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and Australian Workplace Agreements (AWAs)	Suggested	44
	Training and development undertaken and its impact	Suggested	44
	Work health and safety performance	Suggested	44
	Productivity gains	Suggested	N/A
	Statistics on staffing	Mandatory	43
	Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	44
Performance pay	Mandatory	45	

Part of Report	Description	Requirement	Page
Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	47–99
Purchasing	Assessment of purchasing against core policies and principles	Mandatory	40, 41
Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	41
Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	40
Exempt contracts	Contracts exempted from publication in AusTender	Mandatory	41
Financial Statements	Financial Statements	Mandatory	52–99
Other Mandatory Information	Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	44
	Advertising and Market Research (Section 311A of the Commonwealth Electoral Act 1918) and statement on advertising campaigns	Mandatory	102
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	101
	Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	45
	Grant programs	Mandatory	102
	Disability reporting—explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	45
	Information Publication Scheme statement	Mandatory	101
	Correction of material errors in previous annual report	If applicable, mandatory	67
	List of Requirements	Mandatory	108–110

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