Government of **Western Australia**
Department of **Health**

WA Health Funding and Policy Guidelines 2014–15

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Contents

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1 Introduction

Western Australia's (WA) health system performs well, however, the community's health needs are changing, demand for health services is increasing, and the workforce is evolving.

The State Government is working to meet these needs but the costs of health services are increasing and the State's revenue base is decreasing. Changes are needed to ensure the ongoing sustainability and performance of our health system.

The WA health system will undergo significant transformation during 2014 and 2015. This includes the commissioning of key infrastructure projects such as the Fiona Stanley Hospital (FSH) and the Perth Children's Hospital (PCH) and the implementation of key national reforms including the move to national efficient pricing for public hospital services.

The WA Health Transition and Reconfiguration Steering Committee has been established to provide advice to the Director General and the State Government on key aspects of the transformation and to ensure the achievement of key budget, infrastructure, clinical and workforce milestones.

With this in mind, WA Health established a Finance, Purchasing, and Performance Group (FPPG) under the leadership of the Director General. The FPPG provides change management leadership at an operational level to ensure that desired system-wide reforms in Activity Based Funding and Management (ABF/M), revenue, purchasing, and performance management can be embedded and sustained within the health system.

Under the leadership of the FPPG, a Budget Steering Committee was formed in the Department of Health to manage the key deliverables for the 2014-15 Budget and Resource Allocation. Ongoing work will include the preparation for the 2015-16 Budget and Resource Allocation process, and providing oversight and guidance on key financial and budgeting matters.

The WA Health Funding and Policy Guidelines 2014-15 (the Guidelines) is a new initiative to support system-wide reform and provide insight into the WA Health Budget, allocation processes, and management, for the Department of Health and the Health Services.

The Guidelines aim for greater transparency of the WA Health Budget by:

- ensuring that the assumptions for the 2014-15 Budget are clearly articulated
- explaining the funding principles and models underlying the Budget allocations across WA Health with a particular focus on the operation and implementation of ABF
- providing the public with information on performance and accountability in relation to hospital budget allocations.

The Guidelines aim to inform all stakeholders (the public, Health Services, Department of Health budget-holders, and the Mental Health Commission) about the Budget development, the allocation processes, and service performance and accountability.

These Guidelines have been developed through advice and input from both Health Services and the Department.

2 Budget Formulation

WA Health budget settings are approved by the State Government for the budget year (2014-15) and three out-years (2015-16 to 2017-18), in accordance with the whole of government budgeting framework.

With health expenditure accounting for more than a quarter of general government sector expenditure in WA, decisions on the WA Health budget have a significant impact on the State Government's fiscal targets[1]. The annual negotiation and agreement of annual budget settings therefore involves extended dialogue with the Department of Treasury (Treasury) and the Economic and Expenditure Reform Committee (EERC).

The objective of this section is to outline:

- key features of the WA Health Budget setting process
- key outcomes of the 2014-15 State Budget
- significant issues and risks that impact on WA Health Budget settings and the opportunity for reform and development.

2.1 WA Health Budget Framework

2.1.1 Process for Formulation of the WA Health Budget

Budget settings for WA Health are primarily agreed to over the period from September to May, with the State Government[2] approving key funding decisions for WA Health (and other public sector agencies) as part of the annual Mid-Year Review (MYR). Some funding decisions are also made by the State Government outside of the MYR and Budget. This is generally for specific urgent policy and funding issues, for example, Enterprise Bargaining Agreement wage re-negotiations.

Proposals for new funding can take the form of: a MYR Submission; a Budget Submission; an EERC Submission; or a Cabinet Submission. The impetus for the development of a funding proposal arises from: a government policy commitment; a necessary accounting adjustment; or a significant business need, established as a budget priority of the Minister for Health and the State Health Executive Forum (SHEF). Budget priorities are generally agreed on through ongoing dialogue between the Minister for Health and SHEF, during the lead-up to the annual MYR process[3].

Annual MYR Submission

The primary objective of the annual MYR process is to agree on a baseline budget position with the State Government prior to the beginning of each new budget cycle. WA Health's MYR Submission[4] seeks to ensure that WA Health budget settings are reflective of: all State Government funding decisions since the previous State Budget; the latest wage and Consumer Price Index (CPI) parameters; and all accounting adjustments emanating from the finalisation of end of financial year reports and other reviews.

[1] http://www.treasury.wa.gov.au/cms/uploadedFiles/State_Budget/Budget_2014_15/2014-15_bp3.pdf
[2] Through the Economic and Expenditure Reform Committee (EERC), a sub-committee of Cabinet.
[3] Work is underway to develop a priority setting framework and tools to enhance transparency and rigour in the priority setting and ranking of funding proposals.
[4] Submitted in October annually ahead of the Government's publishing of its Mid-Year Review in December each year.

The MYR process can also be a forum for addressing cost and demand policy pressures that are unable to be postponed until the Budget process. For example, during the 2013-14 MYR process, additional funding was approved to ensure that the PCH commissioning timeframes would be met. Such funding approvals are usually difficult to obtain, however, the MYR process can be used as a forum to begin negotiating the key funding initiatives to be put forward in WA Health's annual Budget Submission.

Annual Budget Submission

WA Health's annual Budget Submission generally comprises of budget adjustment requests for:

1. Activity and cost growth (base funding adjustments)

Underpinned by an ABF framework, the aim of this submission is to discuss and seek agreement with the EERC on:

- activity volumes and price targets for hospital based inpatient services, Emergency Department (ED) services, and out-patient services
- block funding limits for small rural hospitals, non-admitted mental health services, and teaching, training and research.

Generally comprising the largest component of the overall health budget, the EERC will refer to: whole of government affordability; evidence base; and competing proposals from across government, in determining funding allocations.

2. New initiatives (above base funding adjustments)

Underpinned by a business case framework, the aim of these submissions is to secure new appropriation funding for specific health service programs and infrastructure, or Information and Communications Technology (ICT) projects that are priorities of the Minister for Health. These submissions are considered by the EERC on a case by case basis and may be funded by the State Government if considered affordable, evidence based and consistent with whole of Government budget priorities.

3. Specific purpose payment programs such as Royalties for Regions (RfR), Commonwealth Programs and Election Commitments (above base funding adjustments)

Underpinned by a business case framework; Commonwealth agreement; or a government policy decision, these submissions seek RfR and new appropriation funding for specific health service programs and infrastructure or ICT projects that are priorities of the Minister for Health. Considered by the EERC on a case by case basis, these submissions may be funded by the State Government if considered affordable, evidence based and consistent with whole of Government budget priorities.

4. Finance and accounting adjustments

These submissions are focused on accounting and cashflow adjustments required for WA Health's budget settings, and to reflect updated forecasts for: depreciation expenditure; employee leave liability; debt servicing; and capital project implementation.

2.1.2 Key Budget Parameters

Cost and price escalators

Budget estimates and forecasting models developed as part of the WA Health MYR and Budget Submissions apply a range of service and cost escalators that are agreed on by Treasury and the EERC. The predominant escalators used are the relevant Non-Governments Human Services Sector (NGHSS) Indexation rate, the CPI rate, and escalators published by the Independent Hospital Pricing Authority (IHPA).

Activity Volumes

The approved Weighted Activity Unit (WAU) targets for inpatient, ED, and outpatient services are based on Age-Weighted Population Growth Rates (AWPGRs) as agreed on by the EERC and Treasury.

Approved WAU targets for specialist mental health inpatient services are negotiated annually with the Mental Health Commission through a purchasing framework. In 2014-15 the forward estimates, and activity volumes for specialist mental health services are expected to be impacted by:

- the development of the *Western Australia Mental Health and Alcohol and Other Drug Services Plan 2015-2025*, which will outline a strategic direction for the State's public mental health services and key areas for future reform
- the implementation of the *Mental Health Services Purchasing Framework*
- the implementation of the *Mental Health Bill 2013* which is expected to bring major changes to current practices and procedures in mental health service provision in WA.

Activity volumes and the overall funding for activity and cost growth are heavily dependent on the national ABF model introduced, and continuing to be refined by, the IHPA. Budget setting issues arising from the national ABF model development are discussed in section 2.3. Further information can also be found in the *National Efficient Price (NEP) Determination 2014-15* released by the IHPA (http://www.ihpa.gov.au/).

2.1.3 Key Funding Sources

The State and Commonwealth Governments are the predominant funders of services delivered by WA Health:

- Under the *National Health Reform Agreement 2011* (NHRA), the State and Commonwealth Governments provide funding for WA health and hospital services through three main payment streams: ABF; Block funding; and Public Health funding.
- In addition to the NHRA contributions, both State and Commonwealth Governments provide further funding for WA health and hospital services, through: State Government appropriations; National Partnership Agreement (NPA) grants; National Specific Purpose Payment grants; and Commonwealth Own Purpose Expenditure.

A further key funding source is the revenue recovered directly by WA Health from private patients, such as workers' compensation and other fees and tariffs collectively known as own source revenues.

2.2 Outcomes of the 2014-15 State Budget

This section highlights the key outcomes from the 2014-15 WA Health Budget.

Further information can be found as follows:

- in the State Budget Papers (http://www.ourstatebudget.wa.gov.au/)
- in the Commonwealth Budget Papers (http://www.budget.gov.au/2014-15/index.htm)
- on the Department of Health website (http://www.health.wa.gov.au/home/).

2.2.1 Overview

For 2014-15, WA Health's total approved expense limit[5] for health and hospital services is $8.009 billion. This represents a 5.9 per cent increase over the estimated out-turn for 2013-14. In 2014-15, WA Health budgeted expenditure:

- accounts for 28 per cent of the State's total expenditure for general government services
- contributes to the delivery of public hospital services (two thirds of the WA Health Budget) and public non-hospital services across WA (one third of the WA Health Budget)
- will enable the WA public hospital system to treat over 607,000 inpatients, about 1,000,000 ED attendances, and deliver over 2,000,000 outpatient procedures.

2.2.2 Total Expense Limit Settings

WA Health's approved expense limit and expense growth parameters for 2014-15 as well as forward estimates are shown in Table 1. The declining growth rate reflects the State Government's current budget strategy to transition WA public hospital services to the national average cost as published by the IHPA (discussed later in this chapter), and lower forecast depreciation and leave liability expenditure. The approved expense limit for 2014-15 is further impacted by a procurement savings measure of $41.1 million impacting on non-essential goods and services expenditure, in both public hospital and non-hospital budget settings.

Table 1: Approved Expense Limit[5]

Year	$'000'000	Growth
2014-15	8,009	5.91%
2015-16	8,276	3.34%
2016-17	8,636	4.35%
2017-18	8,708	0.83%

[5] The total approved expense limit was approved in the 2014-15 State Budget. The 2014-15 approved expense limit is a point in time estimate, and is subject to ongoing State Government decisions during 2014-15, in particular those which may be made during the 2014-15 MYR and 2015-16 Budget processes.

2.2.3 Approved Activity Settings

WA Health approved budget settings provide for the following volumes and growth in WAUs encompassing public hospital inpatient, ED, and outpatient services:

Table 2: Approved Activity Setting

		2013-14	2014-15
Total WA Health Activity Volume	WAU	819,379	842,731
Age Weighted Population Growth Rate (AWPGR)	%	-	2.85%

2.2.4 Approved Price Settings

The ABF-based component of WA Health budget settings (around 7 per cent of the total WA Health Budget) is impacted by the price per WAU, as annually approved by the State Government. As noted above, the State Government's current budget strategy is to transition WA public hospitals to operate within the national average cost published by the IHPA, by 2017-18. Tables 3 and 4 outline the current approved price per WAU (before and after the State Government's procurement savings measures). Both tables highlight the current divergence between the approved price and the national Projected Average Cost (PAC) in 2014-15[6].

Table 3: Approved Price Setting – prior to procurement savings

		2013-14	2014-15
State Price	$ per WAU	5,366	5,540
Growth Rate	%		3.24%
National Average Cost (PAC)	$ per WAU	4,966	5,160
Growth Rate	%	-	3.24%

Table 4: Approved Price Setting – following application of procurement savings

		2013-14	2014- 15
State Price	$ per WAU	5,366	5,512
Growth Rate	%		2.72%
National Average Cost (PAC)	$ per WAU	4,966	5,160
Growth Rate	%	-	3.24%

Under the State Government's approved budget settings for WA Health, the gap between the approved price and the national average cost for public hospital services is being financed through a Community Service Subsidy (CSS) payment. The CSS forms an integral part of WA Health's price convergence strategy as shown at Figures 1 and 2.

[6] Both the PAC and the approved price are subject to annual change. The PAC is dependent on the annual pricing determination and framework released by the IPHA, while the approved price is subject to Government policy.

The CSS represents a commitment from Government to ensuring sustainable health service delivery for the community and budget certainty. This is during a time of unprecedented reconfiguration and commissioning of health services in WA as the State health system transitions to the national ABF model.

Figure 1: Approved Convergence Strategy – prior to procurement savings measure

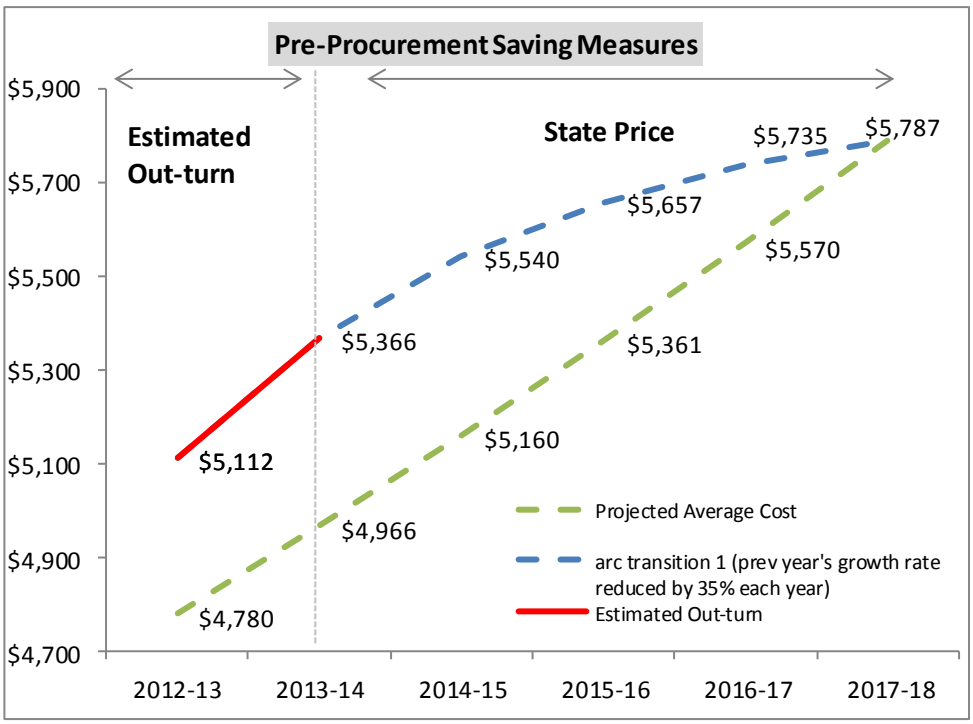
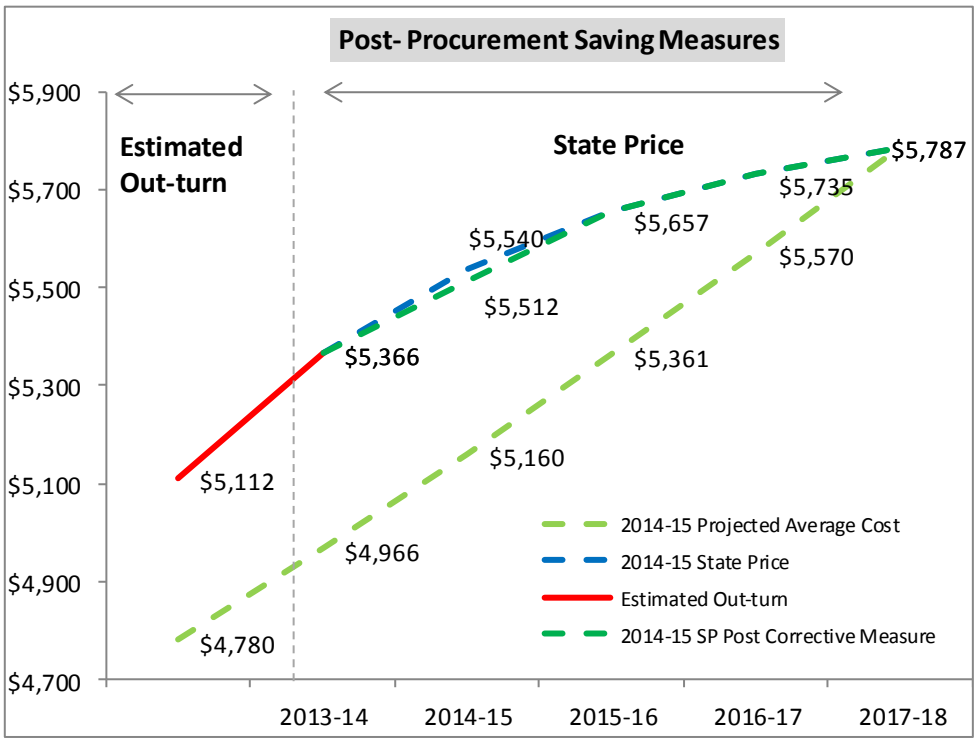


Figure 2: Convergence Strategy – following application of procurement savings



WA Health has commenced work to further investigate and analyse the difference between the current approved price and the PAC, including the commissioning of an independent review. It is considered that there may be a range of unique factors impacting on the costs of health service delivery in this State, including:

- high wages for health system workforce following the mining boom
- aged care bed shortages
- high Indigenous population
- growing populations particularly in the regions
- extreme remoteness
- high socioeconomic disadvantages particularly in the regions
- high reliance of EDs, due to shortfalls in primary care
- health workforce shortages
- lack of private sector alternatives.

The results of the investigation are expected to provide WA Health and the State Government with information on 'avoidable' and 'unavoidable' aspects of the cost divergence. This information should in turn help inform future refinement and delivery of the State Government's price convergence strategy for the 2015-16 Budget cycle.

2.2.5 Approved Cost Escalators

Approved cost escalators underpinning WA Health budget settings for 2014-15 are outlined at Table 5.

Table 5: Cost Escalators in 2014-15 Budget

Description	Cost Escalator	Notes
Health Services	2.7%	Current approved escalated price
Small Hospitals	4.6% (National Efficient Cost or NEC)	As per the IHPA price determined for the National Efficient Cost (NEC)
Non-Government Human Services Sector Indexation	3.5%	Government Policy - NGHSS indexation rate for 2013-14 is 3.5%, and projected rates for the coming years are 3.5% in 2014-15; 3.3% in 2015-16 and 3.3% in 2016-17
Non-Admitted Hospital Mental Health Services	3.9%	As per 2014-15 Draft IHPA price determination
Non Hospital Services	2.5% (CPI)	Consumer Price Index projections applied for 2014-15

2.2.6 Approved Government Initiatives

Key State Government initiatives provided for in 2014-15 Budget settings are as follows.

Fiona Stanley Hospital

In June 2013, the State Government approved a six-month delay in the opening of the FSH and to phase the commissioning of services over a six month period. Under the revised commissioning timeframes, services at the FSH are expected to be fully operational by April 2015. The extended commissioning timeframes for the FSH also impact on the transitioning of services within major hospitals in the South Metropolitan Health Service (SMHS).

Transitioning for these hospitals will begin in October 2014, and will be completed when the FSH is fully operational in April 2015. Key budget initiatives are as follows:

- Commissioning and SMHS Reconfiguration - additional funding of $75.0 million in 2014-15 to complete commissioning activities for FSH and reconfigure services across major hospitals in the SMHS.
- Facilities Management Contract Negotiations - additional funding of $52.7 million in 2014-15 to renegotiate contractual arrangements for the provision of facilities management services at FSH, following the decision to phase the commissioning of FSH services over a further six months.
- ICT - additional funding of $27.7 million for FSH ICT in 2014-15. This funding, (together with new funding of $12.4 million provided in 2013-14) will enable the development, procurement, and deployment of appropriate ICT systems and networks at the FSH site. Improved capture and availability of information will allow the SMHS to deliver timely, safe, high quality, and reliable care for patients.

Aboriginal Health Services

In 2014-15, additional investment of $32.328 million has been committed to Aboriginal Health Services under the *WA Footprints to Better Health Strategy* (FTBH). The FTBH Strategy is a statewide program aimed at improving health outcomes and reducing the life expectancy gap between Aboriginal and non-Aboriginal Western Australians.

The program builds on the former *Closing the Gap in Aboriginal Health* and the *Indigenous Early Childhood Development* programs, and will ensure there is continued investment in services that promote prevention, early intervention and self-care, as these have been shown to play a critical role in ensuring good health outcomes. The program will increase access to quality health care and create jobs for Aboriginal people in health care.

Replacement Laboratory Information Systems

Total funding of $29.4 million is provided over four years from 2014-15, to enable the acquisition and implementation of a new pathology information system for WA. This system will ensure the ongoing safety and quality of healthcare and facilitate operational cost efficiencies including electronic document processing and improved sample tracking.

Stabilising the Existing ICT Platform

Total funding of $21.5 million over four years is provided from 2014-15, to stabilise WA Health's existing ICT platform including the replacement of the existing Windows XP operating system. Stabilisation of the existing ICT platform will ensure the confidentiality and integrity of information and overall business continuity for WA Health users.

Mental Health

In 2014-15, additional funding of $14.0 million will be provided for mental health programs with a focus on: suicide prevention; specialist aboriginal mental health; community living support; and community intervention.

Perth Children's Hospital

During the 2013-14 MYR, the State Government approved an additional investment of $230.2 million of which $181.9 million capital funding is for PCH ICT. A further $48.3 million was provided over four years for the transitioning of the new PCH of which $20.29 million is allocated in 2014-15.

Royalties for Regions

The RfR program continues to facilitate significant regional hospital infrastructure developments as well as service delivery in regional WA:

- Busselton Hospital ICT - The Busselton Health Campus redevelopment is due to be completed in late 2014. WA Health is developing and implementing ICT functionality at this facility, with $10.7 million committed for this project over two years through the RfR program, including $4.2 million in 2014-15.
- Deployment of ICT infrastructure at the Busselton Health Campus will improve patient experience, health service efficiency and quality of care in hospital and health facilities across the South West region.
- Residential Aged and Dementia Care - Additional funding of $10.0 million is provided in 2014-2015 to attract private and not–for-profit residential aged care providers to deliver services or to build and operate new facilities in these communities.
- 2014-15 to attract private and not-for-profit residential aged care providers to deliver services or to build and operate new facilities in these communities.

Other

NPA on *Treating More Public Dental Patients* - the State signed a new NPA with the Commonwealth on treating more public dental patients. The total funding emanating from this agreement is $28.9 million with $18.8 million expenditure to be incurred in 2013-14 and $10.1 million in 2014-15.

Further information on these initiatives can be found in the State Budget Papers at: http://www.ourstatebudget.wa.gov.au/.

2.2.7 Approved Infrastructure Investment

WA Health is managing a health service infrastructure program totalling approximately $6.9 billion. WA Health's infrastructure program represents approximately 15 per cent of the State's Asset Investment Program for 2014-15. Key infrastructure investments provided for in 2014-15 Budget settings are as follows:

- $1.6 billion - FSH
- $1.2 billion - PCH
- $360 million - Midland Health Campus
- $218 million - Joondalup Health Campus

- $207 million - Karratha Health Campus
- $120 million - Busselton Health Campus.

Further information can be found in the State Budget Papers (http://www.ourstatebudget.wa.gov.au/).

2.3 Issues and Risks Impacting on WA Health Budget Settings

The WA health system is expected to face many budgetary challenges over 2014-15 and the forward estimates are outlined below. These challenges present WA Health with significant opportunity to implement service delivery and financial management innovations to ensure the sustained delivery of safe and quality healthcare for Western Australians.

2.3.1 Growing demand for healthcare

Demand for healthcare in WA continues to rise. The key factors contributing to this growth include a growing and ageing population, rising community expectations, advances in medical technology and an increase in the number of people with chronic illness. Against this context, the sustainability of WA Health budget settings will require the ongoing development and implementation of demand management programs, clinical services re-design, and rigorous management of health service budgets.

2.3.2 System Change, Transition Management and Infrastructure

The WA health system is undergoing a period of unprecedented change. There is a considerable program of work underway in: metropolitan and regional infrastructure development; clinical service reconfiguration; and ICT development. There is also a considerable program focusing on reform of procurement, governance, and hospital revenue generation. The scale of this reform and transition creates uncertainties and risks for WA Health budget settings and will need close monitoring and management.

2.3.3 National Reform of Public Hospital Funding

In response to growing pressures on both Commonwealth and State Government budgets, there is ongoing reform to the funding arrangements for public health and hospital services. As discussed below, while a transitional approach to the reform provides a reasonable degree of budget stability, ongoing funding volatility is still expected as WA Health budget settings continue to be adjusted for national consistency and for local fiscal circumstances.

Commonwealth Government funding of public hospital services

WA committed to the NHRA in 2011 along with other States and Territories. Under the NHRA the Commonwealth agreed to fund 45 per cent of the efficient cost of growth of in-scope hospital services from 1 July 2014. Over the period 2014-15 to 2019-20, the NHRA also provided for a funding guarantee (totalling $16.4 billion across all States and Territories) to ensure that no jurisdiction is disadvantaged under the new model.

As part of the 2014-15 Federal Budget, however, the Commonwealth has unilaterally adjusted the terms and conditions of the NHRA. The original NHRA provided for the Commonwealth's contribution to increase 50 per cent from 1 July 2017. The Commonwealth has, however, announced that from 2017-18 a new funding arrangement will be established for public hospitals, with the expectation that future Commonwealth contributions will be indexed by CPI and AWPGR. The funding guarantee has also been withdrawn, with the aim of giving States

and Territories a stronger incentive to increase the efficiency and effectiveness of public hospital services over 2014-15 and the forward estimates period.

A key feature of the NHRA has been the establishment and implementation of a national ABF framework. A transitional approach has been adopted, with the Commonwealth providing a guaranteed level of funding between 2010-11 and 2013-14. The IHPA has worked with the Commonwealth, States, and Territories to establish reliable and nationally-consistent counting and classification systems for measuring hospital activity and costs, as well as a national pricing framework.

As shown below, the transitioning of national ABF will be completed during 2013-14 and, from 1 July 2014, Commonwealth funding for WA public hospital services will depend on delivery of a volume of activity as agreed between the Commonwealth and State Governments.

Table 6: Level of Commonwealth Funding to WA under the National ABF program

	2010-11	2011-12	2012-13	2013-14	2014-15
Commonwealth Funding to WA	Guaranteed	Guaranteed	Guaranteed	Guaranteed	**Dependent On Activity**

Additionally, from 1 July 2014, Commonwealth funding of public hospital services will be based on the NEP. The Commonwealth will pay the NEP for each National Weighted Activity Unit (nWAU) of hospital activity. The NEP is based on the PAC of a nWAU after the deduction of specified Commonwealth funded programs such as Highly Specialised Drugs and the Pharmaceutical Reform Agreement.

State Government funding of public hospital services

In accordance with the NHRA, WA Health's 2014-15 Budget is aligned with the national ABF arrangements. As such, in the 2014-15 WA Health Budget, the State Government:

- measures and approves WA Health's hospital activity in WAUs
- approves a price for WAUs that is informed by the national ABF pricing framework as published by the IHPA.

Given that the NEP represents a Commonwealth pricing perspective, it is not directly applicable for determining State Government funding of public hospital services. The NHRA permits the State Government, as system manager, to contribute above or below the price set by IHPA to take account of local conditions and requirements.

Currently, State Government pricing is based on the national PAC, which is derived from actual average reported costs of public hospital activity and is, on average, around 3.0 per cent higher than the NEP. As discussed earlier, the price paid by the State Government for WAUs is also escalated by a CSS payment. This is intended to provide budget stability, as State public hospitals converge their cost structures to the national average cost over the forward estimates period. The different prices in use at this time are summarised in Table 7.

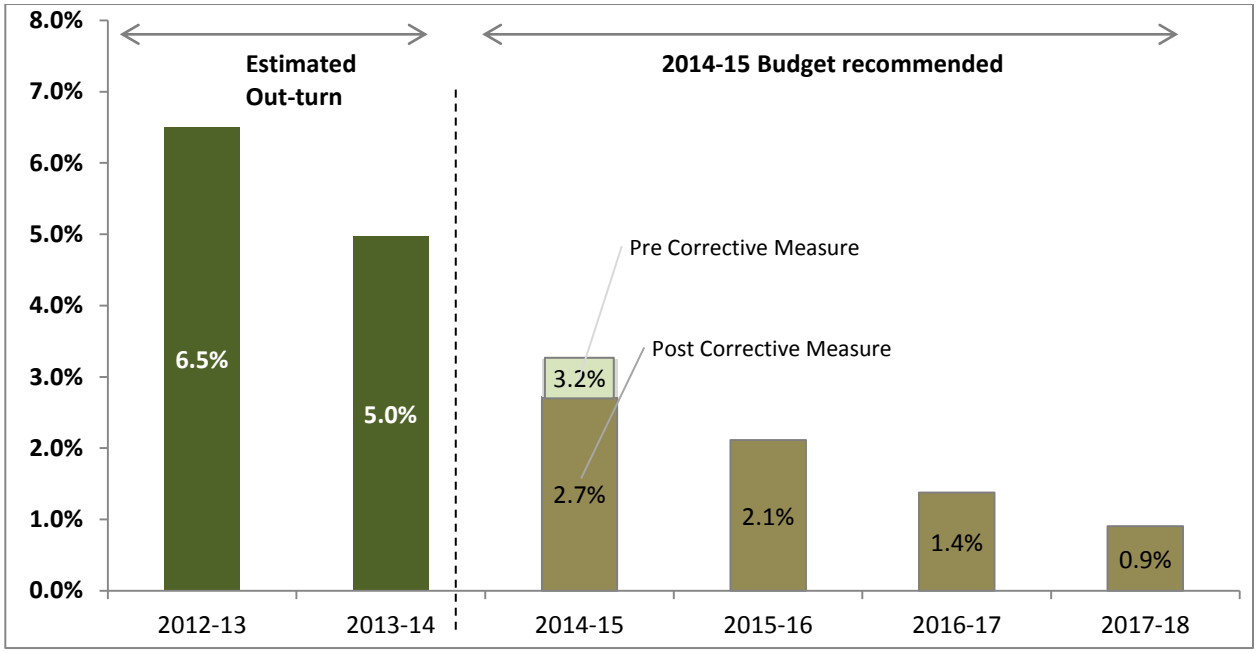
Table 7: National and State Prices

		2013-14	2014-15
NEP	$/nWAU	4,817	5,005
PAC	$/nWAU	4,966	5,160
State Price (pre-corrective measures)	$/nWAU	5,366	5,540
State Price (post-corrective measures)	$/nWAU	5,366	5,512

A specific budget setting risk for WA Health is the ongoing update and improvements to the national ABF model. Annually, the national ABF model reflects these changes to the counting and classification systems for public hospital services. The impact of these updates will decrease over time as the national ABF model becomes more robust. In the medium term, however, the ongoing counting and classification changes can result in fluctuating activity volumes, costs and prices that are of an 'accounting nature' and not necessarily due to service delivery or efficiency reasons.

In establishing WA Health Budget settings, the EERC and Treasury have been cognisant of the evolving nature of the national ABF model. Nonetheless, there are considerable expectations on public hospitals to achieve significant cost growth reductions over 2014-15 and the forward estimates, in order to meet the State Government's price convergence strategy.

Table 8: Annual cost growth reductions associated with the State Government's price convergence budget strategy



As shown, the State Government's approved strategy to converge to the national average cost for hospital services requires achievement of annual cost growth reductions from 5 per cent annual growth (2013-14 estimated out-turn) to 0.9 per cent annual growth by 2017-18. Achievement of this strategy is necessary for sustainable budget settings. While this will be a challenging target for health services, development and implementation of transition plans will ensure targets are achieved.

2.2.2 Implementation of Activity Based Funding for Public Hospitals in WA

In 2014-15, WA will be in its fifth year of ABF implementation. As ABF is further embedded within WA Health operations, it will become the primary basis for WA Health planning, budgeting, resource allocation, and the management of activity and financial resources. It is anticipated that it will deliver safe, high quality health services for the WA community.

During this transitional implementation of ABF and across the forward estimates, continuing investment and attention will be given to strengthen ABF capability in the WA health system. A range of strategies have been identified and are being progressed, including: the improvement of communication and transparency in budget formulation and allocation; and closer engagement with the Health Services and clinicians in the implementation of ABF.

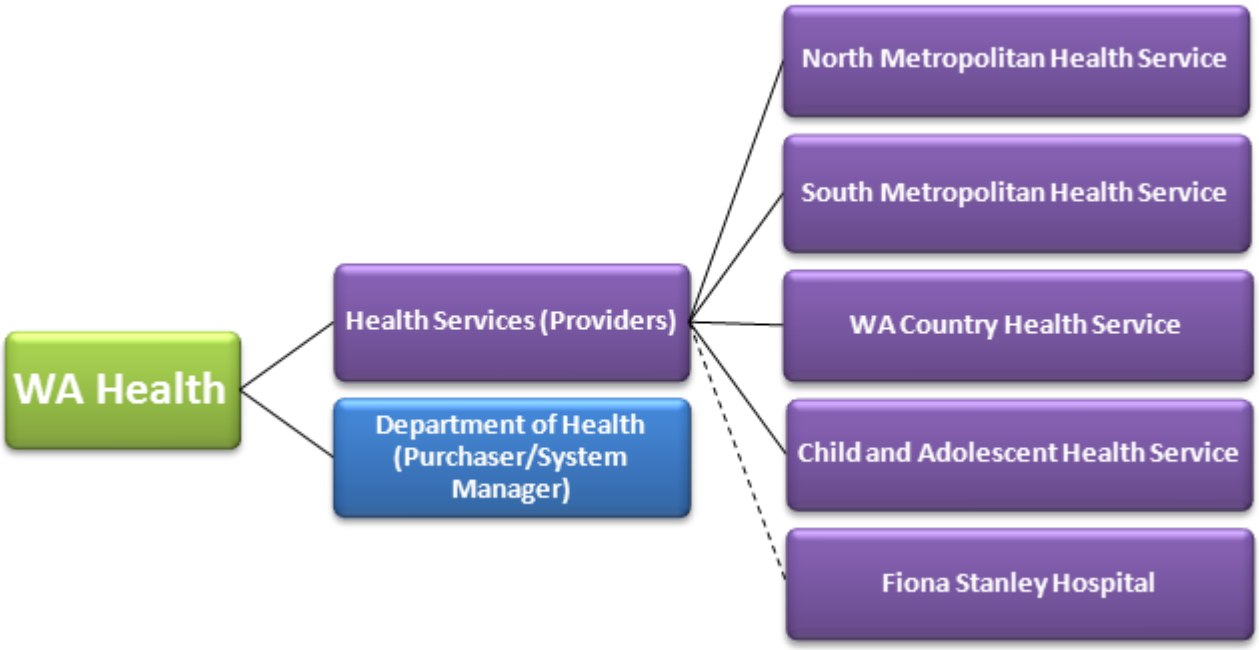
Further information regarding the NHRA, implementation of ABF and associated reforms can be found on the Public Hospital Funding website (http://www.publichospitalfunding.gov.au/) and in Chapter 3 of this document.

3 Budget Allocation

The WA ABF Operating Model for 2014-15 is the mechanism that sets out the budgeted activity levels for the delivery of activity based funded health services in WA public hospitals. Actual ABF and non-ABF funding allocations are dependent on the WA State Government budget. The WA Operating Model has been developed to take account of the national ABF program which commenced across Australia from 1 July 2012.

The ABF methodology is based upon the principle of clear delineation of the roles of the purchaser (the Department of Health) and the providers (the Health Services). The clarity of roles and delineation is one of the key advantages of ABF over other funding methodologies.

Figure 3: WA Health Purchaser-Provider Structure for ABF/ABM Implementation



3.1 Funding Principles and Models

The 2013-14 and 2014-15 WAU targets in the State Budget were set in conjunction with Treasury utilising AWPGR as the activity growth rates. The activity growth rate for 2014-15 is 2.8 per cent.

The ABF model utilised to calculate and fund WAUs is the national model developed by the IHPA. This is detailed in the NEP Determination 2014-15 (www.ihpa.gov.au). There are a limited number of differences in the WAU profiles for the Health Services which are outlined below. The national ABF model is updated annually with improvements and changes to the classification systems for public hospital services.

These changes can introduce 'scaling' effects between years that need to be taken into account in the overall budget setting process with the Treasury and subsequently in developing activity profiles for Health Services.

The health system overall is currently tracking close to the total ABF 2013-14 targets across all services (inpatient, ED, and non-admitted), however, there is variability between the health services and also across services types.

3.1.1 Methodology for the Allocation of Activity

The 2014-15 inpatient and ED activity targets were developed by considering the overall performance in 2013-14 against activity targets and by using the 2012-13 actual activity outcome. This was escalated by the most recent Clinical Services Framework and the capacity demand modelling growth parameters across 2013-14 and 2014-15.

For non-admitted activity, 2013-14 year-to-date actuals were used to develop the base activity escalated for growth in 2014-15. This approach reduced the current variability across health services and takes into account changes in the system that have not been consistent with previous versions of the capacity and demand modelling growth parameters.

The activity profiles were built using the IHPA 2014-15 model as per the NEP determination. The distributional effects introduced by the updated model will need to be evaluated, particularly any effect on the inpatient Mental Health activity targets. Matters related to activity profiles that have been raised by Health Services will be taken into consideration during this build process.

The activity profiles previously developed for the reconfiguration of the SMHS and the phased opening of FSH were updated using the IHPA 2014-15 model parameters.

Overall activity profiles will be reconciled to the activity profile in the State Budget and all available activity allocated. There will be no activity or associated funding to be allocated through the year by the Budget Transfer Authority process.

3.1.2 Local Modifications to the Independent Hospital Pricing Authority Model

Outlined below are local modifications to the IHPA model 2014-15 activity profiles:

- Ambulatory Surgery Initiative activity is not in-scope for the NHRA. Activity related to this program is based on IHPA schedules but is discounted for the medical cost components that are Medicare Benefits Schedule funded. The scaling factor to adjust for the medical costs component is based on costing data.
- The weighted activity related to the contracted satellite dialysis services in the metropolitan area has been scaled to return the expenditure related to the contracts. This is less than hospital delivered dialysis. This will be reviewed using 2012-13 National Hospital Cost Data Collection data.
- The Service Agreements for WA Country Health Services include hospitals that under the current IHPA definition are treated as Community Service Obligation sites. This will be reviewed as part of a NEP and NEC analysis process.
- The inpatient mental health activity is consistent with the IHPA 2014-15 model. The exception to this is Graylands Hospital activity which is developed using costing and bed-state data. This approach has been used due to the impact of long stay patients on the Graylands campus. WA is participating in the national development of a revised Mental Health classification system and it is anticipated that this issue will be addressed.

- The agreements for the provision of public hospital services with private providers are not consistent with the national ABF model. To facilitate performance reporting for the WA Health and reporting to State Government the agreed activity as specified under these agreements will be converted to the equivalent IHPA 2014-15 model activity profiles.
- Service Agreements are developed for an expenditure profile which includes weighted activity related to private patients. The IHPA model applies a discount for this to offset revenue that States and Territories receive from other funding sources.

3.1.3 Pricing Principles for Health Service Allocations

The 2013-2014 Service Agreement budgets for activity were based on the PAC of $5,152 per WAU. This price was applied to WAUs. An additional price loading was applied to the adult tertiary sites at $170 per WAU. This equated to an additional $26.0 million for the North Metropolitan Health Service (NMHS) and an additional $35.1 million for the SMHS.

The PAC for 2014-15 is $5,162 per WAU. The price settings referenced in the 2014-15 State Budget are the 2014-15 PAC and the State Price (SP) of $5,540. The final SP is $5,512 inclusive of price efficiencies and whole of government corrective measures ($28 per WAU lower than the approved SP of $5,540 per WAU).

The SP includes $320.2 million funding to support the health system to transition to the PAC by 2017-2018. This additional $320.2 million funding is the CSS available to the health system in 2014-15. Refer to section 3.2.1 for information on the methodology for distribution of the WA Health Budget.

3.1.4 Migrating to the National Efficient Price and the National Efficient Cost and Allocating the Community Service Subsidy

Given the 2013-14 calculated price for the estimate out-turn is $5,366 under the SP for 2014-15, this provides a price escalation of 3.2 per cent to reach the 2014-15 SP. To provide price stability for 2014-15, it is proposed to increase the ‘base pricing’ applied in 2013-14 by 2.7 per cent.

Applying these pricing principles to the activity profile for 2014-15 will determine the residual CSS available for targeted strategic decisions. A preliminary estimate of the CSS available for strategic priorities is approximately $110 million, notwithstanding further work to develop the 2014-15 activity profiles and final pricing decisions.

3.1.5 Adjustments

It is recognised that there are legitimate and unavoidable variations in the costs in delivering hospital services. Some of these costs have been recognised by the IHPA in the NEP determinations. Other costs specific to WA are reflected through the CSS. The IHPA is responsible for determining the national adjustments to the NEP. The 2014-15 adjustments are outlined in Table 9.

Table 9: National ABF Adjustments 2014-15

Name	Amount to be applied
Intensive Care Unit (ICU) Adjustment	0.0426 nWAU(14)/hour spent by that person within the Specified ICU
Indigenous Adjustment	Admitted Acute, Emergency or Non-admitted Patient: 4% Admitted Subacute Patient: 17%
Radiotherapy Adjustment	24% (for all admitted patients with a specified International Classification of Diseases 10th Revision Australian Modification 8th edition radiotherapy procedure code recorded in their medical record)
Outer Regional Adjustment	7% (for all admitted patients)
Remote Area Adjustment	15% (for all admitted patients)
Very Remote Area Adjustment	21% (for all admitted patients)
Acute Admitted Paediatric Adjustment	Refer to column headed "Paediatric Patient Adjustment" in the tables of Price Weights (Appendix F, NEP Determination 2014-15, IHPA)
Admitted Subacute Paediatric Adjustment	196%
Private Patient Service Adjustment	Refer to column headed "Private Patient Service Adjustment" in the tables of Price Weights (Appendix D, NEP Determination 2014-15, IHPA)
Private Patient Accommodation Adjustment	Refer to Appendix D, NEP Determination 2014-15, IHPA for applicable discount
Specialist Psychiatric Age Adjustment (≤ 17 years)	40% (except patients admitted to a Specialist Children's Hospital, who will receive 30 %)
Specialist Psychiatric Age Adjustment (65 to 84 years)	5%
Specialist Psychiatric Age Adjustment (≥ 85 years)	9%

Source: IHPA National Efficient Price Determination 2014-15

3.1.6 Block Funded Programs for 2014-15

Consistent with the national ABF model developed by the IHPA as per the NHRA, the following public hospital services are block funded:

- Non-Admitted Mental Health
- Teaching, Training, and Research (TTR)
- Community Service Obligation (CSO) sites.

The IHPA has a work program to develop a new mental health classification system that would include admitted and non-admitted services. This is expected to be available for data collection in 2015-16 for implementation in the national ABF model in 2016-17. Until that time, non-admitted mental health services will continue to be block funded under the NHRA.

Under the NHRA, the IHPA is required to implement an activity based TTR funding model by 2017-18. Recent work has been undertaken to develop definitions for TTR that would be included in such an activity based model.

The definitions have recently been endorsed by the IHPA Board and will be published on the IHPA website (www.ihpa.gov.au). In the interim, TTR continues to be block funded under the NHRA.

The NEC determination for 2014-15 defines the funding model for CSO sites. While the definition for what is considered to be a CSO site may be adjusted, the overall principle of CSO sites under the NHRA will remain. For more information on the NEC determination visit the IHPA website (www.ihpa.gov.au).

Non-Admitted Mental Health

The principles applied in the State Budget build was to escalate the 2013-14 block funded amount by both cost and activity growth parameters. The proposed Health Service allocations will be consistent with this approach.

In the initial development of FSH profiles there was no non-admitted Mental Health Services in the FSH Clinical Plan. With development of the Mental Health inpatient clinical profile it has now been identified that there is a requirement for a range of non-admitted services at FSH. This matter will be considered in both the Mental Health Work Stream and the FSH Work Stream.

Teaching, Training, and Research

The allocation for TTR in 2014-15 will be consistent with the methodology used in 2013-14 where the funding allocation relates to the activity profiles for each site. The Teaching Training and Research percentage allocations will be developed along with the activity profiles consistent with the costing methodology. The allocation available in the State Budget included both cost and activity growth from the 2013-14 allocations.

Community Service Obligations – Small Rural Hospitals

There are currently 21 WA Country Health Service (WACHS) sites that are ABF funded in the 2013-14 WACHS Service Agreement. Under the current IHPA definition, 14 of these sites are considered CSO sites. An analysis of the 14 sites will be undertaken to compare the NEC 2014 and ABF 2014 funding. This analysis should inform the decision making on any change to the treatment of these 14 sites in 2014-15.

3.1.7 Special Purpose Programs in 2014-15

Special Purpose Programs are the services provided via Health Services that are not included in the ABF activity profile. The funding allocation for these services is via various sources such as: Commonwealth programs; decisions of the EERC; Election Commitments; and services which are not deemed consistent with ABF.

For services that have specified decisions, the funded amount in 2014-15 will be as per the agreed funding decision. For services that are not deemed consistent with ABF, the funding in 2014-15 will be the 2013-14 funding escalated for cost growth.

3.1.8 National Partnership Agreement Funding in 2014-15

The funded activity profiles for each health service will be inclusive of the NPA funding. NPA funding not related to activity delivery will be clearly identified. The programs being developed under NPAs in 2014-15 will be fully funded for the year in the initial budget profile.

3.1.9 Relevant WA Health Publications

The Health Activity Purchasing Intentions 2014-15 (HAPI) is the overarching WA Health document in a suite of 2014-15 ABF purchasing documents. It should be read in conjunction with other ABF documents, including:

- Annual Performance Management Framework 2014-15 (PMF)
- Admissions, Readmissions, Discharge and Transfer Policy (ARDT)
- WA Health Clinical Services Framework 2010-2020
- Managing in an Activity Based Funding Environment
- Clinical Casemix Handbook

All ABF/ABM documents published by the Department of Health will be available from the ABF/ABM website at: www.health.wa.gov.au/activity. Purchasing priorities and contracts identified by WA Health over the next five years will be informed by a hierarchy of policy and planning processes, including:

- State and Commonwealth Government policy and purchasing priorities
- WA Health Clinical Services Framework 2010-2020
- WA Health Strategic Intent 2010-2015.

These documents are all available at www.health.wa.gov.au. It is worth noting, however, that Commonwealth policy settings around the NHRA and ABF funding are not certain, and both are subject to potential changes in the future from the Commonwealth.

3.2 WA Health Budget Allocation

3.2.1 Methodology for Distribution of the WA Health Budget

For 2014-15, the Department of Health will continue to use an activity based allocation methodology aligned with the CSF for Health Services. In broad terms, this methodology includes:

- Activity based allocations continuing to be based on the established growth outlined in the CSF and its demand and capacity modelling
- Adjustments for circumstances such as budget constraints; contracted privately-provided public hospital services; post-CSF arrangements; and/or other relevant reasons.

Block funded services are cost escalated and grown by an expected population growth factor.

3.2.2 Health Services

The ABF allocation for the Health Services is determined by multiplying the PAC by the targeted volume of activity, expressed as WAUs. The budget is built by describing volume in WAUs by the Health Services' PAC which is $5,162 for 2014-15 (as per the Service Agreements).

Health Services allocate budgets to their respective hospitals based on a model that reflects expected activity and a price per WAU. Under the WA ABF Operating Model, the funding allocation to Health Services is based on target activity levels for each service stream of their respective Health Services. The allocation is determined by multiplying the Health Service Allocation Price (HSAP) by the targeted activity volume, expressed as WAUs.

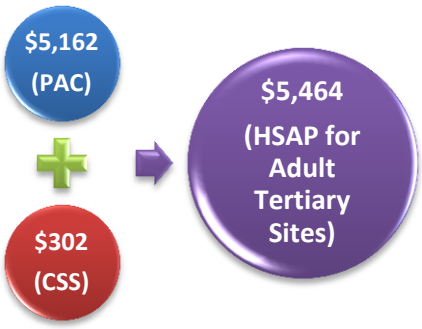
Figure 3: ABF Funding Allocation for Health Services

The allocation of funding related to the CSS is identified in individual Health Services' Service Agreements.

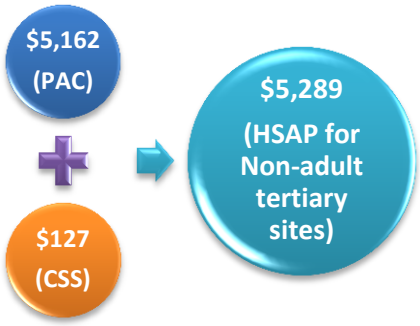
The HSAP has been developed to provide equity, stability, and sustainability in managing ABF funding allocation for WA Health Services. The HSAP is made up of the PAC and CSS payment. There are two HSAP prices for 2014-15: the CSS for adult tertiary sites (Royal Perth Hospital, Fremantle Hospital, FSH, Sir Charles Gardner Hospital; and King Edward Memorial Hospital) is $302 and the CSS for non-adult tertiary sites is $127 (see Figure 4).

Figure 4: HSAP for Adult Tertiary Sites and HSAP for Non-Adult Tertiary Sites

HSAP for Adult Tertiary Sites



HSAP for Non-Adult Tertiary Sites



As per the 2014-15 Budget, the State's public hospitals are expected to converge to the PAC by 2017-18.

3.2.3 Department of Health

The Department comprises: Office of the Director General; Office of the Deputy Director General; Resource Strategy Division; Performance Activity, and Quality Division; Office of the Chief Medical Officer and System Policy and Planning; Office of Mental Health; Innovation and Health System Reform; Office of the Chief Psychiatrist; and Public Health and Clinical Services Division.

For 2014-15, the Department will continue to use a budget-to-budget methodology for Departmental divisions. This methodology includes the following steps:

- The starting point for the 2014-15 Budget for Departmental divisions is the approved 2013-14 Budget. The 2013-14 Budget is adjusted to remove one-off items that will not occur in 2014-15.
- The adjusted 2014-15 Budget is then further adjusted for known price movements such as cost of award changes and expected CPI changes.
- The budget is then adjusted to take account of other known changes, for example: new initiatives; organisational re-alignments; or the cessation of activities that were previously carried out. All adjustments at this stage are done at the 2014-15 cost level.

3.2.4 Statewide Support Service

The Statewide Support Service comprises the following entities: PathWest; Dental Health Services; Health Corporate Network; and Health Information Network. Budgets for 2013-14 for the Statewide Support Service were set using a budget-to-budget construction, similar to the process set out above for the Departmental divisions.

3.2.5 Mental Health Services

The Department and the Mental Health Commission have developed a joint purchasing framework for mental health services provided by WA Health. The *Mental Health Services Purchasing Framework* for WA was delivered in October 2012 and subsequently endorsed by both the Department and the Mental Health Commission. It sets out the strategic purchasing intentions for public mental health services across WA.

In 2014-15, an over-arching annual Service Agreement between the Mental Health Commission and the Department of Health will be developed. The Department of Health, the Office of Mental Health, and the Mental Health Commission will work closely to ensure alignment of relevant Service Agreements and associated schedules. The continual development of clear processes and schedules will allow for more transparent funding allocations and monitoring at Health Service level in 2014-15 and subsequent financial years.

A 10 year plan, the *Western Australia Mental Health and Alcohol and Other Drug Services Plan 2015-2025,* will also be developed to outline a strategic direction for the State's public mental health services and key areas for future reform.

3.2.6 Public Hospital Funding Flows

The *National Health Funding Pool Act 2012* gives effect to the State's commitments under the NHRA. This act provides for:

- appointment of the administrator of the National Health Funding Pool
- flow of Commonwealth and State funds for public hospital services through State Pool Accounts and State Managed Funds
- consequential amendments to the *Hospitals and Health Services Act 1927* and the Lotteries Commission Act 1990.

Further information and access to relevant legislation is provided at: http://www.publichospitalfunding.gov.au/.

Figures 4 and 5 show the State and Commonwealth public hospital funding flows for both ABF and non-ABF public hospital services.

Figure 4: State and Commonwealth ABF Funding Flows for Public Hospital Services

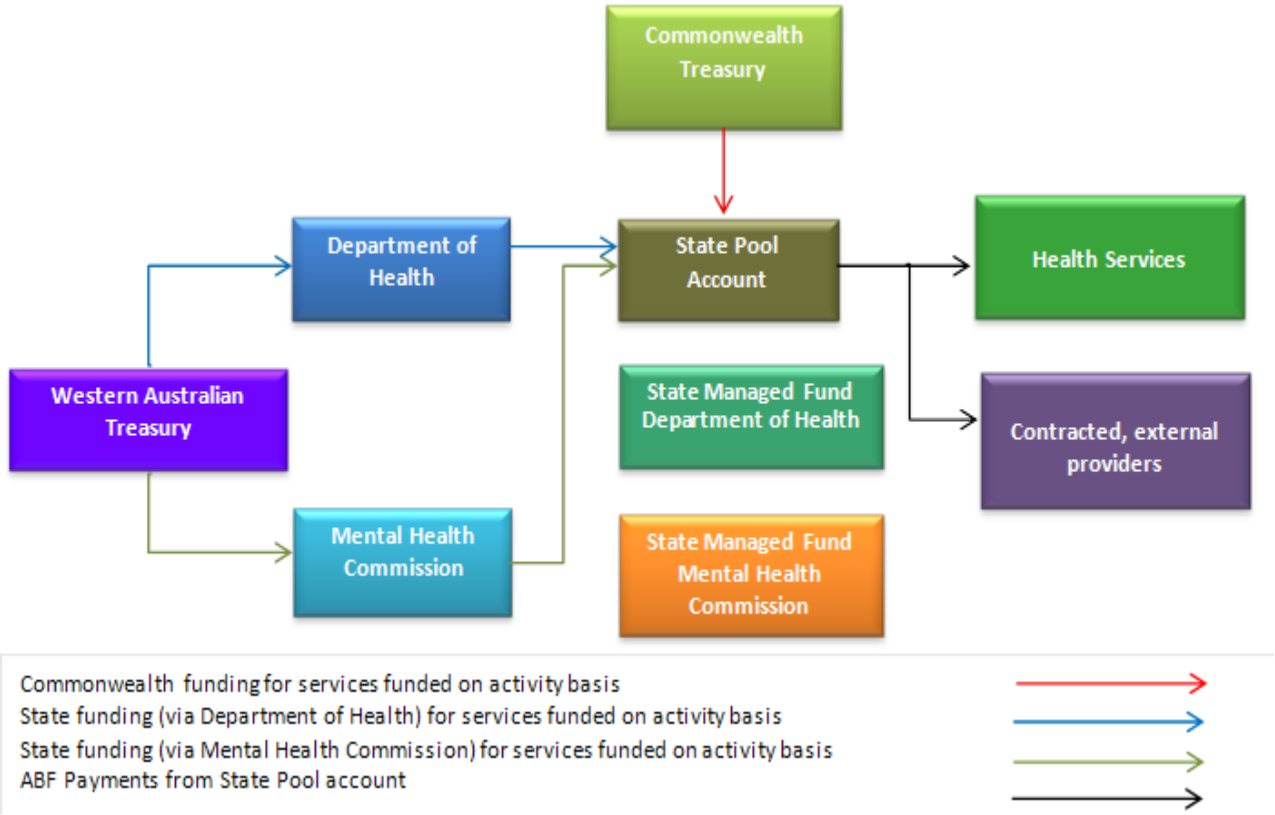
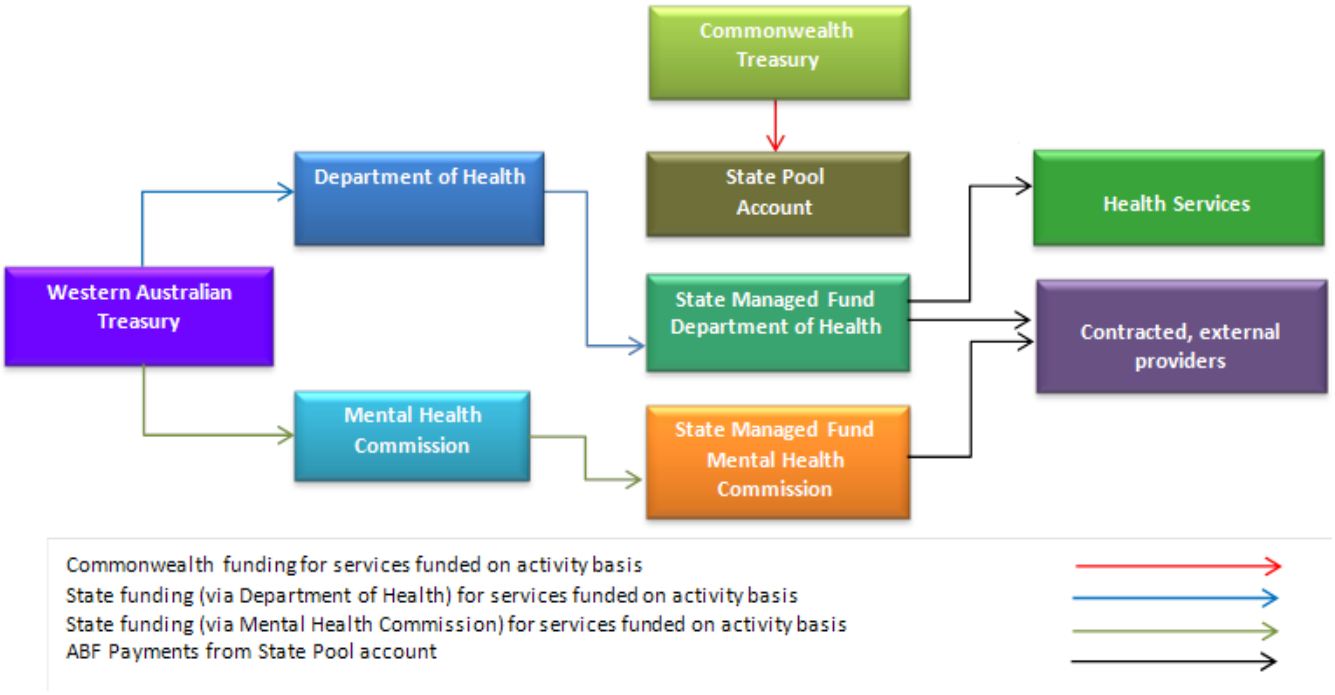


Figure 5: State and Commonwealth Block Funding Flows for Public Hospital Services



A breakdown of the Health Services Budget allocations, the non-health services budget allocations and the mental health budget allocations is provided at **Appendices A, B and C** respectively.

4 Service Performance, Accountability, and Reporting

4.1 Key Performance Indicators and the Performance Management Framework

In 2014-15, WA Health's activity purchasing will once again require the application of ABF and ABM which in practice requires an Annual Performance Management Framework (PMF). The PMF for 2014-15 details the specific operation of ABF/ABM across the WA health system in 2014-15.

The PMF was introduced in 2010-11 for ABF-funded hospitals in WA to consolidate performance reporting, monitoring, evaluation, management and intervention. In its fifth year, the PMF will continue to progress its maturity with: the introduction of vertical equity; the inclusion of private facilities providing public services, the addition of a clinical coding quality indicator; and the adoption of protocols to display results when cell suppression rules are applied within the Health Service Performance Report. In addition, the ongoing alignment to State and national priorities will ensure that the PMF 2014-15 maintains its relevance both locally and nationally.

The PMF 2014-15 continues to be aligned to State and National strategic priorities. The Health Activity Purchasing Intentions 2014-15 provides details on the annual purchasing priorities and ABF/ABM policy drivers for the Department of Health. The PMF 2014-15 should be read in conjunction with other Department of Health documents and publications including the following:

- Annual Performance Management Framework 2014-15
- WA Strategic Plan for Safety and Quality in Health Care 2013-2017
- ABF/M Performance Management Report Performance Indicator Definitions Manuals

4.1.1. Performance Reporting, Monitoring, Evaluating and Management

The PMF involves a system of reporting performance against specified Key Performance Indicators (KPIs) for each Service Provider.

The 2014-15 PMF has 22 KPIs, targets and thresholds for Performance Rating and 35 Health Service Measures and targets. The new Health Service Measure on the quality of clinical coding is the only additional indicator in the PMF 2014-15. Each KPI is accompanied by a Data Quality Statement and an Outcome Statement. Data Quality Statements are designed to sufficiently inform users of the quality of data enabling confidence in the decisions being made concerning performance management. Outcome Statements provide insight to users in determining the relevance of a KPI, enabling them to form a more reasonable opinion of the intent of results presented.

Reporting on the performance of Service Providers against the PMFs KPIs and Health Service measures is produced on a monthly basis, with the level of performance assessed against an agreed target. This takes the form of a Performance Management Report which is an online interactive scorecard, with four levels of performance assessed against agreed targets. The four level performance results are used to calculate an overall 'Performance Score' for facilities and Health Services. The Performance Score is calculated each month, to provide an indicative summary of performance across all KPIs for a facility and Health Service. The Performance Score will be complemented by three composite scores that focus on key priority areas.

The performance of Service Providers is monitored regularly against the KPIs, benchmarks and thresholds specified in the PMF in conjunction with the Performance Score. Performance review meetings will be held monthly between the Department of Health and each Health Service. Sustained high performance may lead to less frequent performance review meetings. More frequent meetings will be held where there are emerging performance deterioration or significant, continuous under performance.

Health Service Performance Report

In addition to the Performance Management Report, a Health Service Performance Report (HSPR) will also be published in 2014-15. The HSPR refocuses performance expectations around a core set of performance indicators which underpin an effective purchaser provider relationship.

The HSPR also benchmarks performance to assist in comparison between health services and between facilities and provides a performance analysis to support better decision making across the system. The HSPR aims to provide a more targeted and timely information and analysis to assist in managing performance and supporting better decision making. The HSPR and Health Service Performance Report forms the basis of performance review meetings between the Department of Health and each health service.

The HSPR will provide a departmental assessment of the performance of each health service – highly performing, performing, underperforming and not performing.

The performance rating will be based on:

- performance against the indicators listed in the HSPR
- performance concerns identified by the Department of Health or others
- other relevant information, including the implementation of strategic priorities, recovery plans (to fix within year issues) and transition plans (to transition to the PAC)
- whether the performance of the health service is improving, stable or deteriorating.

Actions Arising from Performance Assessments

The Department of Health will also determine the subsequent actions required to monitor performance or correct any performance concerns – standard monitoring or assistance required.

The level of intervention will be based on:

- the seriousness of performance concerns
- the likelihood of rapid deterioration

- the level of support required to sustain health service operations or manage risks
- progress towards existing recovery plans
- persistent and emerging financial risk
- other demonstrated performance deficits.

Standard Monitoring

Performance review meetings are held monthly between the Department of Health and the Health Service. Sustained high performance may lead to less frequent performance review meetings. The basis of discussion will be the information and analysis provided in the Health Service Performance Report.

The meetings aim to assist health services to proactively manage issues, with appropriate support to achieve performance targets and avoid the need for further action. The discussion will be interactive and enable the Health Services to raise relevant issues. The meeting will cover previously agreed actions, flag potential or emerging performance issues, and identify risks affecting future performance. Actions and requirements of the Health Services and the Department of Health will be clearly recorded.

Each quarter the performance review meeting will also involve a more in-depth discussion about the Performance Management Report and the Quality Composite Score. The Governing Council of the health service will be invited to attend this meeting.

Assistance Required

If the Department of Health determines an assessment of 'Assistance Required' a range of responses maybe applied, including:

- More frequent meetings between the Department of Health and the health service.
- Development of recovery plans by the health service to address performance concerns, including analysis of the drivers of poor performance, mitigation strategies and implementation plans.
- Appointment of external resources, parties and expertise to assist the health service to address performance concerns.
- Implementing a peer collaboration model whereby health services assist each other in regards to addressing performance concerns.
- A requirement to undergo a department-sanctioned audit.
- Independent reviews, the scope of which is determined as appropriate to address the performance concerns, but which may include a review of the health service's management capability.

It is proposed that a further review of the PMF and associated data/systems requirements will be undertaken during the 2014-15 financial year.

4.1.2 Service Agreements

The PMF forms the Health Services' Service Agreements (SAs) between the Director General of Health as the delegated 'Board' and the Health Services. The SAs, in turn, form the basis of the Personal Performance Agreements between the Director General of Health, Health Service Chief Executives and Executive Directors, who have a direct accountability for delivery of health services.

Service Providers operate in an environment of delivering the services set out in the SA. The SA is informed by the WA CSF 2010-2020, specifying the scope of services and target levels of activity for a facility. The SAs ensure that the State Government's policy objectives on service delivery are clearly set out and provide the basis for both payment and evaluation of performance. The performance management of the SAs is undertaken as prescribed in the PMF. The Service Agreements are available to download from: http://www.health.wa.gov.au/.

4.2 Data Collection Requirements

4.2.1 National Data Collection Requirements

WA is a signatory to the National Healthcare Agreement 2012 (NHCA). Under the NHCA all parties have agreed to provide data for the National Minimum Data Sets listed at Schedule A of the Agreement.

Nationally the IHPA utilises health activity data from states and territories and health costing data to inform the NEP and NEC determinations. IHPA receives activity data from each jurisdiction on a quarterly basis. This data includes inpatient admissions, emergency department presentations and outpatient appointments as well as a range of mental health and rehabilitation services.

In addition to activity data, each year the IHPA receives cost data from jurisdictions via the National Hospital Cost Data Collection (NHCDC). The NHCDC collates the vast majority of health system costs at a 'product' level.

4.2.2 National Classifications

Classifications aim to provide the health care sector with a nationally consistent method of classifying all types of patients, their treatment and associated costs in order to provide better management, measurement and funding of high quality and efficient health care services.

IHPA uses the classification systems to determine the amount of funding a hospital requires to provide treatments and care, using it as one of the determinants for calculating the national efficient price. There are six patient service categories in Australia currently which have classifications being used nationally or in development stage:

- Admitted acute care
- Subacute and non-acute care
- Non-admitted care
- Mental health care
- Emergency care
- Teaching, training and research.

For 2014-15 there will be an increase in health activity types subject to ABF. Health activity needs to be identified and counted in a standardised manner to be adequately funded. Establishing national standards for activity based data collection and analysis is significant ongoing national work. The current classification system can be found at: http://www.ihpa.gov.au/internet/ihpa/publishing.nsf/Content/Classifications.

4.2.3 Compliance with WA Health Data Collection Requirements

Improvements in health activity capture will influence revenues and purchasing. Health Services have an obligation to report activity in an accurate and consistent manner in order to ensure equitable and efficient resource allocation and funding.

Clinical coding staff and clinicians work together to ensure timely and accurate clinically coded information is available. Health activity is recorded through a number of electronic mechanisms across WA Health. These data collections are used to make decisions on purchasing, budgets and funding. Further information about the importance of coding, counting and clinical documentation is contained in the Clinical Casemix Handbook which is available at: http://www.health.wa.gov.au/activity/publications/.

The WA Admissions, Readmission, Discharge and Transfer (ARDT) Policy is the overarching framework for the rules and criteria that govern counting and labelling of inpatient activity across the State. The ARDT was developed to ensure reliable activity data is used for reporting, revenue and purchasing functions. It outlines the requirements for ensuring consistent and meaningful data collection in a range of settings. It was launched in 2011 and is updated annually to reflect State and national changes. The most recent ARDT policy can be located at: http://www.health.wa.gov.au/activity/publications/.

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Table of Commonly used Acronyms and Abbreviations

ABF	Activity Based Funding
ABM	Activity Based Management
ARDT	Admission, Readmission, Discharge, and Transfer Policy
AWPGR	Age-Weighted Population Growth Rate
CAHS	Child and Adolescent Health Service
COAG	Council of Australian Governments
Commission	Mental Health Commission
CPI	Consumer Price Index
CSF	Clinical Services Framework
CSO	Community Service Obligation
CSS	Community Service Subsidy
Department	Department of Health
DG	Director General
ED	Emergency Department
EERC	Economic and Expenditure Reform Committee
EOT	Estimated Out-turn
FPPG	Finance, Purchasing, and Performance Group
FSH	Fiona Stanley Hospital
FTBH	Footprints to Better Health Strategy (Aboriginal Health)
Government	Government of Western Australia (State Government)
HAPI 5	Health Activity Purchasing Intentions, 5th Ed.
Health Services	WA's four Health Services: CAHS, NMHS, SMHS and WACHS
HSAP	Health Service Allocation Price
HSPR	Health Service performance Report
HSM	Health Service Measure
ICT	Information and Communications Technology
IHPA	Independent Hospital Pricing Authority
KPI	Key Performance Indicator
LHN	Local Hospital Network
Management Report	Health Service Management Report
MYR	Mid-Year Review
NEAT	National Emergency Access Target
NEC	National Efficient Cost
NEP	National Efficient Price
NGHSS	Non-Government Human Services Sector
NHCA	National Healthcare Agreement 2012
NHCDC	National Hospital Cost Data Collection
NHRA	National Health Reform Agreement 2011
NMHS	North Metropolitan Health Service
NPA	National Partnership Agreement
nWAU	National Weighted Activity Unit
PAC	Projected Average Cost
PCH	Perth Children's Hospital
PMF	Performance Management Framework
RfR	Royalties for Regions
SA	Service Agreement

SHEF	State Health Executive Forum
SMHS	South Metropolitan Health Service
SP	State Price
TTR	Teaching, Training, and Research
Treasury	Department of Treasury
WA	Western Australia
WA Health	Department of Health and Health Services (WA public health system)
WACHS	WA Country Health Service
WAU	Weighted Activity Unit

Appendix A

2014-15 Budget Allocations

Table 1: Total Expenditure Profile by Health Service for 2014-15			
	Activity Based Funded Services[1], [2]	**Non Activity Based Funded Services[3]**	**Total Approved Expenditure ($ million)**
Child and Adolescent Health Service	292,265,765	239,391,341	**531.7**
Fiona Stanley Hospital	321,792,174	234,491,290	**556.3**
North Metropolitan Health Service	1,596,680,703	378,835,585	**1,975.5**
South Metropolitan Health Service	1,585,879,508	315,822,539	**1,901.7**
WA Country Health Service	804,805,740	791,432,611	**1,596.2**
TOTAL	**4,601,423,890**	**1,959,973,367**	**6,561.4**

(1) Expenditure includes Joondalup and Peel Health Campus
(2) Includes Community Service Subsidy
(3) Includes Procurement Savings

Table 2: Total Weighted Activity Unit(s) Profile by Health Service for 2014-15				
	Inpatient	**Emergency Department**	**Non Admitted**	**Total Weighted Activity Unit[1]**
Child and Adolescent Health Service	36,345	7,986	10,928	**55,259**
Fiona Stanley Hospital	43,929	5,971	8,993	**58,893**
North Metropolitan Health Service	170,382	20,553	38,633	**229,567**
South Metropolitan Health Service	195,573	33,236	43,066	**271,875**
WA Country Health Service	95,255	34,802	16,437	**146,494**
TOTAL	**541,484**	**102,548**	**118,057**	**762,089**

(1) The WAU does not include Joondalup and Peel Health Campuses

Appendix B

2014-15 Non-Health Service Budget Allocations

Non-Health Service Allocations	
Budget Holder	**2014-15 Allocation ($ million)**
Health Information Network	124.2
Health Corporate Network	78.9
PathWest	282.6
Dental Health Services	81.4
QE II Medical Centre Trust	6.6
QuadCentre	13.4
TOTAL	**587.3**

Note: Component figures might not sum precisely to totals due to rounding.

Department of Health Allocations	
Budget Holder	**2014-15 Allocation ($ million)**
Office of the Director General (including Office of the Deputy Director General)	74.6
Innovation and Health System Reform	410.3
Performance, Activity, and Quality	197.7
Public Health and Clinical Services	111.7
System Policy and Planning	28.9
Resource Strategy	37.3
Office of the Chief Medical Officer	59.4
Office of the Chief Psychiatrist	1.5
Residual CSS (allocation by approval of the Director General)	48.0
Unallocated nWAUs	7.5
Yet to be allocated (predominately Depreciation)	3.7
TOTAL	**980.6**

Appendix C

2014-15 Mental Health Budget Allocations

Mental Health ABF and Block Allocations			
	Activity Based Funded Services ($) 2014-15	**Block Funded Mental Health Expenditure ($) 2014-15**	**Total ($ million)**
Child and Adolescent Health Service	17,306,674	43,904,392	61.2
Fiona Stanley Hospital	5,105,017	900,801	6.0
North Metropolitan Health Service	124,956,950	114,139,101	239.1
South Metropolitan Health Service	93,945,898	93,316,896	187.3
WA Country Health Service	24,420,275	62,204,330	86.6
TOTAL	**265,734,814**	**314,465,520**	**580.2**

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