

**Human Service Partnership Implementation Committee**

**29 October 2007**

**Price Review Framework**

<b>DHS Output (NGO related outputs only)</b>  <u>HSPIC Meeting – 29/10/07</u>	<b>Comment</b>	<b>Price Review Status</b> date = completed ○ = underway ● = planned ✖ = not planned z – <b>Not amendable</b>			
<b>Mental Health</b>					
Psychiatric Disability Rehabilitation and Support					
<ul style="list-style-type: none"> <li>Most activities</li> </ul>	Includes, HBOS, Day Programs, Planned Respite, Residential Rehabilitation & Aged intensive.	Completed July 2005			
<ul style="list-style-type: none"> <li>Psychiatric Disability Rehabilitation and Support - Koori</li> </ul>	Currently underway. Funding is likely to be backdated to 1 Jul 2007 (Subject to outcome of review and transition arrangements)	Underway	○		
<ul style="list-style-type: none"> <li>Psychiatric Disability Rehabilitation and Support Mutual Support and Self Help,</li> </ul>		Completed December 2006 - funding backdated to July 2006	○		
<ul style="list-style-type: none"> <li>Psychiatric Disability Rehabilitation and Support – Supported accommodation</li> </ul>	Subject to a successful 2008-09 ERC outcome	Underway	○		
<i>Supported accommodation is the final PDRSS activity to have prices reviewed.</i>					
<b>Aged and Home Care</b>					
Aged Care Assessment					
Aged Support Services					
HACC Primary Health, Community Care and Support					
Aged Residential Care					
<b>Disability Services</b>					
Individual Support					
<ul style="list-style-type: none"> <li>HomeFirst</li> </ul>			○		
<ul style="list-style-type: none"> <li>Day Programs</li> </ul>				●	
<i>A more comprehensive list of the programs is being sought from Disability as requested</i>					
<b>Public Health</b>					
Health Protection					
Health Advancement					
Public Health Development, Research and Support					
Breast screening					
<b>Child Protection &amp; Family Services</b>					
Client Placement Support Services (31217)	There are two block funded sub activities: intensive Case Management Services and Innovative Support Services. ICMS only to be reviewed.. Refer also 31218			●	
Placement Prevention Programs (31218)	There are three block funded sub activities: Intensive Case Management Services, Family Preservation Services, Innovative Support Services. ICMS only to be reviewed. Refer also 31217			●	
Child Protection Specialist Services					
<ul style="list-style-type: none"> <li>Intercountry Adoption</li> </ul>	Fee for service	Fee schedule update 2002			
<ul style="list-style-type: none"> <li>Local Adoption</li> </ul>		2004			
<ul style="list-style-type: none"> <li>Aboriginal Family Restoration Services</li> </ul>		2004			
<ul style="list-style-type: none"> <li>Adoption Information and Support Services</li> </ul>				●	
<ul style="list-style-type: none"> <li>Intensive Treatment Services</li> </ul>					z
<ul style="list-style-type: none"> <li>RICE Education and Youth Services</li> </ul>				●	
Placement and Support Services					
<ul style="list-style-type: none"> <li>Home Based Care – Therapeutic Foster Care (31413)</li> </ul>			○		
<ul style="list-style-type: none"> <li>Home Based Care – Permanent Care (31138)</li> </ul>	Activity price to be adopted			●	

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• Home Based Care Intensive (31418)		May 06			
• Home Based Care – General (31214)		May 06			
• Home Based Care – Complex (31216)		May 06			
• Home Based care – Adolescent Community Placement (31205)		May 06			
• Residential Care services (31345)	Fair Pay Commission price adjustment (4.21% FYE over 1 July prices) paid from 1 Dec 2006. Review of current model commencement – to include costing of new model		○		
• Residential Care services – Case management (31416)			○		
• RICE Education and Youth Services (TIERS) (31164)			○		
• Lead Tenant (31188)				◐	
<b>Family and Community Services</b>					
• Family Services (31230) : now called Integrated Family Services <small>Services' (new Activity 31245) incorporating ChildFIRST</small>		June 03 review 2007-08 is planned			
• Innovations (31236) now called Integrated Family Services- <small>new activity 31246</small>		June 03 review 2007 - 08 is planned		◐	
• Indigenous & Family Violence (31244)		May 04			
• Family Violence Support Services (31233)		May 05			
• Men's Family Violence Services (31240)		May 05			
• Sexual Abuse Treatment Services (31241)	Replaced Sexual Assault & Abuse	2004			
• Sexual Assault Support Services (31235)	Replaced Sexual Assault & Abuse	2004			
• Sexually Abusive Behaviour Treatment Services (31242)	Relaced Sexual Offender Treatment	May 07			
• Parenting Services (31232)				◐	
<b>Housing Assistance</b>					
Homelessness Assistance **shift from input to output, not a price review		1 July 07	○		
Long Term Housing Assistance **one element to be reviewed before 1 January 2008				◐	
Social Housing Advocacy and Support		1 July 06			
<b>Primary and Dental Health</b>					
Community Health Care					✱
<b>Drugs Services</b>					
Drug Treatment and Rehabilitation					
• Home-based Withdrawal	Review Not planned				
• Alcohol & Drug Supported Accommodation	Previously reviewed as preliminary work for 2005-06 ERC bid on supported accom model but no outcome – model and price currently being reviewed				✱
• Specialist Pharmacotherapy Program	Review planned				✱
• Drug Prevention and Control	Consists of many activities not unit priced and not subject to review				✱
• Community Residential Drugs Withdrawal Services	Reviewed and price increased Nov 2005	Nov 2005			
<b>Small Rural Services</b>					
SRS Acute Health		TBA			
Some other output/activities				◐	
<b>Juvenile Justice &amp; Youth Services</b>					
Community Based Services					
• School Focussed Youth Service (32125)				◐	
• JJ Support Services (32124)	Activity funds various services				✱
• Adolescent Mediation (Finding Solutions) (32129)		Jul 04			
• Adolescent Support				◐	
• Youth Services				◐	

<b>Early Years Services</b> <i>Now reporting through Education and Early Childhood</i>					
Child Health Services					
• Early Parenting Centres			○		
• Maternal & Child Health – Universal (18047)	MAV currently reviewing cost basis of this and below activities with Office for Children participation		○		
• Maternal & Child Health – Enhanced (18097)			○		
• Parenting Assessment & Skill Development (18311)			○		
• Best Start	There are two block funded sub activities: Aboriginal and non Aboriginal				z
<b>Kindergarten and Child Care Services</b>					
• ACFE Child Care (18096)				●	
• Kindergarten Inclusion Support					
• Kindergarten Program (18009)					
• Kindergarten Cluster Management (18077)	Was Kindergarten Group Employment				
• Take a Break Child Care Program (18005)					
• Indigenous Kindergarten Services				●	
<b>Early Childhood Intervention Services</b>					
• ECIS					
• Strengthening Parents					x

# PRICE REVIEW FRAMEWORK

## PREAMBLE

This Price Review Framework was approved as a working document at the HSPIC meeting of 29 October 2007.

## Introduction

This framework is a guide for program staff and service providers to use when service prices are being reviewed. It addresses the need for consistency and transparency. It will be reviewed annually by the Department and reported on to HSPIC to ensure that it maintains an effective approach.

The Department of Human Services provides funding to community organisations to provide services for the Victorian public.

Funding is provided through set prices paid for specific service outputs. Service Providers receive payment for outputs delivered as set out in their Service Agreement with the Department.

Prices have been developed through a range of mechanisms. Many activities funded by the Department have been subject to price review and costing exercises in recent years.

Since 2003, prices paid to non-government organisations have been annually indexed.

An intent of the Price Review process is progressing from historical based costing to a costed service model focussed on enabling appropriate levels of service outcomes.

This framework provides an approach to the conduct of price reviews.

## Guiding Principles for Price Review

The following principles have been developed as an overarching framework for the conduct of pricing reviews.

- Price reviews and the pricing outcome will be transparent and create a shared understanding for both the Department and the Sector of the parameters for delivering the service by NGOs. *(Point 1)*
- Price reviews will be conducted in consultation with affected peak bodies and service providers in line with the 'Collaboration and Consultation Protocol', October 2004. *(Point 2)*
- Price reviews will take into account the full costs of delivering services and include:
  - costing approaches using verifiable data where possible, or models and assumptions where appropriate
  - consideration of full or partial funding and other contributions to the costs of services delivery such as fees or co-payments where appropriate. *(Point 3)*
- Pricing policy should reflect efficient and effective business and service delivery practices, be flexible in respect of the particular nature of a service and manner in which it is delivered. *(Point 4)*
- Where appropriate, price reviews will be cognisant of the requirements of Commonwealth/State Agreements and existing unit cost or price review methodologies that may be set out within them. *(Point 5)*
- In the event that a proposed unit price is not sufficient to maintain current levels of service delivery, other solutions such as the reconfiguration of the service model or target changes should also be considered. *(Point 6)*

## Agreeing a Price Review

If the sector via VCOSS, the peak organisation(s) and/or affected service providers, or the Department considers a price review may be appropriate the following factors will be taken into account in agreeing that a price review will be undertaken:

1. Evidence of substantial increases in costs, supported by analysis of existing data gained from reports such as the FAR.
2. Evidence of technological changes that have a significant impact on service delivery and costs.
3. Evidence of structural changes in inputs, eg. qualifications, staff ratios now required by (DHS agreed) service standards.
4. Practical considerations such as the size, time since a price review, materiality and complexity of the review in light of pricing reviews already underway.

5. Evidence of the substantial redevelopment of a service model, new legislation significantly impacting on the service model or changes in client complexity.

If it is agreed a price review will occur, the Division and the Sector representative/s will advise the parties involved that a review is occurring. Discussions will be commenced with the Peak Body to agree the timeframe, consultation, data collection and governance arrangements for the review. The price review will proceed in line with the agreed price review framework and methodology.

Where the consideration indicates a price review is not required, consistent with the commitment to transparency established under the Partnership Agreement and during the NGO Price Index negotiations, the Division will share with the parties the reasons the review is not required.

## Price Review Methodology

This methodology includes a series of steps to be considered when conducting a price review. It is intended to be used as a guide, whilst allowing flexibility for programs to determine the most appropriate approach for particular service sectors.

Where it is agreed and there is a shared commitment that a particular program or service activity is to be reviewed, the process should commence with a discussion of and agreement on the review process including:

- Staff resources available for the review
- Timeframe for the review
- Consultation process and communication arrangements
- Data collection arrangements
- Governance arrangements

The methodology for price review will be in line with this framework and involve the following steps:

### **Activity and Service Delivery Model**

A first step is to identify all relevant information about the activity under review, and ensure the activity is well defined. What is the expected service delivery model? What is the target client group? What is the unit of service?

### **Current Price**

Gather and examine pricing and policy information including the current prices paid to service providers to deliver this output. This should include consideration of:

- The nominal price – ie. rate per unit of output paid through the Service Agreement;
- Other funding which may contribute to the same service (ie. the same outputs), including:
  - block funding
  - asset investment
  - minor capital
  - major service redevelopments
  - other non-base funding
  - other income sources (eg: fees, donations)

Some determination needs to be made as to which of these contribute to the cost of delivering units of service, and which are true one-off funding arrangements.

### **Price Policy**

At this stage of the price review the program should also gather information on any stated policy in regard to the current price. In particular:

- What is the department trying to achieve for the price, for example quality, outcomes, efficiency, and so forth?
- Is the current price expected to fully cover the cost of delivering the service?
- Is there a policy on whether service providers are expected to – or permitted to – charge fees from clients for the service? Is this policy explicit?

- Are there any other forms of co-payment explicit or implicit in the pricing?
- Is there any expectation that the service providers will contribute a proportion of the costs from fundraising or other revenue? Again, is this expectation explicit?
- Is there any expectation that voluntary effort will deliver part of the overall costs of delivering the service? Is this explicit?

### ***Other Issues***

Are there any other known issues in relation to the price? Consideration of data regarding agency viability should occur. Review the analysis of agency Financial Accountability Reports.

It may also be appropriate to consider pricing policies and models in other states.

### **Costing Exercise**

A costing exercise will be undertaken to determine reasonable costs of delivering the service.

An appropriate method will be chosen to determine costs. Where possible there should be general agreement to the process as outlined in the attachment "Monitoring of the Progress of Price reviews".

Some possible approaches to Data Collection include:

- Collect cost information from service providers
- Collect cost information through peak bodies
- Undertake costing exercise based on estimates and award rates
- Undertake costing exercise accessing data from Agency Financial Accountability Reports
- Mix of the above
- The costing exercise will take into account the full costs of delivering the service. This will include salaries, operational costs and overheads
- Identify key cost drivers
- Use attached costing tool
- Consider appropriate treatment of fixed, stepped and variable costs
- Consider treatment of direct and indirect costs
- Document rationale for any exclusions
- Consider comparative costs and variance between types/categories of service providers

Consideration should be given to external factors that may affect assumptions about agency costs.

### **Modelling and Comparison**

The costing exercise will provide a basis for determining whether a new price is warranted. Some modelling may need to be undertaken at this stage to determine the potential impact of any new price.

Determine the impact on existing targets: if the figure resulting from the above costing exercise were applied as the new price for the activity, what would the total impact be? This may be modelled in various ways:

- Is the new price affordable within current budget settings?
- Is any potential variation in the level of targets appropriate?
- If the full costing model has incorporated a wider range of non-salary items – eg. maintenance, vehicle costs, etc, consider possible reductions in block, capital and non-base funding. (Note that funds released in this way, may be able to be re-allocated to fund implementation of the new prices).

The purpose of this exercise is to identify the service impact of a revised price, and determine the gap (if any) that may emerge.

For example:

- Is there a funding gap?
- If so, how great is the shortfall?
- What is the impact on existing agency budgets?
- Does funding need to be re-distributed between agencies?

## **Policy Review**

With all the information above, consideration can be given to whether the funding assumptions or policy is appropriate.

As indicated above, it should be noted that if previous prices were known not to include full costs, and significant additional non-price funding has been provided (eg. block grants, minor capital, non-base funding, etc); then it may be that a full cost based approach can result in a reduction in these other forms of funding. In other words if the unit price is comprehensive, then the need for other forms of supplementary funding should diminish.

## **Plan Implementation**

Enough information has now been gathered to propose a new price structure.

Programs should consult with regions about the proposed pricing and implementation issues.

Consideration needs to be given to possible approaches to implementation of the proposed price. What's the most realistic, achievable strategy for enabling implementation of the new price/s?

## ***Principles for Implementation of New Prices***

Some principles should drive the implementation process:

- The Department will work with the sector to achieve a manageable transition to the new pricing structure and minimise its impact on affected agencies.
- Where a service provider's targets are increased or decreased, a reasonable period of time should be allowed to enable gradual increase or decrease in service delivery.
- Where targets are increased, service providers should be supported in finding ways to improve efficiency and increase output.

## **Consultation**

Consultation is agreed to be a part of the price review process. In recent years successful price reviews have actively engaged the sector throughout the process.

The Department is committed to a collaborative process of price review. As part of this, the relevant Division and the Sector will write to the agencies affected by the price review and the Divisions will advise their own staff.

A key goal is to achieve a reasonable level of agreement and understanding between the department, peaks and agencies about the new prices to be set by DHS.

Consultation will be conducted at various points throughout the price review process, as indicated in **Attachment Four – 'Monitoring of the Progress of Price Reviews'**.

The Communication and Collaboration Protocol established between the Department and the sector should guide consultation.

## **Implementation**

Once agreement has been reached, implementation plans developed above should be reviewed. The program will need to consider some further implementation issues:

- Communication with the sector and regions
- Monitoring compliance – ensuring consistent application of prices across all regions
- Monitoring of other non-price based funding to service providers.

## Price Review Tool

### Program & Activity Details

Program Name: \_\_\_\_\_

Activity Name(s): \_\_\_\_\_

Activity Number(s): \_\_\_\_\_

### What is the Unit of Service?

What is the unit for funding?

*Eg. hour of service, episode of care, EFT, bed day, etc*

How is this defined?

*Eg. Episode of care = the end-to-end service to a client on one "admission" or episode.*

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### Has there been any changes that have affected the cost?

*Eg:*

*Is there evidence of other substantial increases in operational costs, supported by analysis of existing data gained from reports such as the FAR?*

*Is there evidence of technological changes that have a significant impact on service delivery and costs?*

*Have there been changes in levels of client complexity?*

*Have there been significant changes to relevant legislation or the service model?*

*Is there evidence of structural changes in inputs, eg. qualifications, staff ratios now required by (DHS agreed) service standards?*

*Practical considerations such as the size, time since a price review, materiality and complexity of the review in light of pricing reviews already underway?*

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## Service Model Redevelopment

*Has there been any redevelopment of the service model? Consider whether this may impact on the cost of delivering of the service.*

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## Additional Sources of Funding

*Is there an expectation that service providers charge fees? \_\_\_\_\_*

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*Is there any regulation or other restriction on service providers charging fees?*

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*Is there a rebate on the service? \_\_\_\_\_*

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*What are the other sources of funds?*

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## Cost Analysis

This may be used to assess the total annual cost per Full Time Employee. The price per unit or episode of care may be calculated by dividing the annual FTE cost by the number of episodes of care the worker is delivering per annum.

1. Identify which costs are relevant to the service activity model
2. Include rationale for including OR not including costs in the price

Item	Rate % of total cost	Amount \$	Rationale
<b>Salaries</b> (see separate sheet for details)			
<b>Salary Oncosts</b> <ul style="list-style-type: none"> <li>• Workcover</li> <li>• Long Service Leave</li> <li>• Leave loading</li> <li>• Superannuation</li> <li>• Allowances</li> </ul>			
<b>TOTAL SALARY COSTS</b>			
<b>Staff-related costs</b> <ul style="list-style-type: none"> <li>• Training</li> <li>• Recruitment</li> <li>• Other</li> </ul>			
<b>Travel</b> <ul style="list-style-type: none"> <li>• Kilometre allowance</li> <li>• Vehicle running expenses</li> <li>• Other</li> </ul>			
<b>Accommodation and office costs</b> <ul style="list-style-type: none"> <li>• Rent</li> <li>• Rates &amp; charges</li> <li>• Building repairs and maintenance</li> <li>• Insurance (liability and premises)</li> <li>• Furniture and office equipment</li> <li>• Computers (leasing / depreciation, IT software, maintenance, licencing)</li> <li>• Phone, fax, internet</li> <li>• Stationery</li> <li>• Postage</li> <li>• Utilities (electricity, gas, water)</li> <li>• Cleaning</li> <li>• Other</li> </ul>			
<b>Management overheads</b> <ul style="list-style-type: none"> <li>• Central functions/operations</li> <li>• Governance</li> <li>• Strategic development: includes partnership &amp; interagency work</li> <li>• Accreditation /registration review</li> <li>• Other</li> </ul>			
<b>Service Costs</b> <ul style="list-style-type: none"> <li>• Leasing of vehicles</li> <li>• Purchase of equipment</li> <li>• Consumables</li> <li>• Other Service and/ or Project Costs</li> </ul>			
<b>TOTAL OPERATIONAL COSTS</b>			
<b>TOTAL OVERALL COST</b>			

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## Salaries

What is/are the relevant award/s? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What is the workforce model for this activity?

*Eg:*

- *Number of staff at specified classifications within the award/s*
- *Salary rate/s*
- *Number of EFT*
- *Available/productive hours (how calculated)*
- *Penalty rates / allowances*
- *Total salaries*
- *Other*
- 

Details (use separate sheet if necessary):

Determine the appropriate rate for Workcover and calculate salary oncosts:

Workcover	%
Long Service Leave	%
Leave Loading	%
Superannuation	%
Total	%

## Other Information/Details

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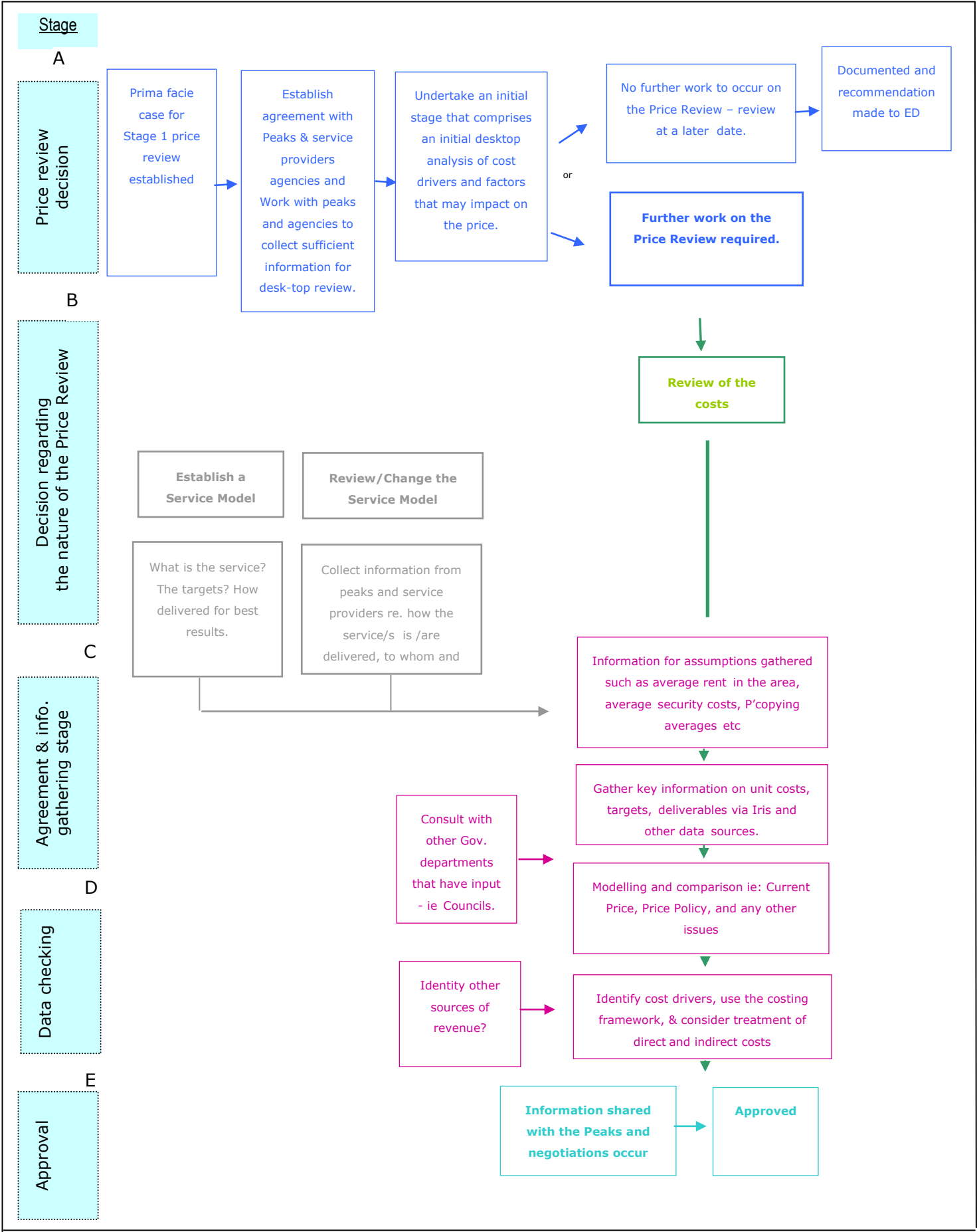
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# ATTACHMENT THREE – BROAD STEPS



# ATTACHMENT FOUR: Monitoring of the Progress of Price Reviews

Department of Human Services

**Year:**

**Division:**

	Price Review Initial Agreement		Agreement to the Process	Data		Outcomes	Approval
<b>Activity</b>	Price Review initiated - 00/00/00	Agreement to the process completed - 00/00/00	Methodology: Consultation process agreed: - dd/mm/vv Steering Committee Arrangements agreed: - dd/mm/vv Data Collection Arrangements agreed- - dd/mm/vv  <b>Comments</b>	Data supplied to DHS - 00/00/00	Data analysed by DHS - - 00/00/00	Outcomes of review finalised dd/mm/vv	Price Review completed