

Department of Health

health

Price review framework
Health services in the community sector

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Introduction

The Department of Health (the department) ensures high-quality, effective and equitable health and health-related services are available for all Victorians.

Through service agreements, the department funds a variety of community service organisations (CSOs) to provide services. This funding is in the form of set prices for specific outputs.

The department recognises the importance of a partnership relationship with CSOs and their significant role in delivering services to the community on behalf of the state. This was highlighted in the Victorian Auditor-General's report *Partnering with the community sector in human services and health*.

In addition, the department is a signatory to the *Partnership in practice memorandum of understanding 2009–2012* with the health, housing and community sector. This agreement reaffirms the ongoing commitment to a shared vision and strengthened relationship between the department and the sector. It acknowledges that the best service outcomes are the product of collaboration, inclusive planning, efficient public policy and clear service-funding agreements.

The department's portfolios include:

Health

- Healthcare services through the public hospital system, community health services and ambulance services
- Health promotion and protection through emergency management, public health and related preventative services, education and regulation

Mental Health

- A range of alcohol and drug prevention and treatment services
- The public mental health service system consisting of clinical services and psychiatric disability rehabilitation and support services

Aged Care

- Residential and rehabilitation care for older people, along with support and assistance to enable them to remain independently in their own homes

The department undertakes a systematic process of price reviews and costing exercises to ensure funding is as efficient and effective as possible.

A price review is the process by which the department reviews the basis of funding for the delivery of expected government outputs and outcomes, in the context of state government priorities and relevant legislative and policy parameters.

The reviews are designed to deliver practical options to improve value for money in the delivery of services and ensure the best use of the government's resources.

Objectives

This document outlines the framework in place to create a robust, straightforward, best practice and realistic approach to reviewing the key price activities of the department's community sector portfolios. It was developed using the Department of Human Services (combined) *Price review framework* (2008) that was updated for the recently established Department of Health.

The framework is for departmental and sector staff to use as a guide to conducting transparent and consistent service-price reviews.

It outlines different models of pricing and funding arrangements but it is not intended to be a single model for price calculations, as many programs use different units of service and treat cost components differently. The framework is flexible enough to take this into account yet robust enough to ensure that price reviews are all conducted with an equivalent degree of rigour.

The framework does not replace other agency evaluation and performance activities.

The objectives mirror the Department of Treasury and Finance *Base reviews framework* (2011), which ensures the department's price reviews align with state government priorities.

The primary objectives of price reviews are to:

- ensure services (outputs) are delivered at a reasonable cost, while maintaining agreed quantity and quality
- provide a more detailed understanding of the appropriateness of the price paid to deliver the outputs
- enable appropriate processes to be followed
- seek to address potential fundamental sector-wide price issues.

Secondary objectives are to:

- promote a culture of continuous improvement and innovation to ensure efficient and effective service delivery, including improved benchmarking of performance across the portfolio
- provide greater accountability on the efficient and effective use of public money.

To meet these objectives, price reviews will systematically consider:

- reviewing an existing price for potential update in light of changing costs
- examining alternative, or changes to, funding sources
- examining possible policy adjustments and changes to government outputs and outcomes
- on occasion, converting previously block-funded activities to a unit price, which in some cases requires establishment of an agreed service model or reviewing the service model to update the price
- the adequacy of internal sector strategies, systems and accountability arrangements to support ongoing identification and realisation of sustainable efficiencies, monitor financial and non-financial performance and ensure effective service delivery
- ensure price movements across all models of service in community-based services are reasonably standardised as a common price, irrespective of site (that is, if located in a health service)
- identifying options for future savings and productivity improvements
- practical options for improving value for money and service delivery outcomes.

Guiding principles

The following overarching principles guide the conduct of price reviews. The principles have been developed to ensure a common approach underpins each departmental price review.

Focus and scope

This framework focuses on sector-wide 'community-like services', primarily activities provided by:

- non-government organisations
- community service organisations
- community health centres (including hospital auspices)
- local government authorities.

Efficient and effective practice

Pricing policy will reflect efficient and effective business and service delivery practices and activities, and be flexible depending on the service and how it is delivered.

Transparency

All price-review and pricing-outcome data, analysis, principles and component elements will be transparent and create a shared understanding for both the department and sector, and if relevant the Commonwealth Government for specific funded programs.

Collaboration and consultation

Consultations will be actively conducted throughout the process to enable a strategic, interactive and collaborative relationship with the following relevant parties:

- Department of Health program divisions
- Department of Health internal corporate support
- affected peak bodies and service providers
- Department of Treasury and Finance (as required)
- Department of Human Services (as required)
- Commonwealth Government (if relevant and necessary to specific programs)
- Human Services Partnership Implementation Committee (HSPIC), in particular:
 - Victorian Alcohol and Drug Association for alcohol and other drugs
 - Psychiatric Disability Services of Victoria for community managed mental health services
 - Victorian Healthcare Association for the public healthcare sector including public hospitals, rural and regional health services, community health services and aged care facilities
 - Victorian Council of Social Service for the non-government social and community services sector.

The department is committed to working in partnership with the above bodies to achieve a cohesive process. These principles are embedded in the *Collaboration and consultation protocol*.

Communication plan

To maximise the effectiveness of the price-review process a communication plan and strategy will be developed to enable an open approach to monitoring the process and so the department and sector are aware of all aspects of the review and its objectives. A specialised plan will be developed for each price review, depending on the sector and other distinctive characteristics.

The plan should include:

- identifying the target group (for example service providers, peak bodies, groups or bodies, departmental representatives et cetera)
- objectives of the review
- communication channels that will be most effective (for example electronic, direct mail, workshops, forums, meetings et cetera)
- timelines and plans of components of the review
- the need for sector and departmental resources to enable successful participation in reviews
- processes to ensure accessibility of information for all parties
- contact points.

Relevant and comprehensive information

In order to support sound analysis, information submitted or prepared as part of the price reviews will be relevant, comprehensive, timely, accurate and provided in an open and cooperative manner. Reviews will primarily rely on existing data and reports (both internal and external to government) and will take into account the costs of delivering services, including:

- costing approaches using verifiable data where possible, or models and assumptions
- consideration of full or partial funding and other contributions to the costs of service delivery such as fees or co-payments.

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 specified within them.

Continuing innovative practice and sector productivity

The reviews and pricing policy will represent an opportunity for those involved to develop and discuss innovative solutions and the ongoing identification and realisation of efficiencies, along with continued evaluation of the effectiveness of outputs whilst contributing to government outcomes.

Selecting price reviews

Price reviews can be initiated by the Minister, the department, or at the request of the sector via the HSPIC. It is dependant on the HSPIC to develop a process to identify potential price reviews for submission to the department. The department has final authority over the progression and conduct of price reviews.

There is no schedule of planned price reviews for the health sector. Rather, reviews will be determined on a case-by-case basis at any time and will focus on sector-wide issues or as the need arises for relevant circumstances, including:

- where cost pressures in an existing output cannot be sustained within the total departmental price to the extent that departmental service delivery is in danger of being adversely affected. Cost pressures must be specific to the sector and not a general cost pressure faced by all government services (that is, these costs would be covered by the Departmental Funding Model Indexation). This will be supported by analysis of existing data and reports such as sector surveys, case studies and other expert documentation for example, from the Productivity Commission
- where the cost pressure is a result of factors outside the control of the department, for example Enterprise Bargaining Agreement outcomes, Social and Community Services pay equity, new legislation, or service-model change.

The department's Executive must endorse each price review and associated resourcing prior to commencement. If a price review is agreed upon, the departmental division and sector representatives will advise the parties involved.

Where a price review is not considered necessary, the department will disclose the reasons for this decision to relevant stakeholders.

Conducting price reviews

The price review process will be a stand-alone process and will not form a part of, or an appendix to, any other departmental policy or document. Every price review should commence with a discussion of and agreement on the following:

- staffing resources available for the review
- timeframe for the review
- consultation process and communication arrangements
- data collection arrangements
- governance arrangements.

The price review process outlined below is intended to be used as a guide, while allowing flexibility to determine the most appropriate approach for particular service sectors. Appendix A shows the broad steps of the price review process. The department will then consider the recommendations of the price review in the context of the government’s policy and budget priorities in the short and medium term.

Figure 1: Methodology of conducting a price review

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Analysing the service delivery model	Information gathering	Costing exercise, analysis and modelling	Options, strategy and recommendations	Implementation, reporting and evaluation

Stage 1: Analysing the service delivery model

This step involves identifying all the relevant information about the activity under review to ensure it is well-defined, including:

- context, by establishing a comprehensive and consistent understanding among the relevant parties of why the review is needed
- content, by establishing what needs to be reviewed, including particulars of the review
- detailed scope, including objectives
- work plan and performance criteria, by establishing a high-level understanding of how the review will be done, who will be the key individuals responsible and the estimated time frame
- terms of reference, expected service delivery model, target client group and unit of service.

Stage 2: Information gathering

This step involves gathering and examining comprehensive, accurate and relevant pricing and policy information required to perform the review, including the current prices paid to service providers to deliver the output, including:

- nominal price – rate per unit of output paid through service agreements
- other funding which may contribute to the same service, including block funding, asset investment, minor capital, major service redevelopments, other non-base funding, and other income sources (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. Analysis should occur of any other known issues in relation to the price. It may also be appropriate to consider pricing policies and models in other states and territories.

A price review tool, in Appendix B can be used as a guide.

Stage 3: Costing exercise, analysis and modelling

The best method of conducting the costing exercise will be determined, with general agreement, to estimate the reasonable costs of delivering the service.

Possible approaches to data collection include:

- collecting cost information from the sector, through peak bodies (if appropriate)
- undertaking a costing exercise based on estimates and award rates
- undertaking a costing exercise accessing data from sector agencies
- benchmarking across the sector or similar sectors
- a mix of the above.

The costing exercise may include:

- considering the costs of delivering the service, including salaries, operational costs and overheads
- identifying key cost drivers
- considering the appropriate treatment of fixed, stepped and variable costs, and direct and indirect costs
- documenting the rationale for any exclusions
- considering comparative costs and variance between types or categories of service providers
- considering external factors that may affect assumptions about sector costs.

Rigorous and systematic analysis of the information provided during the costing exercise will enable preliminary conclusions on the efficiency and effectiveness of the program outputs, the appropriateness of the price and whether a new price is warranted. Some modelling may need to be undertaken to determine the potential impact of any new price, including:

- affordability within the current budget
- potential for variation in the level of targets
- opportunities for service reform, efficiency and productivity improvements
- if the full costing model has incorporated a wider range of non-salary items, such as maintenance or vehicle costs, consider possible reductions in block, capital and non-base funding. Note, funds released this way may be able to be reallocated to fund the implementation of the new prices.

Analysis of the current prices, their movement over time, including the impact of indexation and Enterprise Bargaining Agreement outcomes, will need to be documented and analysed. The service-price expectation and potential price gap, the cost drivers and reasons will also need to be justified. Current prices may be used as a possible foundation to calculate future prices and the expected price gap. It is important to note that this function will not be used as an 'acquittal' of current prices.

The purpose of this exercise includes determining:

- the service impact of a revised price
- the gap (if any) that may emerge
- the impact on existing budgets, if the service should be remodelled to account for the sector-wide issues
- whether funding needs to be redistributed within the sector.

Stage 4: Options, strategy and recommendations

It is important to develop options and strategies to improve efficiency, effectiveness, appropriateness and sustainability of the price of outputs. Potential risks to service delivery and the consequences of an unsuccessful increase of unit prices need to be clearly identified and documented.

The information and analysis gathered will enable decision makers to consider whether funding assumptions and policy are appropriate and to possibly propose a new price structure. A list of options including timelines and accountability for implementation should be developed for discussion.

Recommendations and service reforms need to be supported and informed by the evidence and analysis undertaken as part of the review process.

A key goal is to achieve a reasonable level of agreement and understanding between the HSPIC, the department, peak bodies and the sector about the implications of a price review for sustaining service delivery and funding.

Stage 5: Implementation, reporting and evaluation

Consultations about new prices should consider the most realistic and achievable strategy for implementation.

Some principles for the implementation process of new prices are:

- The department will work with the sector to achieve a manageable transition to the new pricing structure and minimise its impact within the sector.
- 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 to improve efficiency and increase output.

Appendix C can be used as a guide to monitor the progress of the price review, with necessary alterations to suit individual programs.

This stage involves approving the final review report, addressing the terms of reference, providing accurate, comprehensive and clear results of the review, including key findings and recommendations. Evaluation and feedback of how the review process could be improved and whether the review has achieved the performance criteria is crucial to improve in the process and evaluate effectiveness of the review.

Governance

The level and type of resourcing from relevant parties can change for each price review to reflect the scope and focus.

The sector and peak bodies must gather robust and comprehensive evidence that meets the price review requirements in a timely and cooperative manner.

The department is responsible for managing the overall price review process. This involves progressing, coordinating and analysing the information provided, rigorously testing the findings, and generating recommendations.

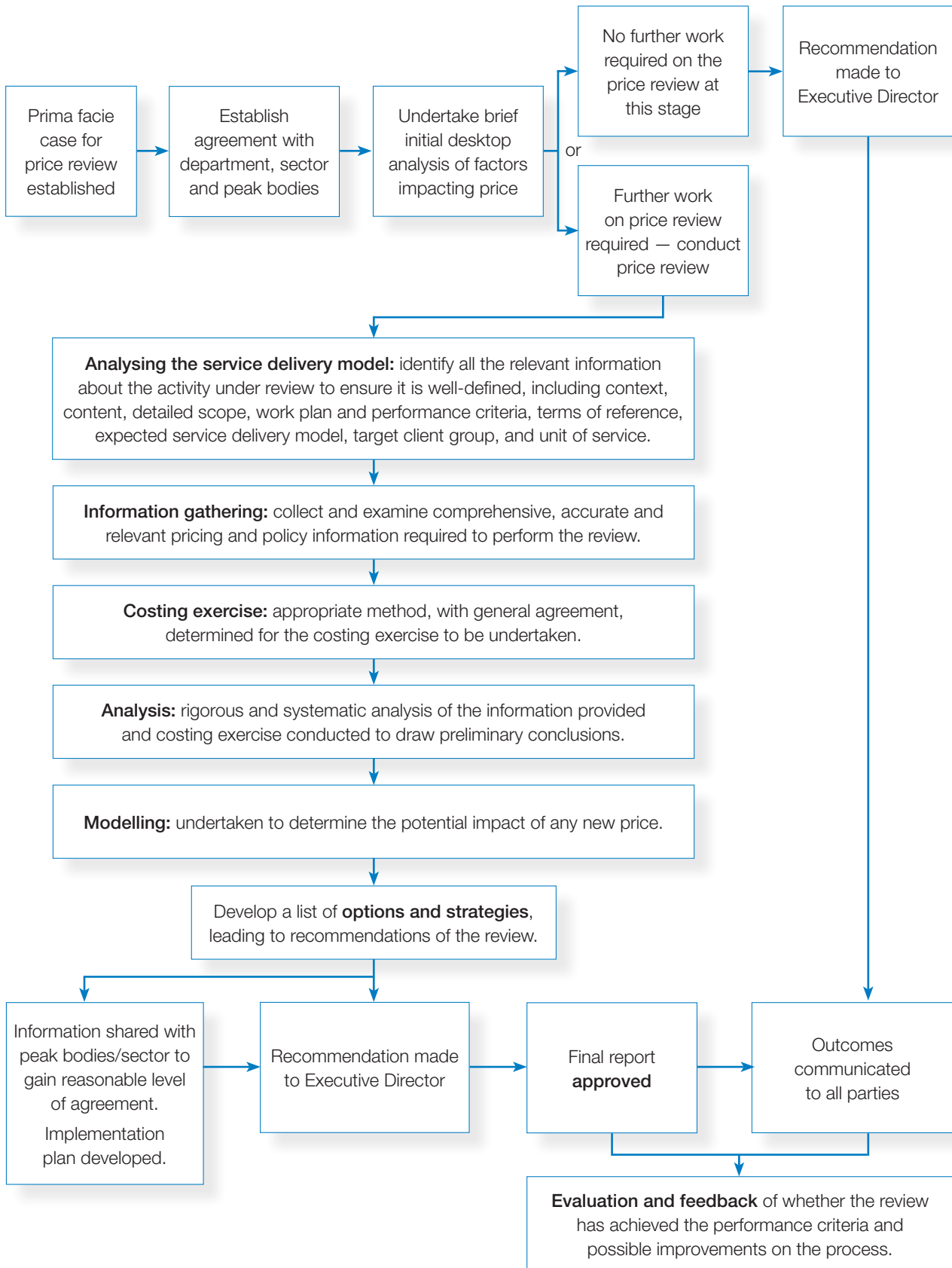
It is important to note that the final decision on price reviews and their outcome is subject to government approval.

This framework will be reviewed as necessary and reported to the department's Funding Policy Directors Group and HSPIC.

Associated documents

- Department of Human Services (combined) October 2008, *Price review framework*.
- Department of Treasury and Finance, February 2011, *Base reviews framework*.
- Department of Human Services (combined), July 2009, *Partnership in practice: memorandum of understanding 2009–2012 between the independent health, housing and community sector and the Department of Human Services*.
- Department of Human Services (combined), October 2004, *Partnership in practice: collaboration and consultation protocol for the Department of Human Services and the health, housing and community sector*.
- Victorian Auditor-General, May 2010, *Partnering with the community sector in human services and health*.

Appendix A: Broad steps



Appendix B: Price review tool

Services/product

- What are the services/product being delivered?
 - What is the unit of service (for example hours of service, episode of care, EFT or bed day)?
 - What is the objective and intended benefit of this service/product?
 - What is the department trying to achieve for the price (for example quality, outcomes, and efficiency)?
 - Has the service model been redeveloped? Consider whether this may impact on the cost of delivering the service.
 - Have there been changes in levels of client complexity?
 - Have there been significant changes to relevant legislation or the service model?
-

Cost/cost drivers

- What is the total cost of providing this service (over each of the past three years)?
 - Is the current price expected to fully cover the cost of delivering the service?
 - What is the breakdown of direct and indirect output costs, including fixed, variable and discretionary elements?
 - What are the major cost drivers?
 - What costs are associated with outsourcing/contracting to third parties (inclusive of internal costs associated with managing the third party)?
 - Is there evidence of substantial increases in operational costs? Supported by analysis of existing reporting data.
-

Financial resource allocation

- How are finances allocated in order to efficiently perform activities?
 - How do historical budgets compare to actual expenditure?
 - How are the finances sourced, and from where?
 - Is there any expectation that service providers charge fees from clients for the service? Is there a rebate on the service? Is there any regulation or other restriction on service providers charging fees?
 - Are service providers expected to contribute a proportion of the costs from fundraising or other revenue?
 - Is there any expectation that voluntary effort will deliver part of the overall cost of delivering the service?
-

Human resource allocation

- Are there any relevant awards? If so, what are they?
 - What is the workforce model? (Number of staff at specified classifications within the award/s, salary rate/s, number of EFT, available/productive hours and calculation, penalty rates/allowances, total salaries.)
 - Why are these resources allocated in this way (especially if there is outsourcing or contracting)?
 - Is there evidence of structural changes in inputs, such as qualifications or staff ratios?
 - What is the appropriate rate for WorkCover and salary oncosts (for example long service leave, leave loading, and superannuation.)
-

Information and communication technology (ICT) resource allocation

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

External dependencies

- Are there dependencies on other agencies/divisions?
 - What other external factors may impact on the delivery of the output? (for example Commonwealth or state legislation or regulations, other binding agreements such as contracts, including EBAs.)
-

Benchmarking

- How do the costs and processes described above compare to other sectors in the delivery of similar services? (for example are the resources allocations comparable?)
-

Strategies

- What strategies exist to identify, implement and realise potential efficiencies?
 - What progress has been demonstrated in realising efficiencies?
-

Appendix C: Monitoring the progress

Sector/program:

Financial year:

Division, Branch:

Price review activity or output:	Price review initial agreement		Agreement to the process	Data		Outcomes	Approval	Comments
	Price review initiated: (date)	Agreement to the process completed: (date)		Data supplied to DH: (date)	Data analysed by DH: (date)			
			Methodology: <ul style="list-style-type: none"> • Consultation process agreed: (date) • Steering committee arrangements agreed: (date) • Data collection arrangements agreed: (date) 					

