

Report 8 of 2018

Health budget performance
2017-18



Report of the Auditor-General

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Health budget performance 2017-18

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Dear President and Speaker

**Report of the Auditor-General:
Report 8 of 2018 'Health budget performance 2017-18'**

As required by the *Public Finance and Audit Act 1987*, I present to each of you Report 8 of 2018 titled 'Health budget performance 2017-18'.

Content of the Report

This report provides detailed commentary and audit observations on aspects of SA Health's budget and financial performance processes with a particular focus on:

- the structure of budget arrangements including accountability lines and authorisations
- the adequacy of information
- the budget term/period.

We also followed up the Department for Health and Wellbeing's actions and response to our 2016-17 review including its response that:

- the budget setting process would largely use the same principles it previously used
- a balanced budget outcome was achievable.

This review also considered estimated budget and savings outcomes for 2017-18 and trends over recent years.

Acknowledgements

The audit team for this report was Stephen Jared and Wendy Haydon. They were assisted in the review by the accounting firm, Galpins. We also appreciate the cooperation and assistance given by staff of the Department for Health and Wellbeing, the local health networks and the SA Ambulance Service Inc during the review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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1 Executive summary

1.1 Introduction

The financial sustainability of the State's public health system is an ongoing financial risk managed through the *Health Care Act 2008* and related structural and governance arrangements. Total general government operating expenses for Health and Wellbeing are estimated to be \$6.3 billion.

In 2017-18 we again looked at local health networks (LHNs) and SA Ambulance Service Inc (SAAS) budget and performance management, including reported outcomes against budget targets and savings as an element of budgets. In response to last year's audit, the Department for Health and Wellbeing (DHW) replied that it:

provides funding at a level that is ostensibly not beyond the outcomes of many national hospitals and therefore provides a significant level of comfort that funding allocations are reasonable and workable in the operations of the LHNs.

We reviewed to see if the 2017-18 LHN and SAAS budgets were achieved.

In completing the review, we considered the SA Government's intention to change governance and accountability arrangements and its expectation that LHNs address inefficiencies in the public health system over the next four years. We make some observations on governance and accountability in this Report in light of these changes and expectations.

1.2 Conclusion

The strategies employed in the public health system to consistently achieve LHN and SAAS budget targets have not worked over many years. LHNs have consistently failed to achieve budget targets and the past two State Budgets have substantially increased the total health budget to address shortfalls in original estimates.

Based on DHW forecasting as at May 2018, LHNs and SAAS were estimated to exceed their combined 2017-18 budgets by \$467 million. If the cost of operating the health sector is to be reined in, it is clear that the practices affecting these outcomes must change.

The SA Government has, through legislative changes, provided that LHNs will be governed by boards from 1 July 2019. The SA Government also announced its intention to amend health governance arrangements by establishing a governance and accountability framework.

A clear challenge for this framework, in our view, will be to effectively align the collective and overarching responsibilities for providing an integrated public health system with individual accountabilities. The success of the SA Government's changes will be highly

dependent on how well they support the roles of the Minister, DHW, the new LHN boards and LHN operational and clinical decision-makers, and create accountabilities throughout the sector.

The key points arising from our review are about:

- gaining commitment and a shared understanding of goals and responsibilities
- providing for clear authority and accountability of decision-makers
- improving information for decision-makers
- increasing the capability of decision-makers
- improving strategic and other management plans.

In our view, without assurance about a shared commitment to and clear understanding of these matters, a framework will not ensure better outcomes in the future.

1.3 What we found

Our review highlighted the following:

- At May 2018 LHNs and SAAS collectively were expected to exceed their 2017-18 budgets by \$467 million. The whole Health portfolio was estimated to exceed budget by \$70 million.
- The 2018-19 State Budget provided an extra \$730 million over the four years from 2018-19 to 2021-22, in addition to \$70 million for 2017-18, to ensure that the health budget is more sustainable over the forward estimates, and ensure the public health system continues to provide the necessary services required by the community.
- Some key officers in the public health system have:
 - perceived their past annual budgets to be unachievable
 - concerns about the reasonableness and transparency of the efficiency benchmarks used for performance management.

Our view is that if this situation continues, it is likely to increase the risk of not achieving the SA Government's expected efficiency targets.

- LHN and DHW staff held relatively consistent views that reflected a need to improve the following areas:
 - developing and resourcing skills and expertise
 - developing working relationships between finance and clinical staff
 - improving collaboration across LHNs
 - improving available clinical information
 - preventing delays in input of activity data.
- There was no long-term financial plan that drew together all strategies across the Health portfolio and described how it intended to meet budget forward estimates and savings expectations.
- The SA Government has committed to a change agenda and the Parliament passed legislation in July 2018 to re-introduce board governance in LHNs. The Amendment Act will come into operation on 1 July 2019.

- The SA Government plans a second stage to establish a new governance and accountability framework for the public health system.
- The SA Government requires LHNs to address inefficiencies in the public health system over the next four years to reduce the cost of public health services to the national average by the end of the forward estimates. LHN boards will be responsible for driving these reforms in future years.

1.4 What we recommended

Recognising the SA Government's proposed new governance and accountability framework, we made observations and recommendations for DHW to consider when developing the framework.

We consider it essential that DHW performs a clear-eyed and insightful assessment of whether its existing arrangements will effectively contribute to achieving the SA Government's health quality and cost efficiency aims.

We consider the work to develop a new governance and accountability framework should commence with a critical analysis to identify all essential elements needed to support accountable people in meeting their performance targets. Our suggestions do not expect DHW to settle all aspects of a framework, when some aspects are clearly for LHNs to determine.

We made the following recommendations and observations in a management letter to the Chief Executive, DHW.

1.4.1 Develop a shared view about goals and responsibilities

- Ensure people who are critical to success agree on what they are trying to achieve and clearly understand system-wide performance targets and responsibilities.
- Performance agreements should clearly describe performance targets and responsibilities, including clearly defining the SA Government's target of national average costs.

1.4.2 Authority and accountability of decision-makers should be clear and documented

- Accountabilities, powers and delegations should be consistently and clearly represented in the framework, related performance agreements, job descriptions and other documents that establish expectations and responsibilities. These documents should provide officers with the authority to act within the limits of their authority and hold them accountable for their decisions on budget and cost management.
- It is important that the reform arrangements ensure decision-makers are clear about their responsibilities, have authority to act within the limits of their authority and can reliably be held accountable for their decisions on budget and cost management.

1.4.3 Develop a shared view of what information is needed by decision-makers

- Collaborate to assess and develop a shared view of the information needed to support and achieve accountabilities for performance targets and measures, including the SA Government's efficiency and cost targets.
- Check available information systems and then develop, as necessary, plans and clear responsibilities to ensure systems efficiently deliver information where it is needed most.
- Check existing systems to confirm if they provide the necessary information to support current health sector performance targets.

1.4.4 Develop skills and capacity of decision-makers

- Collaborate to assess and develop a shared view of the skills needed to support and achieve budget goals and accountabilities.
- Identify skill gaps and develop appropriate workforce plans that address recruitment and staff development to efficiently deliver skills where they are needed most in the public health system. This includes:
 - developing skills and expertise for better analysis and interpretation of clinical services and related costs to identify opportunities for improvement in efficiency
 - resourcing and developing clinical staff expertise (with appropriate administrative support) to deliver on efficiency opportunities while maintaining clinical outcomes
 - developing working relationships with clinical staff.

1.4.5 The framework should be sufficiently flexible and broad

The framework of governance and accountability must be broad and flexible enough to:

- allow decision-makers with responsibility and accountability to adopt the systems and processes they want and need
- establish individual and collective responsibilities that ensure the provision of health services as an integrated system, recognising the required balance between local decision-making at LHNs and health system planning, integration and management.

1.4.6 Strategic and annual plans

- The framework should provide for a coordinated planning approach across the public health system combining both strategic (longer term) and annual plans at LHNs, SAAS and DHW.
- Develop longer term financial and strategic plans that describe how LHNs and DHW intend to meet the SA Government's four-year estimates and targets to reduce the cost of public health services to a national average.
- LHN strategic plans should provide a framework to support and inform boards in meeting their responsibilities to cooperate and liaise about health services.

- LHN strategic plans should inform progress monitoring, setting gateway check points and the development of related control and review systems.
- LHNs, when developing their strategic plans, would benefit from considering the sound principles set out in section 122 of the *Local Government Act 1999* on strategic management plans.

1.5 Response to our recommendations

The Chief Executive, DHW responded to our observations and recommendations. The response noted the prospective view taken in this Report of the changing landscape for board governance of LHNs. In that context DHW did not specifically respond to each of our findings. It provided some background of what is already occurring within SA Health and views against four headings.

Health expenditure and the State Budget

DHW noted the importance of the health expenditure issues being faced by SA Health against the context of the State Budget and suggested it is essentially one that can be transposed against all jurisdictions including the Commonwealth. DHW emphasised the complexity that arises when considering the issues at play and what is required to address them.

DHW indicated that system reform is not the only issue at play but also organisational (local) culture, capacity and commitment.

Shared view about goals and responsibility

DHW expressed the view that there is absolute clarity in the SA Health system about what the performance criteria for assessment of LHN performance will be, who is responsible for delivering on those outcomes and to what level. DHW commented that LHN Chief Executive Officers and/or DHW have a clear focus on the requirements, targets and responsibilities to achieve the required outcomes, which are articulated in the service level agreements with each LHN. DHW considered it important to note those service level agreements have been mirrored on New South Wales (which it suggested is currently one of only two jurisdictions that sit below the National Efficient Price) and are required under the National Health Reform Agreement to be published on jurisdictional internets once signed by LHNs.

Other views DHW expressed were that:

- it considers there is absolute clarity within the public health system about where each service delivery area sits against the National Efficient Price and those areas should be the subject of investment by LHNs in their planning to achieve a balanced budget
- it believes the incoming board Chairs have a clear understanding of their requirements and commitment to the tasks required from them to achieve the required outcomes
- as has happened in past budget cycles, it has provided a financial transition grant (above the current National Efficient Price and activity requirements) to help transition to the required levels of efficiency.

Strategic and management planning — short and long-term

DHW indicated all LHNs are required to document their savings requirement and have used various tools to ensure all their mandated and required savings strategies to achieve a balanced budget are documented. DHW noted that in many cases, most of the required strategies transcend one year. It indicated that these are reported within the Portfolio Performance Report, which also forms the basis of reporting to the Department of Treasury and Finance, on a monthly and quarterly basis, and also at other governance meetings.

Responding to our views on long-term financial planning, DHW suggested some over-emphasis around the benefits of needing to document a detailed multi-year financial plan beyond the current planning.

DHW suggested LHNs are materially aware of their budgets beyond the current year and into the forward years, indicating that a practice of developing three-year recovery plans had been a feature of many LHNs without successfully transitioning to savings.

DHW considered that taking a yearly focus ensures greater commitment to the inevitable nature of most recurrent savings, including those that transcend more than one year.

Authority, accountability and capability

DHW indicated that devolving decision-making and responsibility to the local level will involve significant planning and consideration of how the public health system will work as a whole. DHW noted this will require detailed consideration of functions, roles, responsibilities and accountabilities across SA Health. DHW indicated the main part of this work will be undertaken in the lead up to 1 July 2019 when governing boards become fully operational.

It indicated SA Health had already established the Governance Reform Oversight Committee (Oversight Committee) which is the peak decision making body for matters relating to governance reform in the South Australian public health system.

DHW indicated the Oversight Committee (made up of cross-government stakeholders and independent experts) will make decisions and recommendations to the SA Government on any matter that could have a material impact on delivering against the election commitments or agreed scope of the work program.

The Oversight Committee is supported by the Governance Reform Program Management Committee, which has overall operational management responsibility for the governance reform work program.

2 Background

2.1 The importance of Health expenditure to the State Budget

General government operating expenses for Health and Wellbeing are estimated to be \$6.3 billion of the State's estimated total operating expenses of \$19.6 billion for 2017-18. The original budget for 2017-18 was \$6 billion.¹

The financial sustainability of the State's public health system is an ongoing financial risk managed through the *Health Care Act 2008* and related structural and governance arrangements.

In 2017-18 Health and Wellbeing operating expenses are estimated to be 32.3% of total operating expenses. The budget for 2018-19 is set to remain around that level and estimated to reduce to around 31% by 2021-22.

2.2 Strategies to achieve budget targets have not worked

The SA Government makes decisions about the extent of resources to allocate to each public service. The strategies employed in the public health system to consistently achieve LHN and SAAS budget targets have not worked over many years.

Our review of budget outcomes for 2017-18 is discussed in section 5.

We have previously reported on continued hospital expenditure growth, failure to achieve set savings targets and ongoing risks associated with the financial sustainability of the public health system. If the cost of operating the health sector is to be reined in, it is clear that the practices affecting these outcomes must change. The new SA Government began implementing changes for this and other purposes after taking office in 2018.

2.3 The SA Government's new governance and accountability framework

The new SA Government announced its intention to amend health governance arrangements in two stages.² The first stage was completed in August 2018 when the *Health Care (Governance) Amendment Act 2018* (the Amendment Act) was proclaimed. It will come into operation on 1 July 2019.

The second stage is the SA Government's stated intent to establish a new governance and accountability framework for the public health system.

These new accountability arrangements are discussed further in sections 4 and 6.

¹ 2018-19 Budget Paper 3 'Budget Statement', table 2.8: Operating expenses — selected agencies.

² Hansard, House of Assembly, 25 July 2018, page 1751.

3 Audit mandate, objective and scope

3.1 Our mandate

The Auditor-General has authority to conduct this review under section 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*.

3.2 Our objective

We sought to understand the health sector budget and performance management, including its reported outcomes against budget targets and savings.

3.3 What we reviewed and how

We considered aspects of SA Health's budget and financial performance processes with a particular focus on:

- the structure of budget arrangements including accountability lines and authorisations
- the adequacy of information
- the budget term/period.

We also followed up DHW's actions in response to our 2016-17 review, including its response that:

- the budget setting process would largely use the same principles it previously used
- its 'overarching comfort' that a balanced budget outcome was achievable.

Acknowledging the proposed governance and accountability changes, our review largely involved interviewing executive level financial officers at LHNs, SAAS and DHW, as these officers are fundamental to successfully achieving new goals including budget management.

We also considered estimated budget and savings outcomes for 2017-18 and trends over recent years.

3.4 What we did not review

We did not audit the composition of individual LHN and SAAS budgets or audit the composition of the estimated budget deficit for the whole of Health portfolio.

Budget and actual variances were sourced from DHW's Portfolio Performance Reports and are unaudited.

4 A new governance and accountability framework – some observations

The first stage of the new SA Government's intended amendments to health governance arrangements was completed in August 2018 when the Amendment Act was proclaimed.

This section discusses matters we consider relevant to the SA Government's stated intent to establish a new governance and accountability framework for the public health system. The SA Government stated that the framework will ensure that the provisions governing the public health system acknowledge appropriate frameworks for such matters as risk management, clinical safety and quality, and policy and legislative governance. The SA Government says this will require a thorough review of the roles and functions of all aspects of the public health system in the context of introducing governing boards.³

Our observations take account of three key factors from the Amendment Act and the 2018-19 State Budget, being:

- **requiring an integrated system** – the Amendment Act will require health services to be provided as part of an integrated system that achieves an effective balance between local decision-making in relation to incorporated hospitals and health system planning, integration and management
- **establishing governing boards** – the central functions and responsibilities of the Chief Executive, DHW for the administration of an incorporated hospital will be abolished from 1 July 2019. From that time, the Amendment Act will provide for governance and oversight of incorporated hospitals by governing boards
- **reducing the cost of public health services to the national average cost** – the SA Government requires LHNs to continue to address inefficiencies in the public health system over the next four years to reduce the cost of public health services to the national average by the end of the forward estimates. The LHN boards will be responsible for driving these reforms in future years.⁴

In our view a new framework must support each of these key factors. A clear challenge, in our view, will be to effectively align the collective and overarching responsibilities for providing an integrated health system with individual accountabilities.

Our observations are made under the following headings:

- Gaining commitment and a shared understanding of goals and responsibilities
- Authority and accountability of decision-makers
- Information for decision-makers
- Capability of decision-makers
- Strategic and other management plans.

³ Hansard, House of Assembly, 25 July 2018, page 1752.

⁴ 2018-19 Budget Paper 3 'Budget Statement', pages 7-8.

We acknowledge that the first responsibility for health professionals is to provide optimal health outcomes for South Australians.

We make observations in the following sections based on past and recent audit experience for consideration when the new framework is being developed. We focus on financial management, and emphasise this is not intended to be an exhaustive list.

In our opinion, the work to develop a new governance and accountability framework should start with a critical analysis to identify all essential elements needed to help accountable people meet their performance targets.

We also acknowledge that a governance framework must be sufficiently broad and flexible to allow decision-makers with responsibility and accountability to adopt the systems and processes they want and need. Our suggestions are not directed to expecting DHW to settle all aspects of a framework, when some aspects are clearly for the LHNs to determine.

Many of the expected structures and processes are likely to already be in place. Even so, we consider it essential that a clear-eyed and insightful assessment be performed of whether existing arrangements will effectively contribute to achieving the SA Government's health quality and cost efficiency aims.

4.1 Gaining commitment and a shared understanding of performance targets and responsibilities

In our view, DHW should give significant and early attention in the process of changing governance arrangements to gaining assurance that people who are critical to success agree on what they are trying to achieve and clearly understand the system-wide performance targets and responsibilities.

In our view the success of the changes will be highly dependent on how the framework supports the integrated roles of the Minister, DHW, the boards, and LHN operational and clinical decision-makers. We consider the following areas present challenges that should be considered when changing the governance and accountability framework.

4.1.1 Flexibility to balance individual LHN and the wider health sector responsibilities

The public health system will continue to comprise region-based health services that are expected to operate as an integrated health system. The Amendment Act sets out responsibilities for the Minister, the Chief Executive, DHW and boards of incorporated hospitals. These responsibilities include clear individual goals, such as boards managing budgets so that performance targets are met. There are also important and necessary responsibilities to achieve an integrated system, such as boards cooperating and liaising with others when planning for and providing health services and for both local and state-wide initiatives.

In our view, it is likely to remain challenging, as it has been in the past, to find the right balance for individual and collective responsibilities in a complex system that delivers

services that are so important to patients, other users and their families. Accordingly, appropriate flexibility needs to exist in the new framework.

4.1.2 Establishing financial accountability while maintaining optimal health outcomes

Decision-makers within LHNs, at an operational unit level, make significant decisions that impact on LHN service levels and costs including:

- care models which impact on lengths of stay
- how activities are scheduled and coordinated
- staffing decisions.

These decisions need to be taken to achieve multiple goals, such as whether this will deliver optimal health outcomes for South Australians and at a national average cost.

The framework needs to support these decision-makers and ensure they can be held accountable for the decisions they make.

4.1.3 Perceptions that past annual budgets and targets were not achievable

We have found that some key officers in the public health system perceived their annual budget to be unachievable.

In the 2018-19 State Budget, the SA Government made budget adjustments described as making the health budget more sustainable over the forward estimates, including resetting past savings targets stating they were not considered realistic or achievable.⁵ Notably, the previous two budgets for 2016-17 and 2017-18 provided \$847.8 million over the forward estimates to address shortfalls in earlier estimates.

With these adjustments, the SA Government has said that LHN boards will be required to continue to address inefficiencies in the public health system to reduce the cost of public health services to the national average by the end of the forward estimates in 2021-22.

4.1.4 Target of national efficient cost should be clearly defined

We believe the SA Government's target of national average costs will need to be clearly defined and valued in performance agreements to enable LHN decision-makers to manage their budget and cost management responsibilities.

4.1.5 Clear agreement on key performance measures

We have observed that DHW and LHNs do not always agree on the metrics by which performance is judged. Notably LHNs have had concerns about the reasonableness and

⁵ 2018-19 Budget Paper 1 'Budget Overview', page 10.

transparency of the efficiency benchmarks used for performance management. We have not sought to evaluate their views. Our view is that if this situation continues, it is likely to increase the risk of not achieving the SA Government's expected efficiency targets.

In summary, in our view, without assurance about a shared commitment to and clear understanding of the performance targets and responsibilities, a framework will not ensure better outcomes in the future.

4.2 Authority and accountability of decision-makers

In our view, the framework should clearly confirm the authority and capacity for decision-makers to act so that they have levels of control needed for their accountabilities and responsibilities. The required accountabilities, powers and delegations should be consistently and clearly represented in related performance agreements, job descriptions and other documents that establish expectations and accountabilities.

Decision-makers must know what they are to do, by when and at what level of performance. The Amendment Act changes past accountabilities and makes LHN boards responsible and accountable for the operations of incorporated hospitals. Boards have a range of considerations they must give attention to in meeting their responsibilities, including:

- cooperating and liaising with others when planning for and providing health services and for both local and state-wide initiatives
- managing performance against the performance measures in a service agreement between the incorporated hospital and the Chief Executive, DHW
- complying with any directions of the Minister and any directions of the Chief Executive, DHW
- complying with any DHW policies specified by the Minister or the Chief Executive, DHW to apply to a governing board in the performance of its functions.

In our view, it is important for this governance review to reform arrangements to ensure decision-makers are clear about their responsibilities, have authority to act within the limits of their authority and can reliably be held accountable for their decisions on budget and cost management.

4.3 Information for decision-makers

In our view, it is essential that, as the governance framework is developed, decision-makers collaborate to assess and develop a shared view of the information needed to support and achieve accountabilities for performance targets and measures, including the SA Government's efficiency and cost targets.

We acknowledge that effective and devolved budget management will depend on the availability of specific, timely and reliable information to LHNs. Information that confirms progress through leading indicators will be essential to meeting performance targets. These indicators should be predictive and show if factors that contribute to outcomes are on track or need to be adjusted. We have noted, for example, that DHW internal reporting already highlights that current non-financial indicators help assess whether financial projections are reliable.

Developing a shared view of the information needed to support and achieve budget targets and accountabilities should help DHW and LHNs to check available information systems and then develop, as necessary, plans and clear responsibilities to ensure systems efficiently deliver information where it is needed most.

Some matters for consideration from our observations are as follows:

- DHW should define and provide sufficient information about national average cost expectations so that the SA Government’s target for public health services can be met by the end of the forward estimates.
- Our discussions with LHN chief finance officers about financial management noted a relatively consistent view that improvement was needed in:
 - the level of clinical information for efficiency and activity management
 - preventing delays in the input of data for medical instances (Diagnosis Related Group – DRGs) post patient discharge from hospital.
- In recent years enterprise systems have been developed. A check on existing systems should be performed to confirm if they provide the necessary information to support current health sector performance targets.

4.4 Capability of decision-makers

In our view, it is essential that, as the governance framework is developed, decision-makers collaborate to assess and develop a shared view of the skills needed to support and achieve budget goals and accountabilities.

We acknowledge that effective and devolved budget management will depend on the availability of specific capabilities and skills in DHW and LHNs.

Developing a shared view of the skills needed should assist DHW and LHNs to perform a skill set check and then develop appropriate workforce plans. These plans should address recruitment and staff development plans to efficiently deliver skills where they are needed most in the public health system. We acknowledge the responsibilities of DHW and each LHN to ensure they respectively have the capabilities needed to meet their responsibilities. This, again, must occur while seeking to achieve an effective balance between local decision-making and health system planning, integration and management.

Our discussions with LHN chief finance officers and DHW staff about financial management capabilities at LHNs identified a relatively consistent view of where they thought LHN financial management capabilities could improve. The most common areas discussed were:

- developing skills and expertise to allow better analysis and interpretation of clinical services and related costs to identify opportunities for improvement in efficiency
- resourcing and developing clinical staff expertise (with appropriate administrative support) to deliver on efficiency opportunities while maintaining clinical outcomes
- developing working relationships with clinical staff
- improving collaboration across LHNs to identify and implement the most effective savings measures for the whole health sector.

These examples show there are opportunities for improvement.

4.5 Strategic and other management plans

In our view the framework should provide for a suite of strategic (long-term) and annual plans that assist DHW and LHNs to coordinate state-wide and individual LHN plans and deliver the SA Government's expected financial outcomes.

The SA Government's targets include reducing the cost of public health services to the national average within four years. To achieve this target, it is likely that some initiatives will be led by DHW, some by LHNs and some across DHW and LHNs. In our view, plans for DHW and LHNs that set out how this cost target is to be achieved will be important for success, noting it is clearly the responsibility of LHNs to achieve their performance targets.

4.5.1 Need for coordination when planning across the public health system

An integrated system implies individual components of the system will both contribute to the system achievements or be dependent on others to achieve system-wide goals. Boards are required to cooperate and liaise with others when planning and providing health services. This is essential for coordination of services and to realise the benefit of economies of scale.

Our discussions with high level finance staff across all LHNs, SAAS and DHW provided us with an understanding of what they believed could increase efficiencies and drive actual costs down towards a nationally efficient level. The measures discussed included procurement and supply chain projects, activity management, models of care, preventative programs and human resource management.

4.5.2 Need for longer term financial and strategic plans

We found there was no long-term financial plan that drew together all strategies across the Health portfolio and described how it intended to meet budget forward estimates and

savings expectations. We noted the SA Health strategic risk register indicates DHW's intention to introduce service agreements that cover a three-year period from 2019-20 to enable better planning and financial management.

The Amendment Act will require boards to ensure strategic plans are developed to guide the delivery of services for the incorporated hospital and to approve those plans. In our view, strategic plans should:

- help to align the four years of the forward estimates goal with initiatives prioritised in order of their significance and interdependency so that what truly matters is completed when it is needed
- provide a framework to support and inform boards for their responsibilities to cooperate and liaise about health services
- inform progress monitoring, setting gateway check points and the development of related control and review systems.

In our view, section 122 of the *Local Government Act 1999* provides some sound principles for strategic plans and the framework would benefit from considering them. For example, relevant provisions for the health sector would include:

- assessing the extent to which a board has given consideration to regional and state-wide objectives and strategies
- the sustainability of a board's financial performance and position
- the extent to which any infrastructure will need to be maintained, replaced or developed by a board
- any anticipated or predicted changes in any factors that make a significant contribution to the costs of a board's activities or operations
- a long-term financial plan of appropriate term for the board's circumstances
- an infrastructure and asset management plan, relating to the management and development of infrastructure and major assets by the board for an appropriate term for the board's circumstances.

5 2017-18 LHN and SAAS estimated budget results were estimated to significantly exceed budgets

DHW monitors the budget performance of individual LHNs and SAAS throughout the year using an established system and reporting monthly in the DHW Portfolio Performance Report. This report also contains a whole of portfolio financial performance summary.

In 2017-18, the LHNs and SAAS collectively were expected to exceed their target budgets by \$467 million based on end of year projections in the May 2018 Portfolio Performance Report. A June 2018 Portfolio Performance Report was not prepared. We have not audited the composition of budgets or the reports.

The Portfolio Performance Report May 2018 also reports that the end of year projection for the whole health portfolio was an unfavourable variance of \$70 million. We have not audited the composition of the whole health portfolio estimate.

Notably, the estimated whole health portfolio position for 2017-18 is after substantial increases in the total health budget in the past two State Budgets. \$847.8 million was provided over the forward estimates to address shortfalls in original estimates:

- 2016-17: new additional Health operating funding of \$526.8 million (over four budget years)
- 2017-18: savings targets reduced by \$321 million across forward estimates.

Based on our review this year and past findings, we formed the view that to achieve budget outcomes in the future, changes in health sector practices are needed. We also considered that, on current outcomes, they were unlikely to be achieved in a 12-month budget period.

We note that the 2018-19 State Budget provides a further \$730 million over the four years from 2018-19 to 2021-22, in addition to another \$70 million for 2017-18. The SA Government states that this is to ensure that the health budget is more sustainable over the forward estimates, and to ensure the public health system continues to provide the necessary services required by the community.

We also note that LHN boards will be required to continue to address inefficiencies in the public health system to reduce the cost of public health services to the national average by the end of the forward estimates in 2021-22.

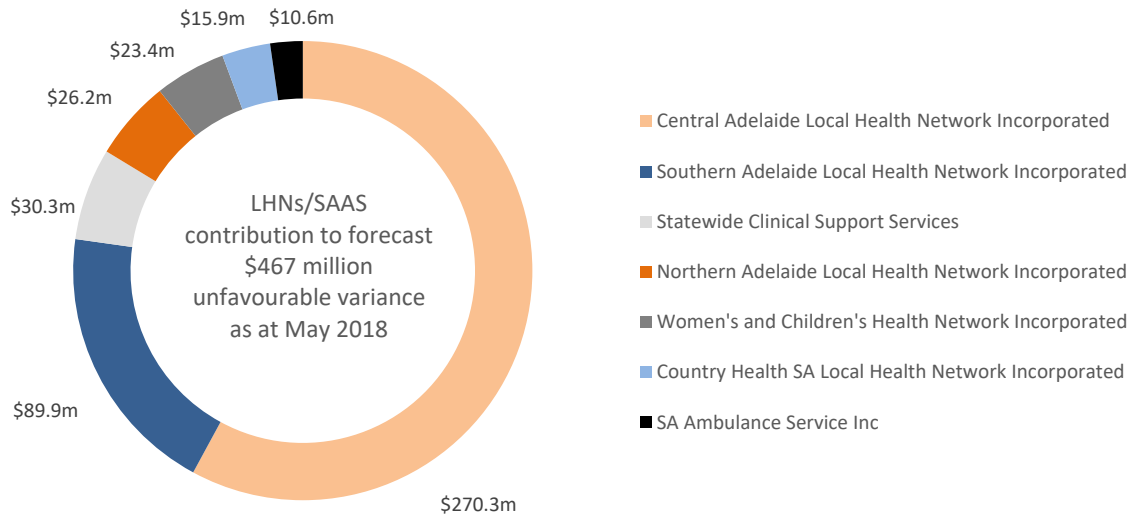
This section provides some analysis of the composition of the estimated budget outcomes for the LHNs and SAAS at May 2018.

5.1 Summary of expenditure and budget

The Central Adelaide Local Health Network Incorporated (CALHN) is the largest contributor to the budget outcome and was estimated to fail to meet its budget by \$270 million, (excluding Statewide Clinical Support Services which was an estimated further \$30 million over budget).

Figure 5.1 shows the estimated contribution of each LHN and SAAS to the unfavourable budget variance as at May 2018.

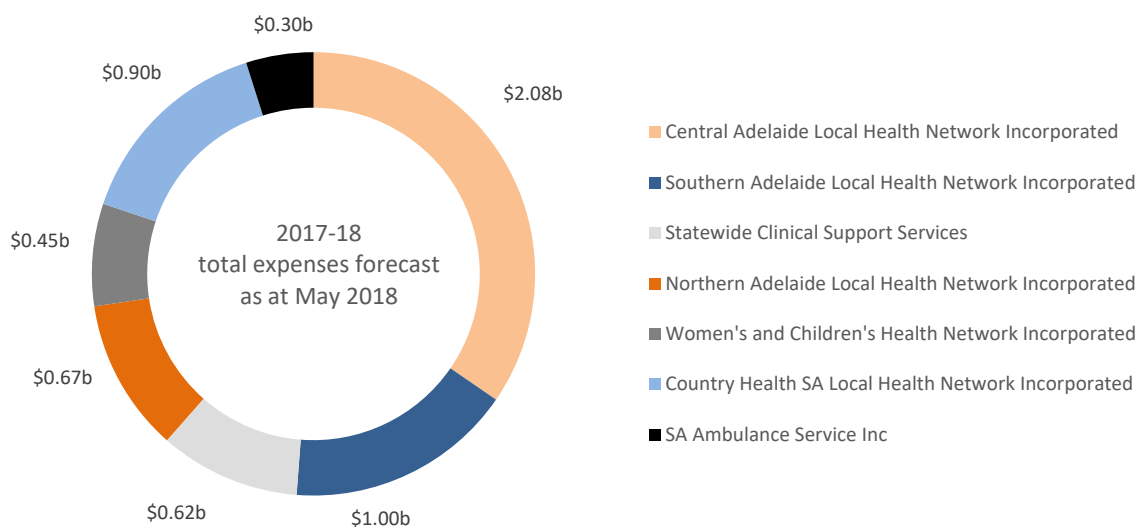
Figure 5.1: Contribution of LHNs and SAAS to the unfavourable budget variance



Source: DHW's Portfolio Performance Reports.

Figure 5.2 shows the forecast total expenditure of each LHN and SAAS as at May 2018. Comparing the two charts shows that CALHN and Southern Adelaide Local Health Network Incorporated are not only the largest contributors to the budget overspend, but their proportion of overspend to total expenditure is considerably higher than the other LHNs and SAAS. It also shows the Country Health SA Local Health Network Incorporated (CHSALHN) contribution to the overspend is proportionately lower.

Figure 5.2: Forecast total expenditure of LHNs and SAAS



Source: DHW's Portfolio Performance Reports.

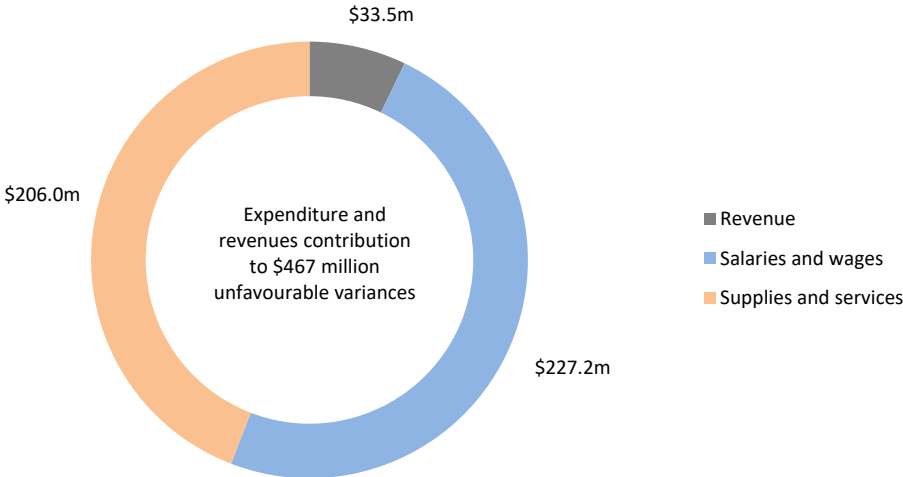
The Portfolio Performance Report May 2018 shows that the unfavourable variances were estimated to be due to three Health sector defined categories, shown in figure 5.3.

Figure 5.3: Categories contributing to unfavourable variances

Categories contributing to unfavourable variances	\$'million
Savings	103.7
Activity	60.4
Other inefficiencies and benefits	302.5
Total	466.6

The Portfolio Performance Report May 2018 also shows the nature of the expenditure and revenues contributing to the budget overspend. The most significant contribution to the overspend came from salaries and wages.

Figure 5.4: Expenditure and revenues contributing to budget overspend

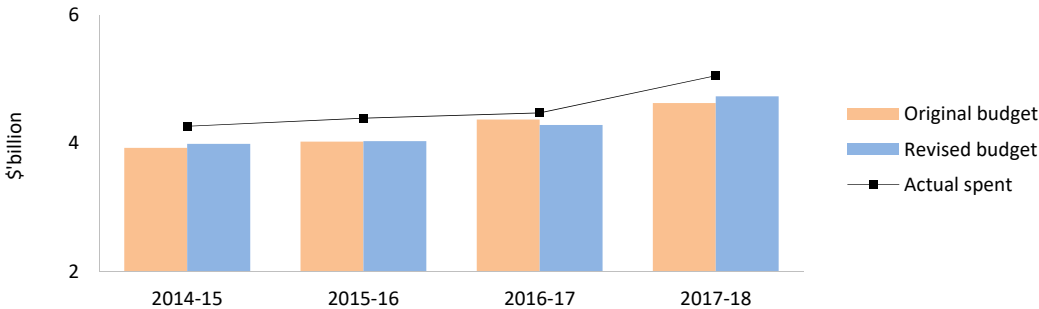


Source: DHW’s Portfolio Performance Reports.

5.2 Total LHN expenses

Figure 5.5 shows that LHN expenditure growth was relatively consistent over the three years from 2014-15 to 2016-17. In 2017-18 expenditure grew considerably, coinciding with the opening of the new Royal Adelaide Hospital (RAH).

Figure 5.5: LHN expenditure growth



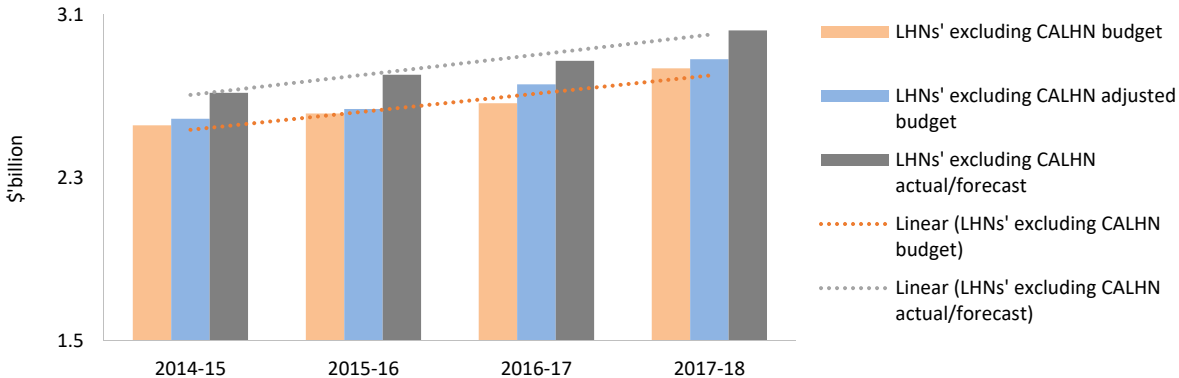
Source: DHW’s Portfolio Performance Reports.

A key factor in the growth in budget in 2016-17 compared to the prior year was the expected opening of the new RAH and the associated borrowing costs. The downward revision of the 2016-17 budget was favourably influenced by an underspend of \$143 million in borrowing costs resulting from the delay in opening the new RAH.

5.2.1 LHNs (excluding CALHN)

Figure 5.6 shows the LHNs’ (excluding CALHN) total budget and actual expenditure for the four years to 2017-18. CALHN was excluded as the impact of new RAH in 2016-17 and 2017-18 is significant and detracts from showing trends over the years. Figure 5.6 shows that each year actual expenditure exceeded budget. The trend lines show that expenditure growth is relatively consistent and appears reasonably predictable. It also shows that total budgets in each of the last three years were set below the previous year’s actuals.

Figure 5.6: Budget and actual expenditure for LHNs

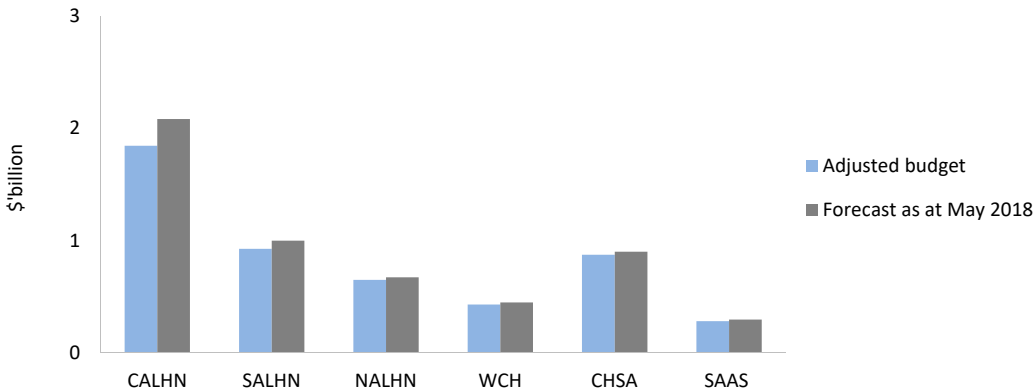


Source: DHW’s Portfolio Performance Reports.

To achieve the budgets provided by DHW, LHNs would need to not only reverse health expenditure growth trends but spend at levels lower than previous years.

Figure 5.7 shows LHNs and SAAS budget and actual expenditure for 2017-18 (as forecast in May 2018).

Figure 5.7: 2017-18 budget and actual expenditure

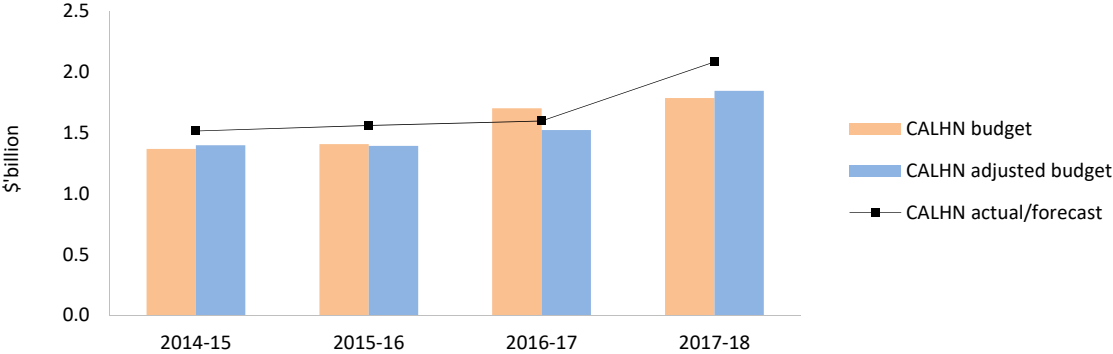


Source: DHW’s Portfolio Performance Reports.

5.2.2 CALHN

Figure 5.8 shows the significant increase in CALHN’s total expenses in 2017-18.

Figure 5.8: CALHN’s budgeted and actual expenditure



Source: DHW’s Portfolio Performance Reports.

6 The SA Government's new governance and accountability framework

The new SA Government announced its intention to amend health governance arrangements in two stages.⁶ The first stage was completed in August 2018 when the Amendment Act was proclaimed. It will come into operation on 1 July 2019. The second stage is to establish a new governance and accountability framework for the public health system as discussed in section 4.

The following summarises some key elements of the Amendment Act:

- The first object of the *Health Care Act 2008*, to enable the provision of an integrated health system that provides optimal health outcomes for South Australians, is unchanged.
- A new object of the Act was added being 'to facilitate the efficient and effective governance and oversight of incorporated hospitals through the establishment of governing boards.'
- A principle is added, to be applied in the operation and administration of the Act, that health services should be provided as part of an integrated system 'that achieves an effective balance between local decision-making in relation to incorporated hospitals and health system planning, integration and management.'

6.1 Chief Executive, DHW functions and responsibilities

The functions and responsibilities of the Chief Executive, DHW were amended. The Chief Executive, DHW will remain responsible to the Minister for the overall management, administration and provision of health services within the Minister's portfolio and for ensuring that DHW has a leadership role in the administration of health services.

The functions of the Chief Executive, DHW will include contributing to and implementing state-wide service plans that apply to incorporated hospitals.

The provisions for management arrangements of an incorporated hospital will be abolished. These amendments will change the role of the Chief Executive, DHW to remove direct control and responsibility for the administration of an incorporated hospital and to appoint a chief executive officer of an incorporated hospital.

6.2 Board governance

The Amendment Act provides for LHNs to be governed by a board. Governing boards will be appointed by the Minister for Health. People appointed to a board are to collectively have, in the opinion of the Minister, knowledge, skills and experience necessary to enable the board to carry out its functions effectively.

⁶ Hansard, House of Assembly, 25 July 2018, page 1751.

The SA Government has stated it intends for the boards to be fully operational by 1 July 2019.⁷

The functions of a governing board include:

- to ensure the operations of the incorporated hospital are carried out efficiently, effectively and economically
- to ensure the incorporated hospital manages its budget so that performance targets are met
- to ensure strategic plans to guide the delivery of services are developed for the incorporated hospital and to approve those plans
- to provide strategic oversight of and monitor the incorporated hospital's financial and operational performance
- to manage performance against the performance measures in the service agreement between the incorporated hospital and the Chief Executive, DHW
- to cooperate with other providers of health services, including providers of primary health care, in planning for and providing health services
- to liaise with the boards of other incorporated hospitals and the Chief Executive, DHW in relation to both local and state-wide initiatives for the provision of health services.

Governing boards will be empowered to appoint, after consultation with and confirmation by the Chief Executive, DHW, a chief executive officer of an incorporated hospital.

The chief executive officer of an incorporated hospital will be responsible for managing the operations and affairs of the hospital and is accountable to, and subject to the direction of, the governing board for the hospital in undertaking that function.

The governing board for an incorporated hospital must:

- comply with any directions of the Minister and any directions of the Chief Executive, DHW
- comply with any DHW policies specified by the Minister or the Chief Executive, DHW to apply to a governing board in the performance of its functions
- not exercise a function in a way that is inconsistent with the exercise of a function by the Chief Executive, DHW (including a function that has been delegated to the Chief Executive, DHW).

Governing boards will be established for each of the LHNs as they are currently constituted, except for CHSALHN, being the:

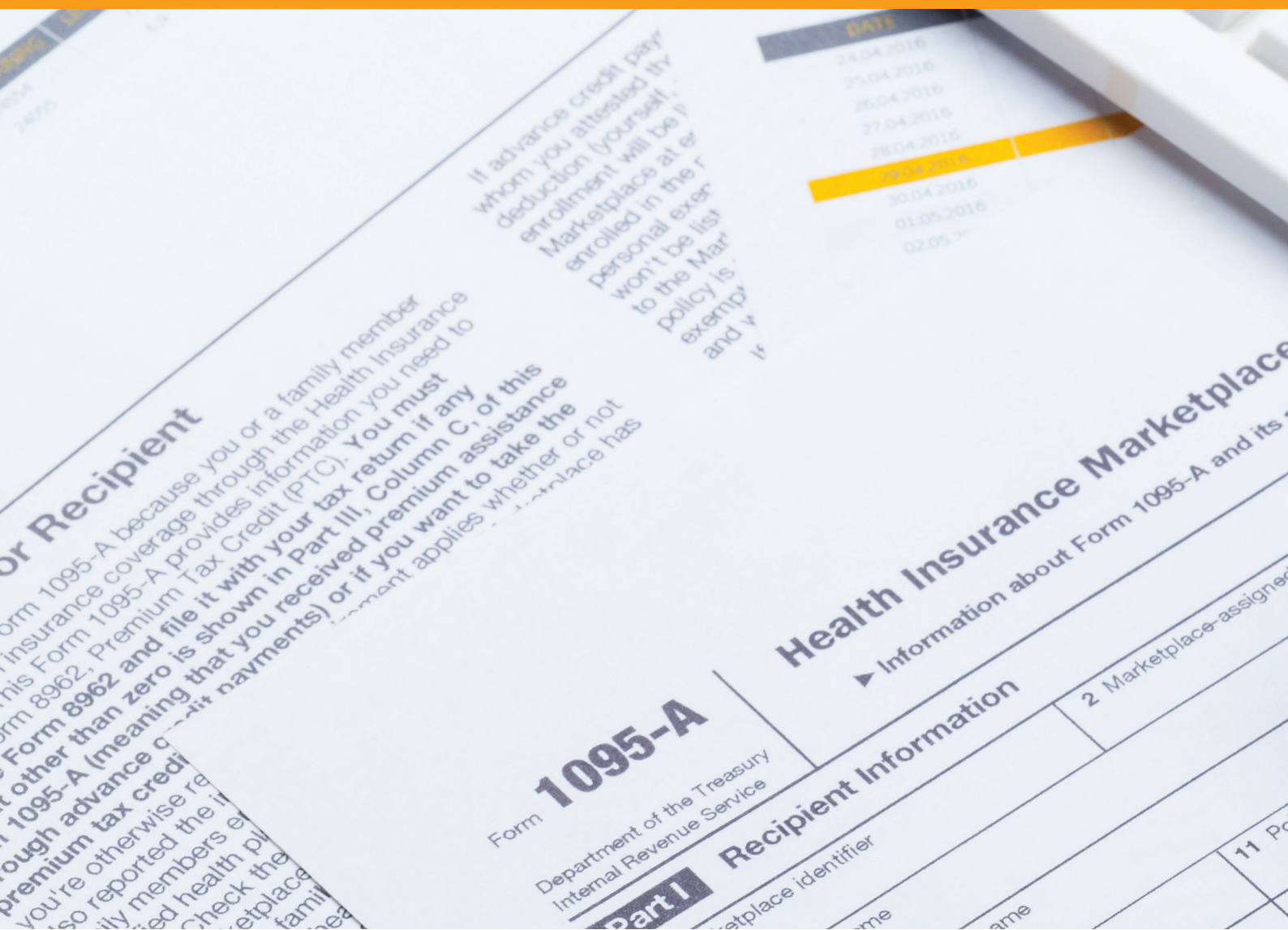
- Central Adelaide Local Health Network Incorporated
- Northern Adelaide Local Health Network Incorporated
- Southern Adelaide Local Health Network Incorporated
- Women's and Children's Health Network Incorporated.

⁷ Hansard, House of Assembly, 25 July 2018, page 1751.

In country South Australia, six new regional incorporated hospitals were established, based on the current regional boundaries operated by CHSALHN being the:

- Barossa Hills Fleurieu Local Health Network Incorporated
- Eyre and Far North Local Health Network Incorporated
- Flinders and Upper North Local Health Network Incorporated
- Riverland Mallee Coorong Local Health Network Incorporated
- South East Local Health Network Incorporated
- Yorke and Northern Local Health Network Incorporated.

They will take over the functions of providing health services from CHSALHN from 1 July 2019.



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Form 1095-A provides information you need to
Form 8962, Premium Tax Credit (PTC). You must
Form 8962 and file it with your tax return if any
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Health Insurance Marketplace

Information about Form 1095-A and its

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Department of the Treasury
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Part I

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