



Government of Western Australia
Department of Health

Department of Health Notional Contracted Services Local Hospital Network

Service Agreement 2015-16



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1. Service Delivery Commitment

This Agreement sets out the shared intention to work in partnership to improve health outcomes for all Western Australians and ensure the sustainability of the Western Australian public health system.

The Parties agree that the Department of Health (the Department) and the Health Service Provider will work in partnership to:

1. improve patient access to services and public hospital efficiency
2. improve standards of clinical care
3. improve system performance
4. improve system transparency
5. improve accountability for financial and service performance.

This Agreement is in accordance with enabling Western Australian (WA) Legislation. This Health Service is established under Sections 15 and 16 of the *Hospitals and Health Services Act 1927*. The Minister for Health is incorporated as the Metropolitan Health Service under Section 7 of the *Hospitals and Health Services Act 1927*, and has delegated all of the powers and duties as such to the Director General of Health.

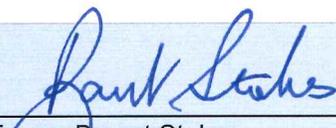
The Agreement is also in accordance with the *National Health Reform Agreement (2011)*. The Department, through the Director General, will retain responsibility for system-wide coordination and policy; resource acquisition, allocation and stewardship; purchasing and regulation. This agreement is to be read in conjunction with the WA Health Funding and Purchasing Policy Guidelines 2015-16 (the Guidelines).

The Parties hereby confirm their commitment to this Service Agreement. The Director General of Health agrees to provide funding and other support to the Health Service Provider as outlined under 'Role of the System Manager' in the Guidelines.

The Health Service Provider agrees to meet the service obligations and performance requirements outlined under 'Role of the Health Service Provider' in the Service Agreement.

The Director General of Health will continue to emphasise, as a priority, the importance of state and national safety and quality standards across the State's health system. This Service Agreement recognises the priority commitment that the Health Service Provider has in delivering improvements in safety and quality health service provision - consistent with the level of care consumers would expect from WA health services.

Signed Acceptance:



Professor Bryant Stokes
Acting Director General
Department of Health

Date: 23.7.15



Angela Kelly
Assistant Director General
Purchasing and System Performance

Date: 21/07/15

2. Background

Notional Contracted Services Determination

The Department Notional Contracted Services Local Hospital Network (LHN) consists of an aggregation of private and not-for-profit health service providers which provide contracted public hospital services for the Department.

The Department notional contracted services LHN includes in-scope health services which are eligible for a Commonwealth funding contribution.

As prescribed by the Administrator of the National Health Funding Pool, the notional contracted services LHN is not required to meet the LHN governance arrangements set out in clauses D11 to D21 (clause A54(a)) of the National Health Reform Agreement 2011.

Nonetheless, all other requirements and responsibilities outlined in the National Health Reform Agreement (and National Health Reform Act 2011) will apply to the Department notional contracted services LHN.

This Service Agreement is between the Director General of Health as the delegated 'Board' (herein referred to as 'WA Health') and the specified Health Service Provider. Both parties acknowledge that this Service Agreement follows policy, planning and performance frameworks as outlined below:

- WA Health Strategic Intent 2015-2020
- Clinical Services Framework (CSF) 2014-2024
- Clinical Governance Guidelines
- Annual Performance Management Framework 2015-16.

The Agreement:

1. Applies from 1 July 2015 to 30 June 2016. The Agreement does not override existing laws, agreements, public sector codes, statutes, government policies or contracts.
2. Integrates organisational objectives and the work of the Health Service Provider.

The performance evaluation of this Service Agreement is to be undertaken as prescribed in the Annual Performance Management Framework 2015-16.

The Health Service Provider will ensure that structures and processes are in place to comply with this Service Agreement and fulfil its statutory obligations and to ensure good corporate governance, as outlined in relevant legislation, WA Health operational directives, policy and procedure manuals and technical bulletins.

WA Health Strategic Intent 2015-2020

The Strategic Intent defines WA Health's overarching vision, values and priorities. It outlines a vision of *delivering a safe, high quality, sustainable health system for all Western Australians*.

WA Health's Code of Conduct identifies the values that are fundamental in how employees perform their work and describes how these values translate into action. The six values are; *Quality Care, Respect, Excellence, Integrity, Teamwork and Leadership*.

WA Health's strategic priorities are focused on a continuum of care to support and guide health care through integrated service delivery from prevention and health promotion, early intervention, primary care through to diagnosis, treatment, rehabilitation and palliation.

Ensuring people in Western Australia receive safe, high quality and accessible health services underpins the strategic priorities. This includes delivering health services that are patient-centred, based on evidence and within a culture of continuous improvement

WA Health Vision

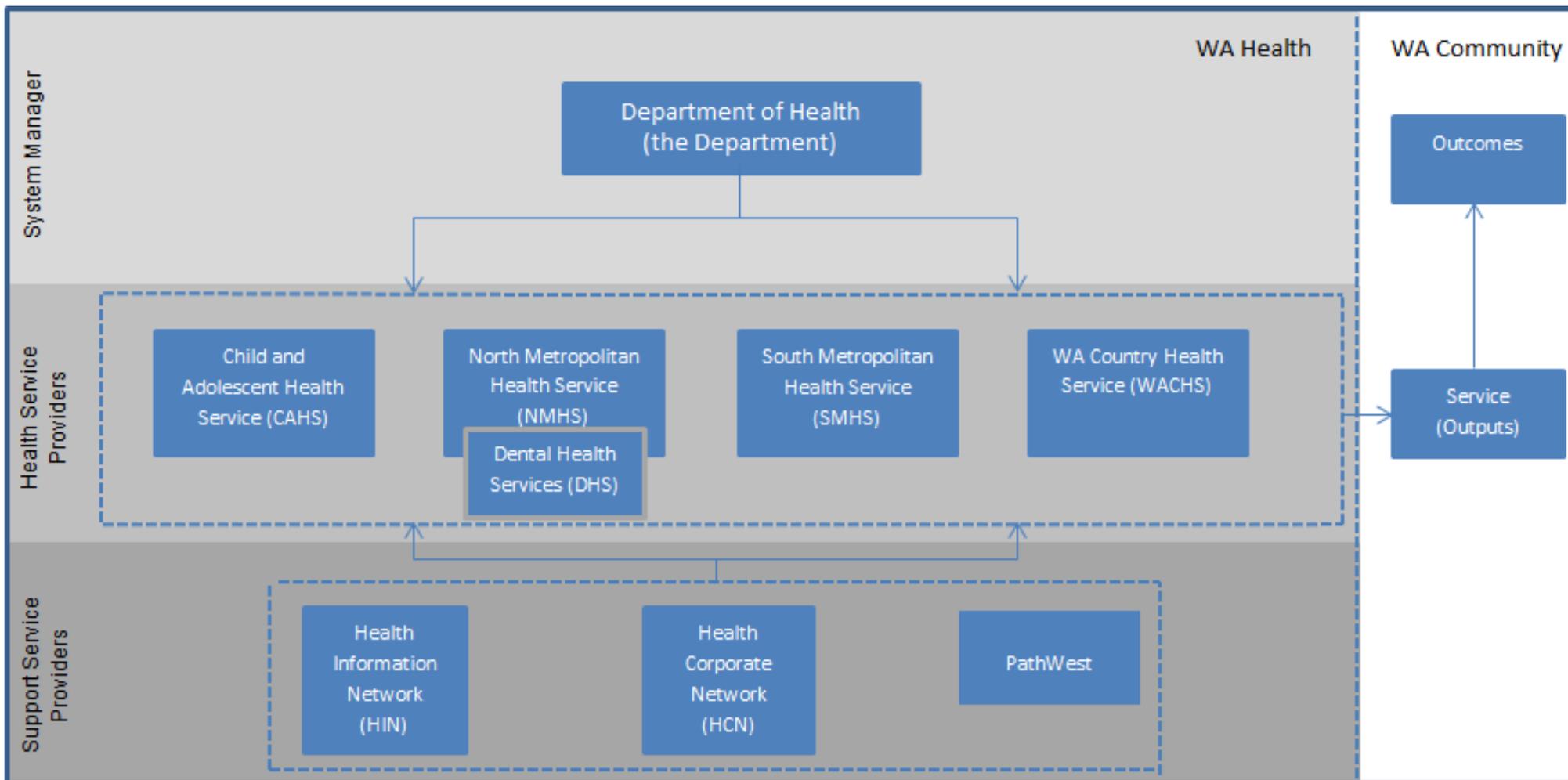
Delivering a safe, high quality, sustainable health system for all Western Australians.

WA Health Service Delivery Structure

For the purposes of this Service Agreement, the WA Health Organisational Structure comprises of the Department, Health Service Providers and Support Service Providers operating as separate legal entities, as outlined in *Figure 1*.

All public hospitals and services within Western Australia are accountable through, and report on the delivery of health services provided and outcomes achieved.

FIGURE 1: Link Between the Department and Organisational Units, with Health Service Provider Outputs and Community Outcomes

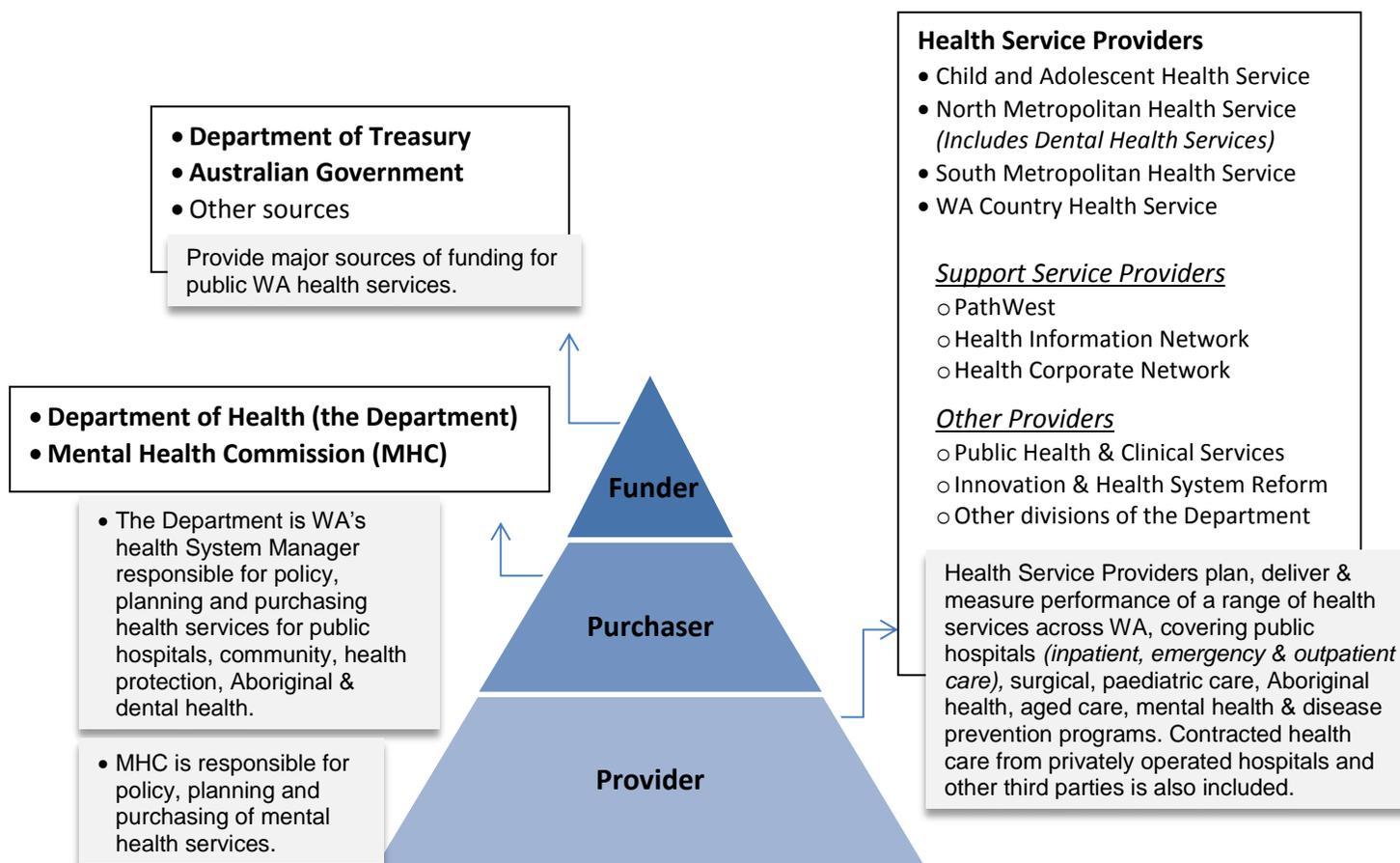


Roles and Responsibilities

[The Guidelines](#) more comprehensively delineate the roles and responsibilities for the relevant organisations within WA Health that are accountable under the Service Agreement.

Figure 2 provides an overview of the roles and responsibilities relating to the delivery of health services within WA. This is designed to support the development of an operationally autonomous health system as per the Budget and Resource Allocation (B&RA) Process.

FIGURE 2: Roles and Responsibilities aligned with the Budget and Resource Allocation (B&RA) Process
 Further information on the *Funder, Purchaser and Provider Roles and Responsibilities* is available in [section 2](#) of [the Guidelines](#).



3. Budget & Resource Allocation (B&RA) Process for 2015-16

Setting and Distribution of WA Health Budget

For 2015-16, WA Health’s total approved expense limit for the WA public health system is \$8.15 billion, accounting for over a quarter of the State’s total expenditure for general government services. This represents a 1.28% increase over the estimated out-turn for 2014-15.

As part of the 2015-16 budget submission, WA Health provided the State Government with advice as to the likely volume of weighted inpatient activity, Emergency Department (ED) activity, hospital based outpatient activity and block services expected for 2015-16 and for each year of the forward estimates. This approach allows the State Government to make informed decisions through the annual budget process about the quantum of activity to be delivered by WA Health within the available State resources.

Method for Distributing the WA Health Budget

For 2015-16, the Department will continue to use an activity based allocation methodology for Health Service Providers. In broad terms, this methodology includes:

- activity based allocations based on the Independent Hospital Pricing Authority (IHPA) 2015-16 model with adjustments applied to suit WA Health specific funding requirements.
- activity based allocations for 2016-17 onwards are based on the established growth outlined in the CSF and its demand and capacity modelling.
- adjustments for circumstances such as budget constraints as well as contracted privately-provided public hospital services, post-CSF arrangements, and/or other relevant factors.

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

Health Service Providers

The base Activity Based Funding (ABF) allocation for WA Health Service Providers is determined by multiplying the Projected Average Cost (PAC) by the targeted volume of activity, expressed as WAUs. The budget is built by describing volume in Weighted Activity Unit’s (WAUs) by the Health Service Providers’ PAC which is \$5,122 for 2015-16.

Health Service Providers allocate budgets to their respective hospitals based on a model that reflects their expected activity and a price per WAU that includes a Community Service Subsidy (CSS) to the base PAC price. This adjusted price is called Health Service Allocation Price (HSAP). Under the WA ABF Operating Model, the funding allocation to Health Service Providers is based on targeted activity levels (expressed as WAUs) for each service stream of their respective Health Services multiplied by their respective HSAP.

FIGURE 3: ABF funding allocation for Health Service Providers



Further information on Health Service Provider Resource Allocation is available at *section 6.2.2 of [the Guidelines](#)*.

State-wide Support Service

The State-wide Support Service comprises the following entities:

- PathWest
- Dental Health Services
- Queen Elizabeth II Medical Centre Trust
- Quadriplegic Centre

For 2015-16, the Statewide Services were funded on a budget-to-budget methodology. Cost growth of 2.25% was flowed through to all Statewide Services budget holders. Budget Holders are funded for financial products including Riskcover premium payments for 2015-16.

Mental Health Services

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

Annual Service Agreements between the MHC and the Department are developed for the purchase of four funding categories of mental health services, namely:

- inpatient services
- non-admitted services
- teaching training and research

- and other miscellaneous services from the State's public Health Service Providers'.

The Department, the Office of Mental Health, and the MHC work closely to ensure alignment of relevant Service Agreements and associated schedules.

The continual development of clear processes and schedules will allow for more transparent funding allocations and monitoring at Health Service Provider level in 2015-16 and subsequent financial years.

As outlined in *Section 3.2 Purchaser Policy of the Guidelines*, a *Western Australia Mental Health and Alcohol and Other Drug Services Plan 2015-2025* was released for consultation in late 2014. The above plan outlines the strategic direction for the State's public mental health services and key areas for future reform. A revised version of the plan is expected to be endorsed by Cabinet by June 2015. Starting in 2015-16, the MHC intends to undertake targeted purchasing services from the Department, in accordance to the plan directives.

A significant change for 2015-16 is the introduction of WA's new *Mental Health Act 2014*. The new legislation is a key element in the government's mental health reform agenda and places individuals and families at the centre of mental health treatment and care.

4. Key Outcomes and Priorities

Priorities include:

- meeting demand for emergency services and meeting the National Emergency Access Target
- managing elective surgery waitlists and meeting National Elective Surgery Target
- improving capacity for increasingly complex patients
- development of cancer and palliative care services
- expansion of obstetric and neonatal services
- increasing capacity and use of rehabilitation, aged care and ambulatory services
- enhancing mental health service delivery
- participation in the National Health Reform agenda.

Safety, Quality and Risk

The Health Service will deliver a safe, efficient and effective health service for the community through priority areas including:

- improved involvement of patients in their care
- promoting ethics, integrity and professional conduct of all staff
- risk management systems to prevent, control and minimise risk exposure
- employee health and safety
- delivery of high standards of care for all.

Output Classes and Statement of Forecast Service Performance

One of the functions of this Service Agreement is to show how the Health Service Provider will evaluate and assess what services and products are delivered in 2015-16. For each output area outlined in the relevant Schedules there are agreed performance measures and targets, some of which are aligned to national reporting requirements.

These measures and targets will be subject to an annual audit carried out by the State Government's Office of the Auditor General.

The performance measures are specified in the Annual [Performance Management Framework](#).

Table 2 demonstrates the linkages between the WA Health outcomes, output classes and outputs.

TABLE 2: WA Health Outcomes, Output Classes and Outputs

OUTCOMES			
Restoration of patients’ health, provision of maternity care to women and newborns and support for patients and families during terminal illness.		Enhanced health and well-being of Western Australians through health promotion, illness and injury prevention and appropriate continuing care.	
Output Classes	Outputs	Output Classes	Outputs
Public Hospital Admitted Patients	<ul style="list-style-type: none"> • Acute Services • Elective Services • Subacute Services • Rehabilitation Services • Diagnostic Services • Maternity Services • Pharmacist • Services • Specialised State-wide Services 	Prevention, Promotion and Protection	<ul style="list-style-type: none"> • Health Promotion • Screening Programs • Chronic Disease Management
Home-based Hospital Programs	<ul style="list-style-type: none"> • HITH • RITH 	Aged and Continuing Care	<ul style="list-style-type: none"> • Home-based Support Services • Respite Services
Palliative Care	<ul style="list-style-type: none"> • Inpatient and Community Care 		
Emergency Care	<ul style="list-style-type: none"> • Acute Services • Diagnostic Services • Pharmacist Services 		
Public Hospital Non-admitted Patients	<ul style="list-style-type: none"> • Allied Health • Medical • Nursing 	Mental Health	<ul style="list-style-type: none"> • Community Services
Mental Health	<ul style="list-style-type: none"> • Acute Services 		

5. Health Services Management

Key Mechanisms for Performance Intervention

Full details of the performance management process are specified in the Annual Performance Management Framework 2015-15, and outlined in this agreement.

Performance Objectives

The Health Service Provider seeks to provide and fund health services on a basis that is equitable, accessible, integrated and sustainable for the population in their catchment area.

The purchasing priorities are:

- to put the patient first and provide appropriate care close to where people live
- to increase the emphasis on more cost-effective primary and community care to reduce the demand for hospital services
- to deliver quality and accessible services within available resources
- to achieve targets for emergency, inpatient, outpatient, ambulatory and elective surgery performance
- for Health Service Providers to be clinically and financially sustainable.

Review of the Service Agreement

The review of this Agreement and performance against targets will be undertaken at the end of each financial year (or earlier if required). The aim of the review is to strengthen and improve process and practices which lead to improvements in WA Health performance. The findings of the review may be submitted to the Minister for Health for consideration.

Key Financial Management Considerations

[The Guidelines](#) captures key financial considerations in [Section 6.2.7](#). This section is designed to highlight the financial policy outcomes that impact on the 2015-16 B&RA Process for Health Services.

Key modifications include Own Source Revenue (OSR) Targets and Revenue Reform, as well as Savings and Corrective Measures (e.g. Efficiency Dividends, Procurement Savings, Targeted Separation Scheme and Workforce Renewal Policy).

6. Master Schedule - Total Expenditure View

	2015-16 Budget	
	WAUs (#)	Budget (\$)
Total	16,686	82,946,106
ACTIVITY BASED SERVICES	16,686	82,946,106
Schedule A - Inpatient	4,970	24,705,870
Schedule B - Emergency Department	—	—
Schedule C - Non Admitted	11,716	58,240,236
Schedule C1 - Non Admitted - Aggregate	—	—
NON-ACTIVITY BASED SERVICES	—	—
Schedule D1 - Non Admitted Mental Health	—	—
Schedule D2 - Small Rural Hospitals	—	—
Schedule E - Public Health & Ambulatory Care	—	—
Schedule F - Teaching, Training and Research	—	—
Schedule G - Special Purpose Funding	—	—
Schedule H - National Partnership Funding	—	—
Schedule I - Financial Products	—	—
Schedule I2 - Savings and Corrective Measures	—	—

7. Commonwealth Activity and Funding

ABF Service group	National Efficient Price (NEP\$) (as set by IHPA)	Total expected NWAU (#) (modified for IHPA adjustments)	Commonwealth	
			Funding rate (%)	Contribution (\$)
Total activity funded	4,971	16,686	41.9%	34,739,080
Acute Admitted	4,971	1,727	40.2%	3,453,882
Admitted Mental Health	4,971	—	—	—
Sub-Acute (<i>includes MHC</i>)	4,971	3,243	39.7%	6,400,106
Emergency Department	4,971	—	—	—
Non Admitted	4,971	11,716	42.7%	24,885,092

8. Performance Management

Key Performance Indicators and the Performance Management Framework

The PMF was introduced in 2010-11 for ABF funded hospitals¹ in WA and consolidates performance reporting, monitoring, evaluation, management and intervention. The PMF has matured to become a system wide performance management framework focussed on enabling WA Health to achieve key priority areas as well as ensuring the WA health system is sustainable into the future and continues to deliver safe, high quality care for all Western Australians.

The PMF 2015-16 continues to be aligned to State and National strategic priorities. The PMF 2015-16 should be read in conjunction with other Department documents and publications including the following:

- [ABF/ABM Annual Performance Management Framework 2014-15](#)
- [WA Strategic Plan for Safety and Quality in Health Care 2013-2017](#)
- [Health Service Performance Report Performance Indicator Definitions Manuals 2015-16](#)
- [ABF/M Performance Management Strategic Directions 2014-15 and Beyond Consultation Framework](#)
- [Performance Reporting and Data Quality within the Performance Management Framework](#)

1.1 Performance Reporting, Monitoring, Evaluating and Management

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

against the KPIs occurs on a regular basis, with the level of performance assessed against an agreed target.

The PMF 2015-16 is monitored through the monthly Health Service Performance Report (HSPR) 2015-16. The HSPR 2015-16 has a strong focus on performance in key priority areas and is aligned to the WA Health Strategic Intent 2015-20. The HSPR provides targeted and timely information and analysis to assist in managing performance.

The HSP enables Service Providers to understand their performance against system management obligations.

Departmental Assessment of Performance

The performance of Service Providers is monitored regularly against the KPIs, targets and thresholds specified in the HSPR. Performance review meetings are held monthly between the DOH Health, as the System Manager, and each Health Service, as the Service Provider. The performance review meeting is held as part of the monthly Board meetings. Sustained high performance may lead to less frequent performance review meetings. More frequent meetings are held where there are emerging performance deterioration or significant, continuous under performance.

Standard Monitoring and Assistance Required are the two proposed intervention levels in the 2015-16 financial year. The level of intervention dictates the action required by the Service Providers and/or the DOH. The Director General has the discretion to escalate or de-escalate concerns to higher or lower levels based on an assessment of progress with the recovery plan.

¹ Note: ABF funded hospitals include the metropolitan hospitals and the WA Country Health Service regional resource centres and integrated district health centres.

Actions Arising from Performance Assessments

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

The level of intervention will be based on:

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

Standard Monitoring

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

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

Assistance Required

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

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

1.2 Service Agreements

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

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

9. Financial Management Standard

It is essential to improve financial management and accountability in the WA Health sector. To assist in this improvement the following Financial Management Standard (the Standard) outlines the criteria for better practice and guides Health Service Providers in improving their financial management. It focuses Health Service Providers on the internal organisational procedures and processes to support and improve financial management practice and accountability.

The principles of the Standard are consistent with Government expectations for public sector agencies. The Standard contains twelve criteria for improved financial management and accountability:

- Criterion 1 – The financial objectives for the organisation are clearly defined, approved by the Chief Executive and are consistent with Department and Government expectations.
- Criterion 2 – The Chief Executive’s responsibility for financial management is clearly defined and is supported by documented lines of financial accountability throughout the organisation.
- Criterion 3 – A finance and audit committee is established as oversight for the financial aspects of governance.
- Criterion 4 – Standing financial instructions with regard to Treasurer’s Instructions and AAS are updated to reflect current requirements, and these have been formally adopted by the Chief Executive, disseminated and implemented throughout the organisation.
- Criterion 5 – Financial risk management processes exist throughout the organisation.
- Criterion 6 – There is an effective and documented system of internal control for all financial management systems.
- Criterion 7 – There is an adequate resourced, training and competent finance function.
- Criterion 8 – Staff including managers and the Chief Executive are provided with adequate information, instructions and training on financial management.
- Criterion 9 – The Chief Executive reviews the effectiveness of its system of internal control for financial management at least annually.
- Criterion 10 – The Chief Executive receives regular reports on financial performance and activity, and is made aware of significant risks, determines and takes appropriate action.
- Criterion 11 – The Executive Director of Finance (or equivalent) provides an annual assurance to the finance and audit committee on the effectiveness of the organisation’s financial arrangements based on this standard.
- Criterion 12 – The organisation can demonstrate that it has done its reasonable best to meet its key financial objectives.



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