ACT Government
Health

Office of the Director-General

Mr James Downie
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Dear Mr Downie

IHPA Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2017-18

I am writing in relation to the Independent Hospital Pricing Authority Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2017-18 (the Consultation Paper) that was publicly released on 30 September 2016 for stakeholder comment.

To this end, I am pleased to provide you with the ACT Government Health Directorate submission on the Consultation Paper (see enclosed).

I understand that the Consultation Paper is significantly different to other releases in the past as it contains different approaches on pricing and funding attached to the COAG agreed safety and quality measures affecting public hospital services provision.

I look forward to further developments on this safety and quality issue as work gathers momentum in the lead up to the drafting of and settling on the addendum to the National Health Reform Agreement which would contain elements of this health reform going forward.

Thank you for providing ACT Government Health Directorate with the opportunity to comment on the Consultation Paper.

Yours sincerely

Nicole Feely
Director-General
ACT Health

28 October 2016

Submission to the Independent Hospital Pricing Authority

IHPA Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2017-18

Background

The Independent Hospital Pricing Authority (IHPA) is seeking stakeholder comment on its Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2017-18 (the Consultation Paper). State and territory governments, the Commonwealth Government and other organisations have been invited to provide their feedback on the Consultation Paper which was publicly released on the IHPA website on 30 September 2016.

Following the public consultation round, IHPA is intending on using the input from this process to inform its development of the Pricing Framework for Australian Public Hospital Services 2017-18 that would entail details on the key principles, scope and approaches adopted by IHPA in the drafting of the National Efficient Price and National Efficient Cost Determinations for 2017-18.

ACT Government Health Directorate Position

ACT Health has carefully considered the Consultation Paper noting that it prefaces for the first time since commencement of the National Health Reform Agreement 2011, policy elements on hospital patient quality and safety that are bound to affect pricing and funding of public hospital services under the current national activity based funding system.

Keeping this in mind and the likely material financial impact on government budgets going forwards from the introduction of new policy around patient safety and quality, ACT Health would like to provide the following considered positions on the various questions posed to stakeholders in the Consultation Paper.

Australian National Subacute and Non-Acute Patient Classification

Consultation question

What additional areas should IHPA consider in developing Version 5 of the Australian National Subacute and Non-Acute Patient [AN-SNAP] classification?

ACT response

The suggestion of including co-morbidities and case complexity into the admitted patient AN-SNAP classification branches has merit as this would be in alignment with the current AR-DRG classification used for acute admitted patients. Having said this, IHPA needs to be mindful of the data burden placed on states and territories in reporting activity based funding data and the cost impost associated with this and striking the right balance between what is considered crucial and what could be left out without compromising clinical relevance and cost homogeneity.

Pricing mental health services

Consultation question

Should IHPA consider any further technical improvements to the pricing model used to determine the National Efficient Price for 2017-18?

ACT response

Given that IHPA has not yet identified a suitable proxy for 'mental health phase of care' - for which cost data will only become available in three years time - to inform the 2017-18 pricing model for admitted mental health patients, the ACT is of the view that the pricing model for this patient cohort should remain unchanged until such time there is costing information to guide the technical improvements.

Stability of the national pricing model

Consultation questions

Should IHPA further restrict year-on-year changes in price weights?
What are the priority areas for IHPA to consider when evaluating adjustments to NEP17?
What patient-based factors would provide the basis for these or other adjustments?
Please provide supporting evidence, where available.

ACT response

The current IHPA methodology of using three year moving average for pricing adjustments is supported for NEP17. For the ACT, this represents stability going forwards noting that by potentially restricting movements in price weights year-on-year this could run the risk of restricting meaningful shifts in actual patient costs. The fact that the national pricing model is predicated on the national cost data, we take comfort from this as it is likely that any

hospital or state/territory specific data anomaly will be smoothed out during the production of the national data set comprising data from all eight states and territories.

Pricing private patients

Consultation question

Should IHPA phase out the private patient correction factor in 2018-19 if it [is] feasible to do so?

ACT response

The private patient correction treatment to the national cost data should remain until such time the national cost data has been reported using IHPA Version 4 of the Australian Hospital Patient Costing Standards that according to IHPA will become available in 2017. This costing guideline is to include supporting information to assist states and territories in interpreting the standards on reporting private patient medical costs. Taking this into account, the ACT would support the phasing out of the correction factor no earlier than 2019-20 reflecting the likely availability of 2016-17 cost data that would have been developed using Version 4 Costing Standards.

Bundled pricing for maternity care

Consultation questions

Do you support IHPA's intention to introduce a bundled price for maternity care in future years?
What stages of maternity care and patient groups should be included in the bundled price?
Should IHPA include postnatal care provided to the newborn in the bundled price?
What other issues should IHPA consider in developing the bundled price?

ACT response

Price bundling of maternity care services is visible across some first world countries. The rationale provided in the Consultation Paper appears sound from the viewpoint of service delivery redesign. However, given that evaluation of such models is limited in places where this scheme has been implemented, the ACT would advise caution against rushing too quickly in adopting similar models in the Australian system.

IHPA's Clinical Advisory Group comprising medical experts is best placed in advising on the appropriate clinical services and patient groups for this maternity care model.

Overview of scope and approaches to pricing and funding

Consultation question

Is there support for pricing and funding models for safety and quality to be applied broadly across all types of public hospitals, all services, all patients and all care settings?

ACT response

Patient safety and quality in health care should be as broad as possible and should encompass all aspects of a patient's hospital journey within the predefined prevailing scope of the current health reforms. However, the development of any quality and safety measures must be backed by robust and clinically relevant data, currently present or planned for future collection.

Risk adjustment

Consultation question

What factors should be considered in risk adjustment for safety and quality in pricing and funding models for hospital care?

ACT response

Risk adjusting for patient centric factors and not those based on hospital casemix profiles is important. Quality and safety are intricately linked to patient outcomes first and foremost. Adjusting for risk factors such as patient age and medical complexity in pricing and funding models would be clinically meaningful for hospital acquired complications and avoidable hospital readmissions.

For example, some medical literature shows that dementia patients are more likely than non-dementia patients to acquire hospital complications, whilst some others indicate that older patients with dementia are 2.5 times more likely to experience one of four common hospital acquired complications than older patients who do not have dementia.

Criteria for assessing pricing and funding options

Consultation question

Do you agree with the use of these assessment criteria to evaluate the relative merit of different approaches to pricing and funding for safety and quality? Are there other criteria that should be considered?

ACT response

IHPA's suggestion of using the assessment criteria of preventability, equitable risk adjustment, proportionality to costs, transparency and ease of implementation in evaluating the relative benefits of different options for pricing and funding for safety and quality is acceptable as this evaluation matrix would make this process more objective and less

subjective. One further criterion worth considering in this regard is the need to harmonise the financial impact across various options. Since the incentive for change here is a financial one, it is important for IHPA to determine what the dollar amount is that is linked to currently unacceptable patient health outcomes with respect to safety and quality. This should then be the guiding principle in informing the various options for the pricing and funding models. In other words, various options put forward by IHPA should not produce significantly varying outcomes in a funding sense otherwise this would represent a system bias or flawed methodology.

Approaches to pricing and funding of sentinel events

Consultation question

Do you support the proposal to not fund episodes that include a sentinel event? If not, what are the alternatives and how could they be applied consistently?

ACT response

As it is widely accepted across the medical fraternity that sentinel events can be avoided and should 'never' occur and have very serious medical consequences, the ACT supports the absolute non-funding of patient episodes that are deemed medically to include a sentinel event.

Consultation question

Do you support the proposal to include a sentinel events flag to improve the timeliness and consistency of data that is used for funding purposes?

ACT response

ACT supports the proposal of a sentinel event flag to be provided by states and territories in the reporting of health reform data to IHPA and the National Health Funding Body.

Consultation question

Do you agree with IHPA's assessment of this option (not funding episodes with a sentinel event)?

ACT response

IHPA's assessment of no funding for patient episodes with a sentinel event is agreeable to the ACT.

Episode-level funding approaches to Hospital Acquired Complications (HACs)

Consultation question

What are the advantages and disadvantages of Option 1 which reduces funding for some acute admitted episodes with a HAC?

Do you agree with IHPA's assessment of this option?

ACT response

By excluding HAC related diagnoses to return a quality adjusted Diagnosis Related Group (DRG) that would be reflective of the removal of additional funding associated with a HAC under Option 1, this approach is suitable as it would provide payment to hospitals for all other clinical services that are non-HAC related. The disadvantage from IHPA's or the Commonwealth's point of view is that not all HAC related episodes would be adjusted downwards financially on the basis of DRG assignment. IHPA's assessment of Option 1 against its criteria is acceptable.

Hospital-level funding approaches to HACs

Consultation question

What are the advantages and disadvantages of Option 2 that adjusts funding to hospitals on the basis of differences in their HAC rates?
Do you agree with IHPA's assessment of this option?
What are the advantages and disadvantages of the approaches to risk adjustment?

ACT response

The IHPA pricing model to date has been based on patient characteristics. Pricing and funding has always been at the patient episode level. This model has merit and should be retained going forwards. To this end, a hospital-level funding approach for HAC adjustment under Option 2 is considered less favourable as compared to the approach offered under Option 1. IHPA's assessment of Option 2 against its criteria is acceptable notwithstanding ACT's preference for Option 1 for HAC funding adjustments.

Combined pricing and funding approaches to HACs

Consultation question

What are the advantages and disadvantages of Option 3 that combines funding incentives and penalties?
Do you agree with IHPA's assessment of this option?
Are there any other pricing or funding options that IHPA should consider in relation to HACs?

ACT response

A quality-adjusted national efficient price (NEP) with funding incentives for hospitals with the lowest HAC rates under Option 3 would unduly initially penalise all states and territories equally by lowering the NEP across all public hospital services. The intention of then making it up to states and territories in a reduced way by flowing back, say for example 50 per cent of the withheld funding, to those hospitals with the best performances on HAC rates goes

against the current thread of pricing and funding at the patient level. Option 3 therefore is not supported by the ACT. IHPA's assessment of Option 3 against its criteria is acceptable notwithstanding ACT's preference for Option 1 for HAC funding adjustments.

Responding to Condition Onset Flag (COF) data quality issues

Consultation question

How should IHPA treat hospitals with poor quality COF reporting?

ACT response

IHPA should monitor COF data quality in the future and against the agreed model for pricing and funding for safety and quality, for all hospitals and irrespective of the current data quality status. The reason being that the funding outcome or impact on states and territories will be dependent on this data quality and it will be essential that there is a level playing field for all concerned so that no is unfairly disadvantaged for HAC funding adjustments by reporting good quality COF data compared to others.

Timeframe for measuring avoidable hospital readmissions

Consultation question

What approach is supported for setting timeframes within which avoidable hospital readmissions are measured?

Is there Australian evidence (including guidelines or recommendations) that could be used to implement condition specific readmission timeframes?

ACT response

An approach predicated on condition-specific hospital readmission is advocated by the ACT in determining appropriate timeframes for this hospital avoidance measure. This would provide clinical relevance to the determined time periods and could be backed by empirical evidence using current hospital data.

Should current Australian data or evidence be lacking in informing condition-specific readmission timeframes then it might be reasonable to access international medical literature in formulating an approach for the Australian setting.

Readmissions to the same hospital or other hospitals

Consultation question

Is there support for pricing and funding models to be based on avoidable hospital readmissions within the same LHN?

ACT response

Since the ACT operates using a common patient identifier across ACT public hospitals, it is feasible for the ACT to support pricing and funding models for avoidable hospital readmissions at the Local Hospital Network level.

Implementation of an approach for avoidable readmissions

Consultation question

When should a pricing and funding approach for avoidable readmissions be implemented?

ACT response

Given the extensive work required in developing a sound methodology for avoidable hospital readmissions, it is advisable that an approach be carefully considered, drafted and implemented no earlier than 2018-19.

Evaluation

Consultation question

What do you think are the most important considerations for implementation of pricing and funding approaches for safety and quality?

Do you agree that IHPA would need to back-cast the impact of introducing new measures for safety and quality into the pricing and funding models?

ACT response

Whilst safety and quality is central to the delivery of good hospital patient care, it is not without a financial impost on states and territories in terms of the different approaches discussed in the Consultation Paper.

One of the important considerations worth mentioning here is the imperative for the pricing and funding approaches to encourage behaviour of hospital system managers in reporting safety and quality data. The right balance has to be struck in regards to financial penalties and the moral argument in promoting good patient health care outcomes. Undesired and unintended consequences resulting from this policy on safety and quality has to be mitigated through good design principles and a balanced approach on seeking overall health system improvements.

As per the current IHPA practice and requirement under the National Health Reform Agreement, any changes to IHPA's costing and pricing models requires IHPA to back-cast those changes to the base year data so that current year's Commonwealth health funding is calculated accurately. This methodology should apply in the case of any changes resulting from the introduction of safety and quality measures affecting pricing and funding.