



**National Health
Funding Body**

National Health Funding Body
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4 November 2016

Mr James Downie
Chief Executive Officer
Independent Hospital Pricing Authority
PO Box 483
DARLINGHURST NSW 1300

Dear Mr Downie,

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

Thank you for the opportunity to provide comment on the Independent Hospital Pricing Authority's (IHPA's) *Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2017-18* (Consultation Paper).

As you are aware, the IHPA's *National Efficient Price and Cost Determinations* are critical inputs to the Administrator of the National Health Funding Pool's (Administrator) calculation of the Commonwealth national health reform (NHR) funding for public hospital services. The proactive approach taken by IHPA through the consultation process with stakeholders is to be commended.

The Administrator and the National Health Funding Body (NHFB) welcome the progress on the policy initiatives raised by the Council of Australian Governments' *Heads of Agreement between the Commonwealth and States and Territories on Public Hospital Funding* in the Consultation Paper.

Our specific feedback is provided at Attachment A to this letter, including pricing for safety and quality. Acknowledging that there is further work required by jurisdictions, the IHPA and the NHFB, I look forward to collaborating with your agency in successfully implementing these reforms.

Please contact me on (02) 6289 7425 or at lynton.norris@nhfb.gov.au if you have any queries.

Yours sincerely,

Lynton Norris
Chief Executive Officer
National Health Funding Body

Attachment A

General comments:

Integrity of the Commonwealth NHR funding calculation

The primary focus for the Administrator and NHFB is the ongoing integrity of the Commonwealth NHR funding calculation. All initiatives (e.g. bundled pricing, pricing for safety and quality) outlined in the Consultation Paper should only be implemented once they are clearly defined, classified and reported.

The initiatives must be implementable over financial years, including the prior year. This may require the development of back-casted multipliers, a calculated proxy or, as best practice suggests, a minimum one year of shadow pricing.

Back-casting is an integral part of the Commonwealth NHR funding calculation, and the introduction of any new initiative must incorporate the ability to back-cast.

Specific comments:

Stability of national pricing model

The IHPA, through their National Pricing Model Stability Policy, generally restricts the year-to-year changes in price weights to 20 per cent. However, there is significant change in the inlier price weight for many DRGs between 2015-16 and 2016-17 which is greater than the 20 per cent threshold. This is due to the different DRG classification versions (version 7 and version 8, respectively) between the two years. The IHPA could consider further smoothing of year-on-year changes in price weights when there is an update to the classification version, to reduce the volatility in the Commonwealth NHR funding for public hospital services.

Bundling of maternity services

The NHFB acknowledges that the bundling of maternity care is extremely complex, with a number of options put forward in the Consultation Paper. The bundling of maternity services could have significant impact on the funding arrangements, as the Administrator currently funds all in-scope services individually, within the financial year.

The business rules for funding maternity bundled services need to consider:

- how the services (the components of the bundled service) will be identified and reported so there is no overfunding;
- how the bundling will work across different financial years, for cross border patients, or for patients that receive services between hospitals or across different local hospital networks; and
- how the bundled service may interact with the work undertaken on safety and quality, such as the impact of a HAC event (e.g. perineal trauma) on funding for the bundled event.

It is expected that the bundling of maternity services will impact the ability of the Administrator to undertake funding integrity analysis, to ensure that the Commonwealth NHR funded bundled maternity service did not receive funding through another Commonwealth program, e.g. Medical Benefits Schedule (MBS) or Pharmaceutical Benefits Scheme (PBS). Given the large quantum of funding associated with maternity care, it is critical that the implementation of this initiative is carefully considered.

Safety and quality pricing and funding

The Administrator and NHFB support the implementation of pricing and funding for safety and quality. Implementation of the proposed initiatives as outlined in the Consultation Paper will require the ability to identify and track the relevant services across patient location, service providers, and financial years. The development of a flag to identify services such as sentinel events would assist the Administrator to clearly identify these services and adjust Commonwealth NHR funding accordingly.

The implementation of the safety and quality initiatives will also require patient level data to be provided by all hospitals across all service categories to enable the associated funding adjustments for these events to be reflected in Commonwealth NHR funding. Currently, a number of states and territories provide the Administrator aggregate actual hospital activity data for Commonwealth NHR funding calculations, where individual patient services cannot be identified, including any sentinel events and hospital acquired complications.

As noted in the Consultation Paper, the proposals would apply to block funded hospitals. To effect safety and quality funding adjustments would require reconciliation of block funded hospitals, which is not current practice.

The NHFB commends the work undertaken to date on the development of a HAC list. Prior to implementation, clearer definitions are required of the HAC list events to enable the Administrator to adjust Commonwealth NHR funding during reconciliation.

Pricing and funding for avoidable readmissions will require the Administrator to have sufficient data to follow individuals of the relevant course of care. The business rules on how readmissions will be identified, as well as back-cast to the prior year, will need to be established before introduction.

The Administrator and the NHFB will assist jurisdictions and the IHPA in the pilot of pricing and funding for safety and quality.

The pricing and funding for safety and quality initiatives should consider data timeliness. The Consultation Paper notes that there is currently a two year time delay for the reporting of sentinel events. This timeframe may not be able to be incorporated into the Administrator's NHR funding calculation for the financial year in which the event occurs.