Australian Government

Department of Health

SECRETARY

17 August 2017

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

Dear Mr Downie James

Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19

I am pleased to provide the attached submission in relation to the Independent Hospital Pricing Authority's (IHPA) *Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19*.

The Department of Health (Department) recognises the considerable work of the IHPA in ensuring that the infrastructure for pricing Australian public hospital services remains fit-for-purpose and reflects up-to-date clinical approaches.

The Department encourages the IHPA to work closely with the National Health Funding Body to quantify the financial impact of all changes that are made in the Pricing Framework or to classifications as a result of this consultation process. This would assist with the implementation of these changes in 2018-19. The Department also strongly supports appropriate shadow implementation periods for all changes, to ensure that corresponding pricing mechanisms will operate as intended, to address any adjustments that may be required, and to support the states and territories in collecting the necessary data to support the successful implementation of the changes.

I welcome further discussion between the IHPA and the Department regarding the Department's submission. My contact with regard to this matter is Shannon White, Assistant Secretary, Health System Financing Branch on (02) 6289 5305 or at shannon.white@health.gov.au.

GPO Box 9848 Canberra ACT 2601

I agree to the release of the Department's submission on the IHPA website.

Yours sincerely

Martin Bowles PSM

Attachment A

Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19

Submission from the Department of Health

The Department of Health (the Department) welcomes the opportunity to provide comment on the *Consultation Paper on the Price Framework for Australian Public Hospital Services 2018-19* (the Consultation Paper).

The Department notes that the Independent Hospital Pricing Authority (IHPA) has sought comment on six areas within the Consultation Paper:

- Classifications used by the IHPA to describe public hospital services;
- Setting the National Efficient Price for activity based funded public hospitals;
- Setting the National Efficient Cost;
- Bundled pricing for maternity care;
- Innovative funding models; and
- Pricing and funding for quality and safety.

This submission addresses the questions posed by the IHPA throughout the Consultation Paper.

Classifications used by the IHPA to describe public hospital services

What additional areas should IHPA consider in developing Version 10 of the Australian Refined Diagnosis Related Groups (AR-DRG) classification system?

The Department supports the IHPA identifying any additional areas for consideration in developing Version 10 of the AR-DRG classification system through its Clinical Advisory Committee and relevant working groups, to ensure it remains fit-for-purpose and reflects up-to-date clinical approaches.

Do you support the phasing out of older versions of the Australian Refined Diagnosis Related Groups classification system?

The Department supports the general principle of phasing out of older versions of the AR-DRG classification system, provided the change does not affect the data quality and accuracy of relevant national data collections.

The Department suggests that the IHPA investigate how any in-scope public hospital services that are delivered in private hospitals can be coded with the same AR-DRG version that is used in public hospitals, in circumstances where different versions may be used. This will support greater data comparability.

The Department also encourages the IHPA to adopt a standard, published approach to the continued maintenance of older versions of the AR-DRG classification systems, so that all areas of the Australian health sector that use those older versions will be aware when they will become unsupported.

What time frame would be sufficient for the health care sector to transition to the more recent versions of the classification?

The Department encourages the IHPA to conduct targeted consultations with the health care sector regarding an appropriate timeframe for this transition, so that the various areas of the health sector are not unduly burdened by the change.

Do you support the proposal to shadow price non-admitted multidisciplinary case conferences where the patient is not present for the National Efficient Price for 2018-19 (NEP 18)?

The Department supports shadow implementation periods for all changes to classifications, to ensure that corresponding pricing mechanisms will operate as intended, to address any adjustments that may be required, and to support the states and territories (the states) in collecting the necessary data to support the successful implementation of the changes.

Do you support investigation of the creation of multiple classes in the classification for home ventilation?

The Department supports the ongoing work of the IHPA to ensure that public hospital services are accurately priced under an Activity Based Funding (ABF) model. The Department strongly encourages the IHPA to implement any changes to the classification with a shadow implementation period, and to work with the National Health Funding Body to ensure that the interpretation and implementation of these changes support the accurate calculation of National Health Reform (NHR) funding.

The Department also encourages the IHPA to consider the issues of pricing stability and transparency when considering changes to classifications, particularly when those classifications have been subject to multiple significant changes over recent years.

What other issues should be considered in the development of Version 2 of the Australian Mental Health Care Classification?

The Department recommends that the IHPA consider how the next version of the Australian Mental Health Care Classification can align with the *Fifth National Mental Health and Suicide Prevention Plan 2017-2022*, and any consequential changes that may be required to relevant national data sets, so that it can support better reporting against the plan as well as more accurately identifying mental health care costs.

The Department also suggests that the IHPA examine the operation of the 'mental health care type' used for episodes of admitted mental health care to ensure it is operating as intended, or to identify whether changes may be required to improve data quality.

Setting the National Efficient Price for activity based funded public hospitals

Should IHPA consider any further technical improvements to the pricing model used to determine the NEP for 2018-19?

The Department considers that the existing NEP model is adequate and fit-for-purpose for determining 2018-19 pricing. Any further technical improvements should only be considered if it can be demonstrated that they would:

- Materially affect the distribution of hospital funding, and that the benefits of the improved distribution would outweigh the costs involved in implementation; and/or
- Improve the consistency, quality and/or timeliness of the provision of hospital activity and cost data.

For future years, the Department encourages the IHPA to examine the current basis of the NEP model (using an average of the three most recent years of available hospital cost data) and consider transitioning to a more efficient pricing model.

What are the priority areas for IHPA to consider when evaluating adjustments to NEP18?

The Department is of the view that the priority areas for the IHPA to consider when evaluating adjustments to NEP18 are the value of the adjustments to improving outcomes in the health care system.

The Department supports Western Australia's view that the IHPA explore additional methodologies to the Remoteness Area and Indigenous Adjustments that may be required to better account for the costs of remoteness. When considering Western Australia's submission, the Department requests that the IHPA look at an alternative adjustment or a tiered adjustment, rather than just increasing the existing adjustments for all jurisdictions where these costs may not be incurred. The Department also recommends that when the IHPA examines this issue, it does so using patient-level data as evidence to support refined or new adjustment methodologies.

The Department also supports Queensland's suggestion to undertake a costing study on the appropriateness of making an adjustment for non-admitted home ventilation services between paediatric and adult patients.

What patient-based factors would provide the basis for these or other adjustments? Please provide supporting evidence, where available.

The Department supports the continued application of the IHPA's year-to-year price weight changes to ensure stability of funding for public hospital services. The Department encourages the IHPA to provide an annual report on the price weight growth over time.

Setting the National Efficient Cost

Should IHPA ensure that there is no financial penalty due to the transfer of public hospital services from ABF hospitals to block funded hospitals? If so, how should this be carried out?

The Department supports ongoing work by the IHPA to ensure that all public hospital services are appropriately funded, and where practicable that they are funded under an ABF approach, in accordance with the National Health Reform Agreement (NHRA).

The Department supports the principle there should be no financial penalty due to the transfer of services from ABF hospitals to block funded hospitals. Conversely, there should be no unintended financial gains resulting from the transfer. Rather, the funding approach (i.e. ABF or block funding) should accurately reflect the costs of providing the public hospital service to the patient.

If funding for a set number of services is transferred from an ABF hospital to a block funded hospital, it is worth considering the variability in this number. It is possible that not all identified services and patients that are supposed to be transferred from one location to another will actually transition. Where the transition of services from ABF to block hospitals is not realised (while funding is transferred) and the services in question are still occurring at the ABF hospital, funding for these services will effectively be duplicated and cause an artificial increase in block funding.

To support the transfer of public hospital services from ABF hospitals to block hospitals, the Department recommends that the IHPA seek patient-level data including costs from the states for the relevant years. This will provide an evidence base for whether the methodology for calculating the National Efficient Cost should be adjusted.

Do you support IHPA's proposal to continue to block fund residential mental health care in future years?

The Department supports the IHPA's decision to continue to block fund residential mental health care in 2018-19. However, the IHPA should reassess this decision in future years, or at a minimum when the next version of the Australian Mental Health Care Classification is implemented.

Bundled pricing for maternity care

Do you support the proposed bundled pricing model for maternity care?

The Department supports the overall principle of bundled pricing models as means of supporting the development and implementation of innovative approaches to care, leading to improved patient outcomes and health system efficiencies.

The Department notes that the IHPA has progressed in the development of a bundled pricing approach for maternity care and that it no longer proposes to introduce a bundled pricing approach for maternity care on 1 July 2018. The Department supports the continued work of the IHPA's Bundled Pricing Advisory Group to develop and publish a report later this year.

Do you agree with IHPA's assessment of the preconditions to bundled pricing?

The Department agrees with the IHPA's assessment of the preconditions to bundled pricing.

Do you support investigation of whether the Individual Healthcare Identifier or another unique patient identifier could be included in IHPA's national data sets?

The Department acknowledges the potential for greater efficiencies in public hospital funding from the inclusion of a unique patient identifier in the IHPA's national data sets. The Department supports the IHPA's investigation of the Individual Healthcare Identifier to determine whether it would be suitable for inclusion in the relevant national data sets, and a consideration of whether there may be other identifiers that could be used.

Innovative funding models

What issues should IHPA consider when examining innovative funding model proposals from jurisdictions?

The Department supports the introduction of innovative programs and services that have been developed by the states, which are intended to support better health outcomes for consumers and patients in their jurisdictions.

The Department supports the IHPA conducting an in-depth evaluation of the implementation issues identified in the Consultation Paper, so that possible double payments for services under ABF and block funding are prevented, and so that only genuine public hospital services are included in NHR funding.

The Department notes that many of the programs that have been proposed by the states to the IHPA for consideration as in-scope public hospital services are intended to reduce avoidable hospital readmissions or preventable hospitalisations. As part of the IHPA's examination of these programs, the Department requests that the IHPA seek data from the states in support of these claims. Detailed data, which may include patient-level data, will support a more complete understanding of how many readmissions or hospitalisations are being avoided and the benefits to the patient of these avoided admissions.

In addition to the IHPA's regular examination process, the Department also encourages the IHPA to conduct cost benefit assessments on each of the proposals. Cost benefit assessments will facilitate a greater understanding of the benefits derived for the Commonwealth and the states in funding new programs and services under NHR funding.

Should IHPA consider new models of value-based care, and what foundations are needed to facilitate this?

The Department encourages the IHPA to continue its work in this area, and supports the consideration of value-based funding models that deliver:

- improved health outcomes for consumers and patients;
- greater efficiencies in health and hospital systems;
- responsible and sustainable funding approaches; and
- greater transparency of costs.

Pricing and funding for quality and safety

Do you support the proposed risk adjustment model for Hospital Acquired Complications (HACs)? Are there other factors that IHPA should assess for inclusion in the model?

The Department supports the proposed risk adjustment model for HACs as a suitable method of reflecting the additional costs of providing hospital care which are attributable to the occurrence of a HAC in an episode of care.

Do you agree that HACs third and fourth degree perineal lacerations during delivery and neonatal birth trauma be excluded from any funding adjustment?

The Department supports the IHPA's assessment that episodes of care with third or fourth degree perineal lacerations during delivery and neonatal birth trauma be excluded from funding adjustments for NEP18.

The Department requests that the IHPA reconsider this assessment for NEP19 and future years, with a view to eventually including all HACs (as identified by the Australian Commission on Safety and Quality in Health Care (the Commission) in its national list of HACs) in the funding adjustment.

Further, the Department notes that in the Consultation Paper, the IHPA states 'it is currently not possible to identify unplanned admissions to intensive care in the national data sets, and therefore no funding adjustment is proposed for this HAC'. The Department encourages the IHPA to investigate changes to the relevant national data sets, in conjunction with the Australian Institute of Health and Welfare and the appropriate data standards committees, so that this HAC can be identified in future years.

What pricing and funding models should be considered by IHPA for avoidable hospital readmissions?

The Department notes that the Commission is currently undertaking work to identify a list of clinical conditions that are considered to be avoidable hospital readmissions, and the clinically-relevant readmission interval for each condition.

The Department anticipates that the IHPA will utilise this work to identify episodes of care that are avoidable readmissions and apply a financial adjustment for these instances, in accordance with the intent of the Addendum to the NHRA. The Department has no comment at this time on what specific financial adjustment models should be considered by the IHPA.

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

The Department agrees with the use of the assessment criteria identified by the IHPA to evaluate the merits of different financial adjustment models. The Department also suggests that the IHPA evaluates each model to determine whether it meets the intent of incorporating quality and safety into hospital pricing and funding, as outlined in clauses I59 and I60 of the Addendum to the NHRA.