

22.08.2017

Independent Hospital Pricing Authority
PO Box 483
Darlinghurst NSW 1300

Dear IHPA Secretariat

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

Medibank welcomes the opportunity to respond to the Independent Hospital Pricing Authority (IHPA) regarding the Consultation paper on the Pricing Framework for Australian Public Hospital Services 2018-19 (Pricing Framework Consultation Paper 2018-19) released in July 2017.

Medibank strongly supports the IHPA work program to develop classification systems used to describe hospital services and to manage data collections used to assess the cost of hospital services that are critical, independent elements to inform pricing of hospital services across both the public and private sectors.

Medibank has utilised the Australian Refined Diagnosis Related Groups (AR-DRG) classification since 2004 for funding hospital services on behalf of Medibank customers under arrangements with private hospitals. Therefore, Medibank is interested in the IHPA proposal in the Pricing Framework Consultation Paper 2018-19 to only maintain support for the most current version of AR-DRGs and the previous two versions.

The IHPA proposal is consistent with Medibank's recommendations in a recent submission to the [Senate Inquiry into the Value and Affordability of Private Health Insurance](#), where Medibank include the need to 'facilitate the adoption of updated diagnosis related group systems by private hospitals and private health insurers' as part of practical reform options.

In the Senate Inquiry submission, Medibank suggested a two-stage approach to move towards the adoption of more recent AR-DRG versions for contractual arrangements between private health insurers and private: an initial phase to move the private sector to the most current AR-DRG version; and a subsequent, ongoing phase, for continuously updating AR-DRG versions.

Recommendation 1: Medibank supports the IHPA proposal to phase out older versions of the AR-DRG classification system subject to Recommendations 2 and 3 below regarding the definition of the most current AR-DRG version and the enablers of transition to newer AR-DRG versions in the private sector.

The Pricing Framework Consultation Paper 2018-19 suggests that for 2017-18 AR-DRG version 9.0 would be the most recent version, leaving AR-DRG version 8.0 and 7.0 as the only other supported versions. This is based on AR-DRG version 9.0 being the latest version that has been developed, approved and released.

However, the funding of hospital services requires both the AR-DRG version and the associated hospital costs for each AR-DRG under that version, using costing study reports published by IHPA based on the National Hospital Cost Data Collection (NHCDC).

These costing study reports are produced separately for the private and public sectors, with the most recent cost report for the public sector based on AR-DRG version 8.0 whilst the latest private sector report is based on AR-DRG version 6.0x.

Since the AR-DRG classification system supports both the public and private sectors, the most recent AR-DRG version that can currently support funding of hospital services is AR-DRG version 6.0x despite this version being released back in 2011.

Recommendation 2: For the purposes of determining AR-DRG versions that require support from IHPA, Medibank recommends that IHPA defines the most recent AR-DRG version as the latest version released with hospital costs published by AR-DRG in both public and private sector cost reports.

The private sector currently lags substantially behind the public sector in the AR-DRG version with relevant hospital cost information for funding of hospital services. Medibank considers the single largest enabler for moving AR-DRG versions in the private sector is confidence in the publication of private sector cost reports.

Medibank currently has no certainty on substantive issues surrounding the publication of private sector cost reports including: confirmation that publication will proceed; level of private hospital participation; planned date of release; AR-DRG version used; relevance of hospital cost buckets included; and the transparency of hospital cost information released.

This lack of confidence is evidenced by three of the last six private sector cost reports not being published; whilst the last three private sector cost reports published all used the same AR-DRG version (6.0x) and there has been a substantive reduction in the transparency – and usefulness – of hospital cost information.

Recommendation 3: To enable the private sector to move to more recent AR-DRG versions, Medibank recommends that IHPA aligns standards for the NHCDC and publication of cost reports in the private sector with those for the public sector regarding use of the most recent AR-DRG version, mandatory participation for hospitals; and transparency of hospital cost information released by AR-DRG.

Finally, Medibank supports IHPA's proposal to introduce a phase out period before ending maintenance of older AR-DRG versions. Medibank's Senate Inquiry submission recommended that funding of hospital services between private health insurers and private hospitals should transition to the latest AR-DRG version within 18-months of their availability, excluding current contractual arrangements.

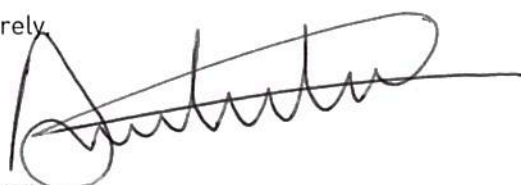
Some flexibility should be allowed to account for existing contractual arrangements with private hospitals that may extend over different time periods. Therefore, Medibank considers an initial three-year time horizon would allow sufficient time to transition to the most recent AR-DRG version.

As discussed above, the definition of the most recent AR-DRG version available needs to account for both the release and the publication of private and public sector cost reports on the AR-DRG version.

Recommendation 4: Regarding the timeframe to transition to the most recent AR-DRG version, Medibank recommends that IHPA allow a three-year period following the publication of both public and private cost reports on that AR-DRG version.

Medibank would welcome discussion with IHPA and engagement with other key stakeholders on implementation of these recommendations.

Yours sincerely



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