Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2021-22

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 the Australian Public Hospital Services 2021-22* (the Consultation Paper).

The Department notes that the Independent Hospital Pricing Authority (IHPA) has sought comment on eleven topics in the Consultation Paper. This submission address the following:

2. Addendum to the National Health Reform Agreement 2020–2025 (2020-25 NHRA);
3. Impact of COVID19;
4. The Pricing Guidelines ;
5. Scope of Public Hospital Services;
6. Classifications used to describe and price public hospital services;
7. Setting the national efficient price for activity based funded public hospitals;
8. Data Collection;
9. Treatment of other Commonwealth programs;
10. Setting the national efficient cost;
11. Alternative funding models; and
12. Pricing and funding for Safety and Quality

The Department acknowledges the impact COVID-19 has had on all levels of state and territory health resourcing, and is concerned about the impact of COVID-19 on future pricing. The National Pricing Model should not be distorted by temporary changes in activity and casemix as a result of the pandemic.

The Department supports efforts across all Parties of the 2020-25 Addendum to the National Health Reform Agreement (2020-25 NHRA) to engage with the work of the IHPA, including on the development and implementation of new Activity Based Funding (ABF) classifications and innovative funding methodologies for reform. Every effort should be made to ensure that these deliverables are not unduly delayed due to COVID-19.

All Parties to the 2020-25 NHRA have agreed ensure equitable access to public hospitals through private patient neutrality. To give effect to the changes, the Commonwealth supports IHPA developing a methodology which accounts for additional private patient funding sources and ensures that local hospital networks receive the same price for public and private patients.

The Department supports pricing of the Australian Emergency Care Classification and the Australian Mental Health Care Classification for admitted care. The expansion and evolution of the National Pricing Model will be an important part of continuing to improve the effectiveness, efficiency and sustainability of the delivery of public hospital services in Australia, especially in the face of the challenges brought by COVID-19.

2. Addendum to the National Health Reform Agreement 2020–2025

2.1. Working with Australian governments, AHMAC and the CHC

On 2 June 2020, the Prime Minister announced a new National Federation Reform Council (NFRC) to replace the Council of Australian Governments (COAG) meetings. National Cabinet has been clear that Health is a key area of inter-jurisdictional collaboration, but there will be new ways of working. The Department remains committed to working with IHPA and all jurisdictions to progress changes to the National Funding Model under the new NFRC arrangements.

2.2. Shadow pricing periods

Flexible and responsive arrangements are essential to progressing changes to the National Funding Model and implementing new classification systems. A key aspect is maintaining accuracy through effective and clinically appropriate public hospital pricing. The Department encourages the IHPA to prioritise flexibility in pricing to ensure that reforms to individual models of care and trials of innovative funding models can progress.

The Department notes that the 2020-25 NHRA provides for increased consultation processes for material changes and significant changes proposed to the National Funding Model. The Department notes that all parties need to continue to commit to timeliness of consultation to ensure pricing processes are not adversely affected or delayed.

The Department notes IHPA's intention to develop a new policy to address shadow pricing and transitional arrangements, and highlights the need for the policy to include a clear measure of material impact. Clear agreed measures will allow for IHPA to provide sufficient notice to jurisdictions of proposed changes to the National Funding Model, while minimising disruptions to implementation.

2.3. New high cost, highly specialised therapies

Under the 2020-25 NHRA, all governments have agreed funding arrangements for new high cost, highly specialised therapies (HSTs), recommended for delivery in a public hospital setting by the Medical Services Advisory Committee (MSAC).

In the development of a standardised process for funding of HSTs, IHPA should continue to work with jurisdictions to ensure timely incorporation of therapies recommended by MSAC into the National Efficient Cost Determination, to facilitate access and delivery.

3. Impact of COVID19

3.1. Implications of COVID-19 on the pricing of public hospital services

- *What changes have occurred to service delivery, activity levels and models of care as a result of COVID-19?*
- *How will these changes affect the costs of these services in the short and long term?*
- *What aspects of the national pricing model will IHPA need to consider adapting to reflect changes in service delivery and models of care?*

The 2020-25 NHRA and the *National Partnership on COVID-19 Response* recognise that the state and territory governments remain the system managers of Australia's public hospital systems. The state and territory governments are best placed to direct their public health services to take the necessary actions in responding to COVID-19 outbreaks.

The Department recognises the outbreak of COVID-19 has disrupted public hospital operations which are still to return to normal patterns and levels and notes changes to public hospital models of care. As part of the 2020-25 NHRA, the Australian Government has provided a minimum funding guarantee to ensure the Commonwealth's funding contribution for public hospitals for 2019-20 and 2020-21. This guarantee is critical to ensuring state and territory governments can continue to deliver safe and effective public hospital services for all Australians.

The Department recognises that Rounds 24 and 25 of the National Hospital Cost Data Collection (NHCDC) will be heavily impacted by the response to COVID-19 due to the changes in activity and casemix during this time, and asks that IHPA work closely with jurisdictions to ensure temporary changes to activity and casemix do not distort longer term application of the National Funding Model.

4. The Pricing Guidelines

Are the Pricing Guidelines still relevant in providing guidance on IHPA's role in pricing Australian public hospital services?

The Department continues to support the Pricing Guidelines as being relevant in providing guidance on IHPA's role in pricing in-scope Australian public hospital services in a transparent and accountable manner. The Department supports the additional focus of the Pricing Guidelines to foster clinical innovation and to work with stakeholders to price new and innovative models of care.

- *Does the change to the public-private neutrality pricing guideline accurately reflect the intent of the Addendum?*

The Department supports the change to IHPA's public-private neutrality guideline. Neutrality should result in payment parity where Local Hospital Networks (LHNs) receive the

same price for equivalent public hospital services for both public and private patients. Payment parity will reinforce the principle of patient choice and access to public hospital services on the basis of clinical need by removing pricing or funding incentives that may lead to the preferential treatment of private patients.

6. Classifications used to describe and price public hospital services

6.1. Admitted acute care

The Department notes the findings of the review of admitted acute care classification systems. The Department supports extending the current development cycle to provide more time for classification development and implementation, as well as a principles based focus.

The Department recognises the need to determine when a new technology would qualify for a placeholder coder and the need to integrate this approach with IHPA's existing *Impact of New Health Technology Framework*, as well as the new standardised process for new HSTs.

6.3. Non-admitted care

The Department supports refinements to the *Tier 2 Non-Admitted Services Classification* to ensure the classification aligns with the needs of the Australian health care system.

The Department notes the impact of COVID-19 on the Australian Non-Admitted Care Classification costing study. The Department encourages IHPA to work with states and territories to understand the impact that COVID-19 will have on models of care and identify opportunities to progress the new non-admitted care classification.

6.4. Emergency Care

The Department strongly supports pricing emergency department activities using the Australian Emergency Care Classification Version 1.0 (AECC) for NEP21 following one year of shadow pricing. The Department notes that national changes in modelled costs between the AECC and the current classification system are negligible and any jurisdictional variation will be mitigated by back-casting.

While the Department acknowledges the potential for COVID-19 to have an impact on emergency department activity, the Department does not see this to be a barrier to implementation. The Department encourages IHPA to continue to review how well data reflects the costs of providing emergency department service.

6.5. Mental health care

The Department strongly supports pricing admitted mental health services using the Australian Mental Health Care Classification for NEP21 following one year of shadow pricing. The Department notes that work is ongoing by IHPA to find the best pricing and funding solution for mental health particularly for services delivered in the community.

The Department continues to support IHPA's proposal to shadow price community health using AMHCC Version 1.0 for NEP21. The practicality of shadow pricing will need to be considered in the context of COVID-19, including changes to service delivery in various states and territories.

The Department recognises that pricing admitted mental health and shadow pricing community mental health for NEP21 is essential for continued progression towards rapid improvements in the quality of mental health care data. The Department also notes the benefits of pricing specialist mental health episodes using the AMHCC to ensure they are suitably priced.

The Department encourages the IHPA to engage with methodological experts in the states and territories, and the experts in the Australian Mental Health Outcomes Classification Network (AMHOCN) to continue to refine and test the suitability of the revised phase of care definitions prior to implementation.

7. Setting the national efficient price for activity based funded public hospitals

7.3. Harmonising price weights across care settings

The Department supports the harmonisation of admitted same-day and non-admitted services in order to remove perverse incentives that may result from price differences for very similar services.

7.4. Setting the national efficient price for private patients in public hospitals

The 2020-25 NHRA strengthens the commitment to ensuring equitable access to public hospitals for all Australians. To give effect to the changes, the new methodology should adjust price weights in the National Funding Model to account for any additional private patient funding sources. Additional private patient funding sources include adjustments in the state funding models, in addition to insurer revenue.

The new methodology should achieve overall payment parity between public and private patients in each jurisdiction, such that local hospital networks receive the same price for public and private patients. Where the price for services provided to public and private patients differs, a further deduction to the Commonwealth contribution should be made to ensure neutrality.

The Department notes the need for additional data to ensure all funding sources are captured, in particular to provide clarity of state funding model adjustments. The Department remains committed to improving the provision of a timely and complete Hospital Casemix Protocol (HCP) data set.

- *Is there any objection to IHPA phasing out the private patient correction factor for NEP21?*

The Department supports the phasing out the private patient correction factor for NEP21.

7.5. A pricing approach for hospital and academic-led clinical trials

The Department supports the IHPA working towards the development of a pricing approach for hospital and academic-led clinical trials. The Department notes this work is consistent with the 2016 Report *Scoping and Analysis of Issues in Recruitment and Retention in Australian Clinical Trials* recommendation to introduce ABF to hospitals for public hospital clinical trial activity.

8. Data Collection

The Department notes and supports the proposal to introduce Individual Healthcare Identifiers (IHI) into national data collections to support innovative funding models and will continue to consider opportunities as part of interoperability discussions under the National Digital Health Strategy.

8.2 Phasing out aggregate non-admitted data reporting

The Department also strongly supports the phasing out of aggregate non-admitted data reporting and the development of a national minimum data set for non-admitted patient level data from 2021-22 to ensure state and territory non-admitted patient activity is accurately captured and reported.

Under the 2020-25 NHRA, the Commonwealth and the states are responsible for collecting and providing patient-level data. Timely access to patient level data is critical to support patient-clinician decision making, improved service delivery, policy development and system planning. Enhanced health data is a critical enabler for long-term health reform and to drive meaningful improvements in the health system.

11. Alternative funding models

- *What comments do stakeholders have regarding the innovative funding models being considered by IHPA?*

The new 2020-25 NHRA and associated long-term health reforms support alternative, innovative and value based health care. The Department encourages implementation of innovative funding models that deliver:

- improved health outcomes for consumers and patients;
- greater efficiencies in health and hospital systems;
- care in the safest and most appropriate settings;
- responsible and sustainable funding approaches; and
- greater transparency of costs.

- *What innovative funding models are states and territories intending to trial through bilateral agreements under the Addendum?*
- *Are there other factors that IHPA should consider in its analysis to determine which patient cohorts or ADRGs are amenable to certain funding models?*

The Department notes that under the 2020-25 NHRA, the IHPA must develop a funding methodology by April 2021 so that the Commonwealth can enter into bilateral agreements with states and territories to trial innovative funding models. The value of potential alternate funding methodologies should be supported by evidence, including accurate data and cost benefit analysis, and be subject to in-depth evaluation.

The Department also proposes that the IHPA work with jurisdictions to ensure that learnings from local level projects inform future state and national approach. This includes working with states that may not have previously sought formal IHPA advice on specific local trials.

- *What other strategic areas should IHPA consider in developing a framework for future funding models?*

The Department encourages the IHPA to commence the roadmap to develop bundled and capitated payment mechanisms as soon as possible. The Department supports co-design of models for identified focus areas, including bundled payments for hip and knee replacements and stroke care. These focus areas were highlighted in the 2020-21 Federal Budget, including home-based rehabilitation following stroke.

- *Apart from the IHI, what other critical success factors are required to support the implementation of innovative funding models?*

The Department is also of the view that, while the IHI is critical over the medium-term to better enabling data linkage, the reforms included in the NHRA should not be delayed pending implementation. Similar proxy measures that will be used for the avoidable readmissions pricing methodology could be considered.

12. Pricing and funding for Safety and Quality

The Department supports the IHPA's proposed pricing model option one for avoidable hospital readmissions, considering it has a proportionate impact across jurisdictions and ease of implementation. The Department also strongly supports using the Individual Health Care Identifier (IHI) when available, and notes the interim use of Medicare PIN.