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## **AMA submission: Draft IHPA Work Program 2016-17**

The AMA appreciates IHPA's effort to document its proposed activities as part of its Work Program 2016-17 and the opportunity for stakeholders to provide comments.

The AMA's comments follow.

### **General**

The AMA welcomes the commitment made in the Heads of Agreement by Australian governments for continued use of Activity Based Funding (ABF) arrangements for the period to June 2020 to determine Commonwealth funding and pricing for public hospitals.

The AMA notes the agreement also includes the development of a longer-term public hospital funding agreement to commence 1 July 2020, to be developed by the Commonwealth and all jurisdictions and be considered by COAG before September 2018.

This work must include opportunities for input by the AMA and other stakeholders.

While the continued use of ABF is clearly preferred to the Commonwealth's original unilateral decision to switch to annual indexation by CPI and population growth, ABF and the NEP as currently implemented have shortcomings.

The AMA has advocated these shortcomings should be addressed. They include the need for ABF arrangements to give appropriate regard to quality, performance and outcomes, and for the NEP and NEC to be determined in a way that provides adequate indexation and does not lock in the historically low costs of an underfunded and underperforming system.

IHPA now has the time and opportunity provided by the Heads of Agreement, to resolve these shortcomings and make ABF 'fully fit for purpose' as the basis of public hospital funding beyond 2020.

### **Safety and quality - Heads of Agreement hospital reforms**

The Heads of Agreement lists two matters in relation to reforms to improve Australians' health outcomes and decrease avoidable demand for public hospital services, which are included in IHPA's draft work program:

- funding and pricing for quality and safety, to avoid funding unnecessary or unsafe care; and
- reducing avoidable readmissions to hospital.

The AMA has consistently advocated for ABF to address safety and quality, but has significant concerns with the approaches sketched out in the Heads of Agreement.

#### Funding Heads of Agreement reforms

These reforms should not be funded at the cost of funding public hospital services themselves. Financially penalising hospitals for not meeting safety and quality standards is counterproductive. Inadequate resource levels are a key factor in poor safety and quality. Reducing resources further compounds existing problems.

So far, we have heard little from Government about the full range of possible ways safety and quality can be positively encouraged and incorporated into ABF arrangements.

Yet the draft work program suggests IHPA is now locked into an approach on both matters where the destination will be reduced funding, ie financial penalties on hospitals.

Applying financial penalties to a hospital that can't achieve safety and quality standards because it is under-resourced is illogical and counterproductive.

#### Work required

It is unclear how IHPA proposes to undertake this work, beyond a reference to providing 'advice to the Pricing Authority'.

The AMA submits IHPA's work program should include how this work will be done, with what input, from who, by when.

This work should begin with a discussion paper for consultation, setting out a clear assessment of current arrangements and any initiatives to incorporate quality and safety in ABF, a draft scope of what will/could be covered and an outline of what is proposed. Interests of, and impacts on, patients, clinicians and hospitals must be included.

It is counterproductive to treat this as simply a hospital funding and pricing issue. As the Heads of Agreement states:

The model will determine how funding and pricing can be used to **improve patient outcomes** and reduce the amount that should be paid for specified adverse events, ineffective interventions, or procedures known to be harmful.

### **Determination of the NEP and NEC**

#### (a) NEP and NEC model refinement

##### Bundled pricing

The AMA notes the current work on bundled pricing for uncomplicated maternity services. It would be useful if the work program also identified work that will be undertaken on other services as flagged in the Pricing Framework 2016 or any other services that IHPA is considering for potential bundled pricing approaches. Some concise information on the intended operation of bundled pricing would also be useful, including for example, whether bundled prices will be based on relevant guidelines for services or the 'lowest common denominator' of service numbers across states and territories, and whether the

bundled price for services is comparable with, or is intended to be comparable with, the price for individual component services.

#### Pricing of new services – Genetics service

On a separate pricing issue, experience with pricing new services in clinical genetics suggests there may be scope for more transparency in calculation of costs and setting of prices for new services. The background to this issue includes a submission to IHPA on clinical genetics consultation services from three state-wide services (Qld, SA, and WA), which showed the actual cost of a clinical genetics consultation was around \$1700, including pre and post appointment counselling and excluding testing (as testing only counts for NEP purposes if it is billed in the 4 weeks following the consultation).

The NEP for this service now appears to be around \$795 (NEP16). It seems the submission by Qld, SA and WA was ultimately ignored in terms of setting the price for this service. This process and its outcome raise issues with how the nationally efficient price is “calculated” for new services, given that *prima facie* the outcome seems to have been based on simply taking the cheapest value, irrespective of how it was calculated.

#### **ABF Evaluation**

Given the decision made in the Heads of Agreement for use of ABF arrangements until June 2020, it would seem sensible and strategically important to complete Phase 2 of the evaluation in the short to medium term. This activity should be programmed to commence in 2016-17.

#### **Other elements of work program**

The AMA notes the other elements of the work program address IHPA’s objectives and provide useful information across the range of proposed activities in 2016-17.

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