Independent Hospital Pricing Authority

# IHPA Work Program 2017-18

June 2017

IHPA

**IHPA Work Program 2017-18 – June 2017**

# Contents

## Abbreviations and acronyms

| | |
|---|---|
| **ABF** | Activity Based Funding |
| **AHPCS** | Australian Hospital Patient Costing Standards |
| **AMHCC** | Australian Mental Health Care Classification |
| **AR-DRG** | Australian Refined Diagnosis Related Group |
| **COAG** | Council of Australian Governments |
| **ICD-10-AM** | Australian Modification of the International Statistical Classification of Diseases, 10th revision |
| **ICU** | Intensive Care Unit |
| **IHPA** | Independent Hospital Pricing Authority |
| **Jurisdictions** | Commonwealth, states and territories |
| **NEC** | National Efficient Cost |
| **NEP** | National Efficient Price |
| **NHCDC** | National Hospital Cost Data Collection |
| **NHISSC** | National Health Information Standards and Statistics Committee |
| **NHRA** | National Health Reform Agreement |
| **Pricing Framework** | Pricing Framework for Australian Public Hospital Services |
| **The Act** | *National Health Reform Act 2011* |
| **The Commission** | The Australian Commission on Safety and Quality in Health Care |
| **Tier 2** | Tier 2 Non-Admitted Services Classification |
| **TTR** | Teaching, Training and Research |

# 1. Introduction

## 1.1 Background

The Independent Hospital Pricing Authority (IHPA) is an independent Commonwealth authority established under Commonwealth legislation as part of the National Health Reform Agreement (NHRA) reached by the Council of Australian Governments (COAG) in August 2011. The NHRA sets out the intention of the Commonwealth and state and territory governments to work in partnership to improve health outcomes for all Australians.

IHPA is a key element of the NHRA and is charged with determining the National Efficient Price (NEP) and National Efficient Cost (NEC) for public hospital services, allowing for the national introduction of Activity Based Funding (ABF). From 1 July 2012, the Commonwealth has used the NEP to determine Commonwealth funding to Local Hospital Networks. The implementation of ABF will improve transparency and strengthen incentives for efficiency in the delivery of public hospital services.

In this document, 'Pricing Authority' refers to the governing members and 'IHPA' refers to the agency.

## 1.2 Purpose

As prescribed in Section 225 of the *National Health Reform Act 2011* (the Act), the objectives of the IHPA Work Program are to:

- set out IHPA's work program for the coming year; and
- invite interested persons (including states and territories) to make submissions to the Pricing Authority about the work program up to 30 days after publication.

An extract of Section 225 of the Act is attached at Appendix 1.

## 1.3 Objectives

The objectives of publishing and calling for public submissions on the Work Program are to:

- enhance focus on the equitable funding of public hospitals;
- improve efficiency, accountability and transparency across the public health care system; and
- drive financial sustainability of public hospital services into the future..

## 1.4 Review

The Work Program will be revised and published each financial year in accordance with the Act. IHPA will report on the progress of its Work Program in its Annual Report.

At the end of each period IHPA will evaluate its performance against the Work Program.

# 2. IHPA Work Program 2017-18

## Overview

The IHPA Work Program for 2017-18 encompasses the following:

1. Development of the *Pricing Framework for Australian Public Hospital Services 2018-19*
2. Determination of the NEP and NEC for public hospital services
3. ABF classification system development and revision
4. Development of data requirements and standards
5. Data collections development
6. Support of ABF research and education
7. Management of the international sales of the Australian Refined Diagnosis Related Group (AR-DRG) system
8. Resolution of cross-border disputes and assessment of cost-shifting disputes between jurisdictions.

A description of each of these program objectives, the deliverables and indicative timeframes for completion are outlined in this document.

These program objectives have been aligned to the functions of IHPA, as prescribed in Section 131 of the Act. An extract of Section 131 of the Act is attached at Appendix 2.

# Program objective 1

## Development of the Pricing Framework 2018-19

### (a) Development of the Pricing Framework for Australian Public Hospital Services (Pricing Framework) 2018-19

IHPA will develop the Pricing Framework outlining the principles, scope and methodology to be adopted by IHPA in the setting of the NEP and NEC for public hospital services in 2018-19. The Pricing Framework forms the policy basis for the NEP and NEC determinations.

IHPA will publish the *Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19* on 30 June 2017 and call for public submissions. These submissions will inform IHPA's development of the draft Pricing Framework 2018-19 which will be provided to health ministers for a statutory 45 day comment period by 30 August 2017. After consideration of comments from health ministers, IHPA will publish the final Pricing Framework 2017-18 by 30 November 2017 for adoption in the following financial year.

| Deliverables | Timeframes |
|---|---|
| Publication of the *Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19* and call for public submissions. | 30 June 2017 |
| Provision of the draft *Pricing Framework for Australian Public Hospital Services 2018-19* to health ministers for 45 day comment period. | 30 August 2017 |
| Publication of the final *Pricing Framework for Australian Public Hospital Services 2018-19* on IHPA website. | 30 November 2017 |

## (b) Pricing for safety and quality in the delivery of public hospital services

At the 1 April 2016 COAG meeting, the Commonwealth and the States and Territories signed a Heads of Agreement (the Agreement) in respect of public hospital funding and which outlined reforms to improve health outcomes and decrease avoidable demand for public hospital services.

Subsequently, the Commonwealth Minister for Health and Aged Care, acting under Section 226(1) of the Act directed IHPA to advise on an option or options for a comprehensive and risk adjusted model to determine how funding and pricing can be used to improve patient outcomes across three key areas: sentinel events, hospital acquired complications (HACs) and avoidable hospital readmissions.

IHPA undertook a considerable program of work to explore and analyse proposals to incorporate pricing for safety and quality into hospital funding arrangements under ABF. Options for funding and pricing for safety and quality were included in the annual consultation process on the draft Pricing Framework and published on the IHPA website in a consultation paper on 30 September 2016.

On 30 November 2016, IHPA provided advice to the COAG Health Council on options for the integration of safety and quality into hospital pricing and funding for consideration by the COAG. IHPA proposed an approach for sentinel events, HACs and an initial approach on avoidable readmissions. The advice also outlined a program of work to develop a more robust approach to HACs and avoidable readmissions in future years.

IHPA received a Direction from the Commonwealth Minister for Health on 16 February 2017 which sets out the funding approach for sentinel events and HACs, as well as the work which IHPA is required to undertake to develop an approach for avoidable hospital readmissions (Appendix 3).

### Sentinel Events

The Ministerial Direction states that from 1 July 2017, no funding will be provided for a public hospital episode including a sentinel event which occurs on or after 1 July 2017, applying to all relevant episodes of care (being admitted and other episodes) in hospitals where the services are funded on an activity basis and hospitals where services are block funded.

This funding approach will use the Australian Sentinel Events List which is a national set of eight events agreed to by Australian Health Ministers in 2002.

As sentinel events are not currently reported in national data sets, IHPA will work with jurisdictions on the identification of sentinel event episodes.

### Hospital Acquired Complications

HACs are complications which occur during a hospital stay and for which clinical risk mitigation strategies may reduce (but not necessarily eliminate) the risk of that complication occurring. A set of preventable HACs was developed by a Joint Working Party of the Australian Commission on Safety and Quality in Health Care (the Commission) and IHPA and are published on the Commission's website.

The Ministerial Direction to IHPA states that from 1 July 2018, there will be an appropriate reduced funding level for all HACs to reflect the additional cost of a hospital admission with a HAC to be applied across all public hospitals.

The Ministerial Direction requires that IHPA further refine the risk adjustment methodology for the COAG Health Council agreed hospital acquired complication model prior to 1 July 2017.

The Ministerial Direction also requires that the funding approach for HACs be shadowed for at least 12 months prior to implementation. The purpose of this shadow year is to improve data quality and identify any significant issues that need to be addressed prior to implementation.

This will include the submission of a report to the COAG Health Council by 30 November 2017 which outlines the impact that the approach would have had at the Local Hospital Network level had it been implemented and any proposed improvements to the approach for future years.

Avoidable Readmissions

The Ministerial Direction requires that IHPA develop pricing or funding adjustments to target avoidable hospital readmissions which arise from complications of the management of the original condition that was the reason for the patients original hospital stay.

There is no nationally agreed or accepted definition of avoidable hospital readmissions which has led to variation in the way jurisdictions define and report these readmissions. The COAG Health Council has requested that the Commission develop a list of clinical conditions that should be considered to be avoidable readmissions, including an examination of the appropriate timeframes for avoidable readmission for each of the conditions selected. IHPA will work with the Commission to progress this body of work.

| Deliverables | Timeframes |
|---|---|
| Implement a funding approach to reduce the rate of sentinel events in public hospitals. | 1 July 2017 |
| Report to the COAG Health Council on the impact of shadow implementation of a funding approach for preventable Hospital Acquired Complications in public hospitals. | 30 November 2017 |
| Develop a risk adjusted funding approach to reduce the rate of preventable Hospital Acquired Complications in public hospitals. | 1 July 2018 |
| Develop a funding or pricing approach to reduce the rate of avoidable readmissions in public hospitals, for shadowing in 2018-19. | 1 July 2018 |
| Work in collaboration with the Australian Commission on Safety and Quality in Health Care to develop a list of clinical conditions that should be considered to be avoidable readmissions. | 1 July 2018 |

### (c) Determination of in-scope public hospital services for the purposes of Commonwealth funding under the NHRA

IHPA has developed the *Annual Review of the General List of In-Scope Public Hospital Services* framework which outlines the process by which jurisdictions can make submissions to IHPA for public hospital services to be determined as in-scope public hospital services eligible to receive Commonwealth funding. This document is available on IHPA's website.

Full details of the public hospital services determined to be in-scope for Commonwealth funding were provided in the 2017-18 NEP Determination. In 2017-18, IHPA will assess jurisdictions' submissions for additional or altered in-scope services for 2018-19.

Consistent with Clause A25 of the NHRA, should IHPA identify anomalies in service volumes or other data which suggest that services have been transferred from the community to public hospitals for the dominant purpose of making that service eligible for Commonwealth funding, IHPA will in the first instance consult with the jurisdiction or jurisdictions in question to ascertain what underlying factors may be driving movements in service volumes.

| Deliverables | Timeframes |
|---|---|
| Jurisdictions' submissions assessed against the General List Framework for additional or altered in-scope services for 2018-19. | 30 September 2017 |
| Conduct analysis to determine if services are transferred from the community to public hospitals for the dominant purpose of making those services eligible for Commonwealth funding (Clause A25, NHRA). | Ongoing |

# Program objective 2

## Determination of the NEP and NEC for public hospital services

### (a) NEP and NEC Determinations

IHPA's primary function is to produce the NEP and the NEC each year.

The NEP represents the price that will form the basis for Commonwealth payments to Local Hospital Networks for each episode of care under the ABF system. In accordance with the NHRA, IHPA will consider the actual cost of delivery of public hospital services in as wide a range of hospitals as practicable. It will also take into account any legitimate and unavoidable variations in costs due to hospital characteristics (e.g. size, type and location) and patient complexity (e.g. Indigenous status, location of residence and demographic profile). Health ministers will be requested to identify any unavoidable variations in costs and other factors in their jurisdiction that should be considered by IHPA.

Following the 1 April 2016 COAG meeting, from 2017-18 the NEP and NEC will also include adjustments for safety and quality.

IHPA will work with jurisdictions and other stakeholders over the next twelve months to explore the most effective options for achieving further efficiencies in the public hospital system.

The NEC represents the average cost of a block funded hospital. Generally, public hospitals or public hospital services will be eligible for block grant funding if the technical requirements for applying ABF are not able to be satisfied and/or if there is an absence of economies of scale that means some services would not be viable under ABF.

IHPA will provide the draft NEP and NEC Determinations to health ministers by 30 November 2017, with health ministers having a statutory 45 days to provide comments to IHPA. After consideration of comments from health ministers, IHPA will publish the final Determinations by 1 March 2018 (for adoption in the following financial year, i.e. 1 July 2018).

| Deliverables | Timeframes |
|---|---|
| Provision of the draft *National Efficient Price and National Efficient Cost Determinations 2018-19* to health ministers for 45 day comment period. | 30 November 2017 |
| Publication of the *National Efficient Price and National Efficient Cost Determinations 2018-19* on the IHPA website. | 1 March 2018 |

## (b) NEP and NEC model refinement

In 2017-18, IHPA will continue to refine the models which are used to determine the NEP and NEC. This will incorporate the current work and research being undertaken by IHPA and any refinements to the Pricing Framework, specifically:

NEP Determination

*i. Intensive Care Unit (ICU) Adjustment*

IHPA acknowledges that a pricing approach which is not based on patient characteristics is not ideal. IHPA will continue to work with key stakeholders and jurisdictions to investigate patient-level indicators for ICU resource use. It is anticipated that an appropriate patient-level measure would remove the need for an ICU eligibility criterion based on hospital characteristics.

*ii. Incorporating new technology in patient classification systems*

In 2017-18 IHPA, in consultation with the Clinical Advisory Committee and using the *Impact of New Health Technology Framework*, will continue to monitor and review the impact of new health technologies on the existing classifications based on reports from government agencies and advisory bodies, and will determine whether and how the classification systems should be adjusted in response.

*iii. Bundled pricing for maternity care*

IHPA recognises that there is potential to better align pricing incentives across settings for patient care by setting a single price across multiple settings of care. This approach gives hospital managers greater room to develop innovative models of care for different patient groups, without being deterred by pricing models based around traditional care settings. In response to the *Consultation Papers on the Pricing Framework for Australian Public Hospital Services 2016-17 and 2017-18,* IHPA received broad stakeholder support for investigating bundled pricing for maternity care as it has relatively predictable service utilisation and is high volume.

IHPA convened an advisory group in early 2016 comprising jurisdictions, clinicians, consumers and other key stakeholders to develop a bundled pricing approach for maternity care. IHPA and the advisory group will continue to work on the development of a bundled pricing approach for maternity care throughout 2017-18.

NEC Determination

Further work will be undertaken in 2017-18 on block funding, with the intention of further improving the model's stability and predictability within and between hospital groupings.

### (c) Forecast of the NEP for future years

Clause B3(h) of the NHRA requires IHPA to develop projections of the NEP for a four year period. These will be updated annually and confidential reports on these projections will be provided to the Commonwealth, states and territories.

| Deliverables | Timeframes |
|---|---|
| Monitor and review new technologies based on reports received from government agencies and advisory bodies. | 30 September 2017 |
| Continue working with stakeholders and jurisdictions to explore alternative patient-based mechanisms for determining the Intensive Care Unit Adjustment for future years. | 30 October 2017 |
| Development of a bundled pricing model for maternity care. | 30 June 2017 |
| Refinement of models to determine the National Efficient Price and National Efficient Cost. | 30 November 2017 |
| Provision of confidential National Efficient Price forecast for future years to jurisdictions. | 1 September 2017 |

# Program objective 3

## ABF classification system development and revision

The basis for ABF is robust classification systems. Without acceptable classifications to describe relevant hospital activity, ABF cannot occur. IHPA has already determined the national classifications systems for public hospital services, including admitted acute, non-admitted, emergency, mental health and subacute care.

Classifications are reviewed regularly and updated periodically to ensure that they remain clinically relevant and resource homogenous within a service category. Such modifications are based on robust statistical analysis and include specialist input from clinicians.

During 2017-18, IHPA will undertake further development of the classification systems for admitted acute care, subacute care, non-admitted patient care, emergency care, mental health care and teaching, training and research.

Further details regarding classification development are outlined below.

### (a) Admitted acute care

The classification for admitted acute care is the AR-DRG system. Codes from Australian Modification of the International Statistical Classification of Diseases, 10th revision (ICD-10-AM) and Australian Classification of Health Interventions form the foundation of AR-DRGs.

Work on ICD-10-AM 10th edition and AR-DRG Version 9 was completed in 2016-17. ICD-10-AM 10th edition will be implemented on 1 July 2017. IHPA intends to use AR-DRG Version 9 for pricing from 1 July 2018.

IHPA intends to commence development in 2017-18 on ICD-10-AM 11th edition and AR-DRG Version 10 for completion in late 2018. IHPA will develop the new version of the AR-DRG classification in-house to better leverage and build on the existing capabilities of its workforce. The Australian Consortium for Classification Development will remain responsible for ongoing updates to ICD-10-AM.

| Deliverables | Timeframes |
|---|---|
| Complete development work on Australian Refined Diagnosis Related Group Version 10. | 30 November 2018 |
| Complete development work on the Australian Modification of the International Statistical Classification of Diseases 11th Edition. | 30 November 2018 |

### (b) Mental health care services

During 2016-17, IHPA completed development of the Australian Mental Health Care Classification (AMHCC) as a national classification for mental health care. Version 1 of the AMHCC was approved by the Pricing Authority on 25 February 2016 and was implemented for data collection from 1 July 2016 on a best endeavours basis.

In 2017-18, IHPA will investigate whether there is sufficient data to price a subset of mental health care using the AMHCC from NEP18, ahead of full implementation of the AMHCC for pricing once comprehensive phase-level cost and activity data is available from states and territories.

IHPA will also commence development of Version 2 of the AMHCC. This development will be informed by findings from an inter-rater reliability study of the new data item 'mental health phase of care' and advice from the child and adolescent mental health clinical reference group. IHPA will also examine incorporating clinical complexity and comorbidities into the AMHCC and options for the refinement of the older persons' mental health branch of the AMHCC.

| Deliverables | Timeframes |
|---|---|
| Ongoing development of the Australian Mental Health Care Classification. | Ongoing |

### (c) Subacute and non-acute care

Substantial work commenced in 2012-13 to support the implementation of ABF for subacute and non-acute care. This work included the development and implementation of nationally consistent definitions, determining appropriate patient assessment tools, data collection, classification, and reporting requirements. The nationally consistent definitions have been in effect since 1 July 2013.

The development of the Australian National Subacute and Non-Acute Patient Classification (AN-SNAP) Version 4 was completed in late 2014. In developing the new classification, some issues were identified with the availability of subacute care data for the Geriatric Evaluation and Management care type in relation to clinical assessment tools for cognition.

IHPA collected data on patient cognitive measures (including the Standardised Mini-Mental State Examination) and other clinical information from a sample of older persons' medical records from the subacute care type in 2015. While the Standardised Mini-Mental State Examination was found to provide a superior differentiation in cost for some patients, a small sample size precludes a classification change at this time. IHPA has retained a Standardised Mini-Mental State Examination data item in the collection for 2017-18 for future consideration.

IHPA will review all areas of the classification in 2017 ahead of commencing development of AN-SNAP Version 5. This work will consider incorporating comorbidities and a case complexity process into the admitted branches, further refinement of the cognitive measures for geriatric evaluation and management and reviewing the paediatric palliative care and rehabilitation branches.

| Deliverables | Timeframes |
|---|---|
| Ongoing development of the Australian National Subacute and Non-Acute Patient Classification. | Ongoing |

## (d) Emergency care

In 2013, IHPA engaged a consultant to conduct an investigative review of classification systems for emergency care services for Australia, and recommend options for the development of a classification for public hospital funded emergency care services. The review recommended a staged development of a classification system to replace the Urgency Related Groups and Urgency Disposition Groups, as well as undertaking a targeted live costing study and data development work to support the classification development.

In 2017-18, IHPA will continue work to develop a new classification system for emergency care services for ABF purposes informed by a costing study from April to June 2016 which captured clinician time per patient to allow for more accurate cost allocation.

The classification development work will also investigate issues raised through public submissions including measures of patient complexity; different models of care (e.g. telehealth services); and the capacity of smaller services. The new classification system is scheduled for completion by December 2017, and proposed for implementation from 1 July 2018.

IHPA has also sought to improve the consistency of reported emergency department diagnosis data through developing an emergency department principal diagnosis list in 2016. IHPA intends to seek endorsement to include the list for national data collection from 2018-19.

IHPA is developing a mapping tool between ICD-10-AM and SNOMED CT AU. The tool aims to ensure consistent reporting of a patient's principal diagnosis regardless of whether the health service uses ICD-10-AM or SNOMED to capture the patient diagnosis. The development is timely as the new classification will use principal diagnosis as reported in ICD-10-AM as a key splitting variable for end-classes, placing greater importance on accurate and comparable data from jurisdictions. The project is expected to be completed by the end of 2017.

| Deliverables | Timeframes |
|---|---|
| Development of a new classification system for emergency care services. | December 2017 |
| ICD-10-AM / SNOMED mapping tool. | December 2017 |

## (e) Non-admitted care

The Tier 2 Non-Admitted Services Classification (Tier 2) was primarily developed to support the introduction of ABF for non-admitted hospital services in the Australian public hospital system. Tier 2 has been reviewed annually by IHPA's Non-Admitted Care Advisory Working Group.

In 2016 IHPA commenced work to develop a new Australian Non-Admitted Care Classification that will be better able to describe patient complexity and more accurately reflect the costs of non-admitted public hospital services. In 2017-18 IHPA will continue this work, including public consultation on a proposed classification structure. This work is expected to conclude in December 2018.

Anticipating the implementation of the Australian Non-Admitted Care Classification, changes to the Tier 2 classification will be minimal in 2017-18.

IHPA has also undertaken work to define and develop national reporting systems to capture non-admitted multidisciplinary case conferences where the patient is not present. This has included a 2016 study to obtain cost and activity data for non-admitted multidisciplinary case conferences where the patient is not present to enable a pricing approach to be developed. Informed by the conclusions of the study, IHPA will consider whether additional data elements are necessary for national collection from 2017-18 to enable the development of a pricing approach for future years.

| Deliverables | Timeframes |
|---|---|
| Development of the Australian Non-Admitted Care Classification system. | December 2018 |

### (f) Teaching, Training and Research

The NHRA requires IHPA to advise the COAG Health Council on the feasibility of transitioning funding for Teaching, Training and Research (TTR) to ABF by 30 June 2018. IHPA provided that advice to the COAG Health Council in 2014.

IHPA is continuing its development of the key technical requirements to introduce ABF for TTR. This has included a comprehensive costing study of TTR activities at a representative sample of public hospitals in 2015-16.

Work has commenced on the development of a teaching and training classification system which is expected to be completed in early 2018. IHPA will also further assess the feasibility of ABF for research.

| Deliverables | Timeframes |
|---|---|
| Development of a classification for teaching and training. | 30 June 2018 |

# Program objective 4

## Development of data requirements and standards

### (a) Revision of the Three Year Data Plan

Timely, accurate and reliable public hospital data is vital to both the development of classifications for hospital services and to determine the NEP and NEC for those services.

Recognising this, IHPA has developed a rolling *Three Year Data Plan* to communicate the data requirements, data standards and timelines that IHPA will use to collect data over the coming three years from jurisdictions.

IHPA supports the concept of 'single provision, multiple use' of information to maximise data provision efficiency, and continues to align the rolling *Three Year Data Plan* with the other national health reform agencies to support this aim.

In 2017-18, IHPA will revise the rolling *Three Year Data Plan* and provide it to the COAG Health Council for consideration.

| Deliverables | Timeframes |
|---|---|
| Publication of the *Three Year Data Plan 2018-19 – 2020-21.* | 30 June 2018 |

### (b) Data specification development and revision

In 2016-17, IHPA completed an annual review of the National Best Endeavours Data Sets (formerly known as Data Set Specifications) and National Minimum Data Sets required for ABF and worked with the National Health Information Standards and Statistics Committee (NHISSC) to incorporate data elements required for ABF with existing data collections.

In 2017-18, IHPA will continue to work closely with NHISSC and other data committees to incorporate new elements as required for classification development, as well as consolidate existing data collections.

| Deliverables | Timeframes |
|---|---|
| Completion of the annual review of ABF National Best Endeavours Data Sets and National Minimum Data Sets. | 30 October 2017 |

### (c) Improvements to data submission, loading and validation processes

In 2016-17, IHPA developed a new secure online Data Submission Portal for the ABF activity and the National Hospital Cost Data Collection (NHCDC) data submissions. The Portal includes an automated validation system and submission function which eases the data submission process for submitters.

IHPA also implemented a classification grouping module and NWAU calculator in the Portal which allows jurisdictions to get instant feedback on the data supplied to the national agencies,

minimising discrepancies. IHPA will continue to work with all agencies to identify ways to improve this, for example, in relation to the National Health Funding Body's calculations.

In January 2017, IHPA conducted workshops to introduce the Portal to the jurisdictional submitters of cost data. Workshops for the submitters of activity data will also be held. The Portal will open for data submissions in mid-February 2017.

In 2017-18, IHPA will work with jurisdictions to enhance the Portal's capabilities. The focus will be to improve the capacity to securely receive, validate, quality assure, linking, transform and store the data that underpins the future NEP and NEC development.

| Deliverables | Timeframes |
|---|---|
| New Data Submission Portal to support the hospital activity and costing data submission. | December 2017 |

### (d) Data Compliance Policy

IHPA publishes details of Commonwealth and state compliance with data requirements on a six monthly basis as required by Clause B102 of the NHRA.

In 2016-17, IHPA reviewed the *Data Compliance Policy* which underpins the process for jurisdictions to submit activity data to IHPA on a six monthly basis and cost data on an annual basis. The criteria for assessing data compliance were reviewed to ensure they reflect IHPA's data requirements as specified in the *Three Year Data Plan*.

| Deliverables | Timeframes |
|---|---|
| Publication of the Data Compliance Report. | 31 January 2018<br>30 June 2018 |

### (e) Collection of ABF activity data for public hospitals

During 2017-18, IHPA will continue to collect the ABF activity data on a six monthly basis.

Based on the six monthly data collections, IHPA will be producing high quality ABF six monthly activity reports which are used to monitor the impact of the NEP funding model on the hospital system.

| Deliverables | Timeframes |
|---|---|
| Jul 2017 – Dec 2017 Activity Based Funding activity data submission by jurisdictions. | 31 March 2018 |
| Jan 2018 – Jun 2018 Activity Based Funding activity data submission by jurisdictions. | 30 September 2018 |

## (f) ABF Benchmarking Portal

IHPA has worked with jurisdictions to develop a secure web-based application that allows users to compare cost and activity from hospitals around the country, and gives the ability to compare differences in activity, cost and efficiency at similar hospitals as well as rates of hospital acquired complications. The project was completed in 2016 and the National Benchmarking Portal can be accessed by jurisdictions through the IHPA website.

In 2017-18, IHPA in consultation with jurisdictions will consider how the Portal can be improved to better support system and hospital managers for benchmarking purposes.

| Deliverables | Timeframes |
|---|---|
| Maintain and continue to develop the National Benchmarking Portal. | Ongoing |

# Program objective 5

## Data Collections development

### (a) Costing Standards development

In 2013-14, IHPA revised the Australian Hospital Patient Costing Standards (AHPCS) and released Version 3.1. These standards are published for those conducting national costing activities and provide the framework for regulators, funders, providers and researchers about the consistency of the cost data collection. IHPA will give appropriate consideration to the lead time required by jurisdictions in relation to the implementation of the AHPCS.

In 2015-16, IHPA commenced the development of Version 4 of the AHPCS conducting cost studies to analyse the efficacy of the various cost allocation methods. Version 4 is due for release in 2017-18. IHPA will also continue to consult with jurisdictions through the NHCDC Advisory Committee to draft and refine supporting materials to assist system and hospital managers in undertaking costing activities in public hospitals.

| Deliverables | Timeframes |
|---|---|
| Release of approved Australian Hospital Patient Costing Standards Version 4. | 30 June 2018 |

### (b) Collection of NHCDC costing data for public and private hospitals

In 2017-18, IHPA will continue to collect and analyse the NHCDC public and private hospital data and will develop a stronger compliance framework in conjunction with the NHCDC Advisory Committee.

IHPA will also implement its new secure online Data Submission Portal for NHCDC data submissions. The system will introduce greater flexibility of file upload specifications, faster validation and reporting and enhanced capabilities for jurisdictions to track and manage their submission process.

| Deliverables | Timeframes |
|---|---|
| Release of draft Round 21 National Hospital Cost Data Collection cost weights for public hospitals. | 30 June 2018 |
| Release of draft Round 21 National Hospital Cost Data Collection cost weights for private hospitals. | 30 June 2018 |

### (c) NHCDC Independent Financial Review

An annual component of the NHCDC cycle is the Independent Financial Review. IHPA commissions an independent body to review public sector data provided by jurisdictions, with a specific focus on hospitals' financial reconciliations and consistent application of the AHPCS.

The Independent Financial Review provides transparency around the data submission with a review and reconciliation of the data flow from hospital submission through to finalisation in the national dataset.

| Deliverables | Timeframes |
|---|---|
| Completion of the National Hospital Cost Data Collection Round 20 Independent Financial Review. | 30 November 2017 |

# Program objective 6

## Support ABF research and education

### (a) Monitor and evaluate the introduction of ABF

In 2017-18, IHPA will continue to monitor changes in the mix, distribution and location of public hospital services each quarter, and conduct an annual analysis of the impacts of ABF implementation on the delivery of public hospital services.

IHPA intends to work with the Jurisdictional Advisory Committee in 2017-18 to consider strategies to address the significant health information management workforce shortages across most jurisdictions. These shortages have had a significant impact on the capacity of public hospitals and state and territory governments to collect and submit high quality data in a timely fashion. This work will include scoping the business needs of health departments, quantifying the gaps in the system and determining pathways to work and placement.

| Deliverables | Timeframes |
|---|---|
| Work with state and territory governments to develop strategies to address workforce shortages in health information management. | Ongoing |
| Actively monitor the impact of the implementation of Activity Based Funding through the Activity Based Funding Monitoring Framework including monitoring changes in the mix, distribution and location of public hospital services, consistent with Clause A25 of the National Health Reform Agreement. | 30 June 2018 |

### (b) Evidence-based ABF related research

Section 131(n) of the Act requires the Pricing Authority to do anything incidental to or conducive to the performance of any of its functions. In this regard, and in accordance with Clause B8 of the NHRA, IHPA may undertake research.

Evidence-based research plays a very significant role in the ongoing advancement of ABF in Australia. This is particularly the case in improving the understanding of the relationship between public hospital activity and costs in all care settings. As required, IHPA will conduct ABF-related research that furthers the understanding and implementation of ABF, particularly including classifications, coding standards and pricing methodologies. As a result, IHPA will be in a better position to determine an NEP that accurately reflects the costs experienced by Australian public hospitals.

In 2017 IHPA will participate in the third National Health Medical Research Centre (NHMRC) Partnership Centre for Better Health. The partnership will explore issues impacting on health care system sustainability and develop and evaluate a set of implementable interventions that are appropriate from a clinical, patient and economic perspective. The Centre is jointly governed and funded by the NHMRC, NSW Health, Bupa Health Foundation, Telstra Health and the University of Notre Dame Australia.

In 2017-18 IHPA will commission further ABF-related research projects.

| Deliverables | Timeframes |
|---|---|
| Publication of evidence-based Activity Based Funding related research. | 30 June 2018 |

## (c) Support ABF education at a national level

IHPA recognises that the responsibility for ABF education rests with states and territories as the managers of the public hospital system.

In 2017-18, IHPA will continue to implement strategies to ensure that it is providing information that will assist in informing its stakeholders and support ABF education activities, through the provision of education tools and resources. This will include exploring strategies to address health information management workforce shortages across jurisdictions such as through working with tertiary facilities to train new people and develop the required skills.

| Deliverables | Timeframes |
|---|---|
| Implementation of strategies, tools and working papers to ensure that IHPA is providing information that will assist in informing its stakeholders. | Ongoing |

## (d) Activity Based Funding Conference 2017

In 2017, IHPA will organise and promote the Activity Based Funding Conference 2017 in Sydney. In 2017, the Activity Based Funding Conference will be held in partnership with Patient Classification Systems International as a forum for the dissemination of ABF-related education, training and research. Patient Classification Systems International is an international organisation which shares best practice in casemix-based classification and has an educational focus.

The conference aims to provide high quality education in ABF and the underlying classification, costing and data collection systems to key health sector personnel. It will include major plenary sessions, concurrent smaller presentations, workshops / training, and networking activities.

| Deliverables | Timeframes |
|---|---|
| Activity Based Funding Conference 2017. | October 2017 |
| Activity Based Funding Conference 2018. | May 2018 |

# Program objective 7

## Management of the international sales of the AR-DRG system

IHPA assumed responsibility for managing the development and international sales of the AR-DRG patient classification system as the custodian of the Commonwealth's Intellectual Property in the AR-DRGs in 2012-13.

In 2017-18, IHPA will continue to manage the international sales of the AR-DRG system.

| Deliverables | Timeframes |
|---|---|
| Management of the international sales of the AR-DRG system. | Ongoing |

# Program objective 8

## Resolution of cross-border disputes and assessments of cost-shifting disputes between jurisdictions

As outlined in Part 4.3 of the Act, IHPA has a role to investigate and make recommendations concerning cross border disputes and to make assessments of cost shifting disputes.

In 2012-13 IHPA developed the *IHPA Cross-Border and Cost-Shifting Dispute Resolution Framework* to guide timely, equitable and transparent processes to investigate both cross-border and cost-shifting disputes.

The Framework will be reviewed annually in consultation with all jurisdictions to ensure it remains current to sufficiently support IHPA's cross-border and cost-shifting dispute resolution role. This annual review will consider the manageability of the framework for all parties involved within the bounds of the prescribed legislative requirements.

| Deliverables | Timeframes |
|---|---|
| Complete annual review of the *Cross-Border and Cost-Shifting Dispute Resolution Framework*. | Ongoing |

# Appendix 1 – Extract of Section 225 of the Act

Outlined below is an extract of Section 225 of the Act prescribing IHPA to consult each financial year on the IHPA's work program.

**225 Consultation on the Pricing Authority's work program**

(1) At least once each financial year, the Pricing Authority must publish on its website a statement that:

a) sets out its work program; and

b) invites interested persons (including States and Territories) to make submissions to the Pricing Authority about the work program by a specified time limit.

(2) The time limit specified in a statement under subsection (1) must be at least 30 days after the publication of the statement.

# Appendix 2 – Alignment of the IHPA Work Program 2017- 18 to the functions prescribed in the Act

As prescribed in Section 131 of the Act, IHPA has the functions outlined in Table 1.

**Table 1 – Alignment of Work Program to the IHPA functions**

| Subsection of the Act | Alignment with Work Program |
|---|---|
| (a) to determine the national efficient price for health care services provided by public hospitals where the services are funded on an activity basis; | 1, 2 |
| (b) to determine the efficient cost for health care services provided by public hospitals where the services are block funded; | 1, 2 |
| (c) to develop and specify classification systems for health care and other services provided by public hospitals; | 3 |
| (d) to determine adjustments to the national efficient price to reflect legitimate and unavoidable variations in the costs of delivering health care services; | 1, 2 |
| (e) to determine data requirements and data standards to apply in relation to data to be provided by States and Territories, including:<br>(i) data and coding standards to support uniform provision of data; and<br>(ii) requirements and standards relating to patient demographic characteristics and other information relevant to classifying, costing and paying for public hospital functions; | 4 |
| (f) except where otherwise agreed between the Commonwealth and a State or Territory—to determine the public hospital functions that are to be funded in the State or Territory by the Commonwealth; | 1 |
| (g) to publish a report setting out the national efficient price for the coming year and any other information that would support the efficient funding of public hospitals; | 1, 2, 6 |
| (h) to advise the Commonwealth, the states and the territories in relation to funding models for hospitals; | 1, 2 |
| (i) to provide confidential advice to the Commonwealth, the States and the Territories in relation to the costs of providing health care services in the future; | 5 |

| Subsection of the Act | Alignment with Work Program |
|---|---|
| (j) such functions as are conferred on the Pricing Authority by Part 4.3 of this Act (cost-shifting disputes and cross-border disputes); | 8 |
| (k) to publish (whether on the internet or otherwise) reports and papers relating to its functions; | 1, 2, 3, 4, 5, 6, 8 |
| (l) to call for and accept, on an annual basis, public submissions in relation to the functions set out in paragraphs (a) to (f); | The Annual Work Program |
| (m) such functions (if any) as are specified in a written instrument given by the Minister to the Chair of the Pricing Authority with the agreement of COAG; | As required, 5(e) |
| (n) to do anything incidental to or conducive to the performance of any of the above functions. | 7<br>Others as required |

# Appendix 3 – Direction from the Commonwealth Minister for Health

# Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the *National Health Reform Act 2011 - No. 2/2016*

I, GREG HUNT, Minister for Health, acting under subsection 226(1) of the *National Health Reform Act 2011* (the Act), having consulted with the Standing Council on Health, DIRECT that in relation to the performance of its functions and exercise of its powers the Independent Hospital Pricing Authority undertake the functions set out in Item 1 of the Schedule to this instrument and have regard to the matters set out in Item 2 of the Schedule to this instrument.

Dated: 16 February 2017

GREG HUNT
Minister for Health

## Contents

# Part 1 Preliminary

## 1. Name of Direction

This Instrument is the *Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the National Health Reform Act 2011 - No. 2/2016.*

## 2. Commencement

This Direction takes effect on the day after it is registered on the Federal Register of Legislation.

## 3. Authority

This Direction is made under section 226 of the *National Health Reform Act 2011.*

## 4. Definition

In this Direction:

***Act*** means the *National Health Reform Act 2011.*

***avoidable hospital readmission*** means readmission to hospital for a condition or conditions arising from complications of the management of the condition for which the patient was originally admitted.

***hospital acquired complication*** means a hospital acquired patient complication, as defined by the national list developed, and amended from time to time, by the Australian Commission on Safety and Quality in Health Care[1], for which clinical risk mitigation strategies may reduce (but not necessarily eliminate) the risk of that complication occurring.

***sentinel event*** means one of a subset of adverse events that result in death or serious harm to a patient.

## 5. Schedule

The Schedule to this Instrument describes the direction given to the Independent Hospital Pricing Authority on the performance of its functions and exercise of its powers.

[1] Indicators of Safety and Quality https://www.safetyandquality.gov.au/our-work/information-strategy/indicators/

# Schedule

**1. Functions**

(i) The Independent Hospital Pricing Authority, in relation to its functions under s. 131(1)(a) and (h) of the Act, is to undertake implementation of agreed recommendations of COAG Health Council (on 20 January 2017) on pricing for safety and quality to give effect to:

(a) nil funding for a public hospital episode including a sentinel event which occurs on or after 1 July 2017, applying to all relevant episodes of care (being admitted and other episodes) in hospitals where the services are funded on an activity basis and hospitals where services are block funded; and

Note: For ***hospitals where the services are funded on an activity basis*** and ***hospitals where services are block funded*** see Chapter 4 of the Act.

(b) an appropriate reduced funding level for all hospital acquired complications, in accordance with Option 3 of the draft Pricing Framework for Australian Public Hospital Services 2017-18, as existing on 30 November 2016, to reflect the additional cost of a hospital admission with a hospital acquired complication, to be applied across all public hospitals; and

(c) undertake further public consultation to inform a future pricing and funding approach in relation to avoidable hospital readmissions, based on a set of definitions to be developed by the Australian Commission on Safety and Quality in Health Care.

**2. Matters the Independent Hospital Pricing Authority is to have regard to**

(i) In performing the activity referred to in Item 1(i)(a), the Independent Hospital Pricing Authority must have regard to the intention of COAG Health Council to:

(a) implement an adjusted funding model for sentinel events from 1 July 2017;

(b) have regard to the Australian Commission on Safety and Quality in Health Care's review of sentinel events; and

(c) monitor and review the reporting of sentinel events by States and Territories to ensure those events are adequately reported for the purpose of funding adjustments.

(ii) In performing the activity referred to in Item 1(i)(b), the Independent Hospital Pricing Authority must have regard to the intention of COAG Health Council to:

(a) further refine the risk adjustment methodology for the COAG Health Council agreed hospital acquired complication model prior to 1 July 2017;

(b) shadow the implementation of the hospital acquired complication model to assess impact on funding, data reporting (e.g. condition onset flags), clinical information systems, and specific population and peer hospital groups; and

(c) public consultation on the findings of the shadow implementation with a final report submitted to COAG Health Council by 30 November 2017;

(d) provide direction and monitoring of State and Territory programs to audit medical records and coding to support continued improvement in reporting of hospital acquired complications; and

(e) implementation of reduced funding levels for all hospital acquired complications, subject to the results of the shadow period, from 1 July 2018.

(iii) In performing the activity referred to in Item 1(i)(c), the Independent Hospital Pricing Authority must have regard the intention of COAG Health Council for:

(a) the Australian Commission on Safety and Quality in Health Care to develop a list of clinical conditions that can be considered avoidable hospital readmissions, including identifying suitable condition-specific timeframes for each of the identified conditions;

(b) the Independent Hospital Pricing Authority to provide additional advice on feasibility and financial implications of potential future pricing or funding adjustments for avoidable readmissions in accordance with the list of clinical conditions; and

(c) the development of pricing or funding adjustments to target avoidable hospital readmissions which arise from complications of the management of the original condition that was the reason for the patients original hospital stay.

(iv) The Independent Hospital Pricing Authority's inclusion of the options referred to in Item 1 of this Direction in The Pricing Framework for Australian Public Hospital Services, in March 2017.

(v) In undertaking implementation, evaluation and provision of the advice described in Item 1 of this Schedule, the Independent Hospital Pricing Authority is to have regard to the following design principles:

(a) Reforms prioritise patient outcomes and are evidence based:

i. Better patient health outcomes underpin the design and implementation of reform

ii. The implementation and evaluation of pricing and funding models for safety and quality, and reducing avoidable readmissions, are based on robust evidence

iii. Adjustments are based on evidence of a causal link to the condition or complication, and are commensurate with the additional care required as a result of the complication

iv. Adjustments relate to conditions or complications which clinicians and other health professionals are reasonably able to take action to reduce their incidence or impact

v. Any models should add to the evidence base for strategies to address safety and quality, with robust monitoring of the effectiveness of implementation and ultimately, their impact on patient outcomes.

(b) Reforms are consistent with whole-of-system efforts to deliver improved patient health outcomes:

i. Adjustments complement existing national and state measures to improve patient health outcomes and reduce avoidable hospital demand, including but not limited to the Australian Commission on Safety and Quality in Health Care's goals, national benchmarking, data reporting, and accreditation

ii. The implementation of pricing and funding models acknowledges that mechanisms other than pricing and funding have a role in achieving the reform intention and that complementarity of all mechanisms is desirable

iii. The design and implementation of pricing and funding models should not compromise state system financial sustainability and quality and should therefore be focused on system level performance improvement.

(c) Reforms provide transparency and comparability:

i. As far as practicable, implementation of financial levers provide transparency between the approach and the intended outcome

ii. Pricing models use an appropriate risk adjustment methodology to consider different patient complexity levels or specialisation across jurisdictions and hospitals.

(vi) In addition, in relation to undertaking functions as described in Item 1 of this Schedule, the Independent Hospital Pricing Authority is to have regard to

submissions from the Australian Commission on Safety and Quality in Health Care, the National Health Funding Body, the Commonwealth, States and Territories, and other parties deemed relevant by the Independent Hospital Pricing Authority.

(vii) The Australian Commission on Safety and Quality in Health Care will curate the Australian Sentinel Events List and the Hospital Acquired Complications List, develop rates of preventability for each hospital acquired complication to inform a risk adjustment methodology and lead development of a national consistent definition of avoidable hospital readmissions.

EXPLANATORY STATEMENT

*National Health Reform Act 2011*

**Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the *National Health Reform Act 2011***

*No. 2/2016*

Authority

This Instrument is made under subsection 226(1) of the *National Health Reform Act 2011* (the Act), which provides that the Minister may give directions to the Independent Hospital Pricing Authority (IHPA) in relation to the performance of its functions and exercise of its powers. Section 131 of the Act sets out the functions of the IHPA, which include determining the national efficient price for health care services provided by public hospitals where the services are funded on an activity basis: subsection 131(1)(a).

This Instrument operates by directing the IHPA in relation to the performance of its functions and the exercise of its powers. Under subsection 226(4) of the Act, the IHPA must comply with a direction made under subsection 226(1).

Purpose

This Instrument directs the IHPA to progress implementation of agreed recommendations of the Council of Australian Governments (COAG) Health Council on pricing for safety and quality to give effect to:

(a) nil funding for public hospital episodes including a sentinel event which occurs on or after 1 July 2017. This applies to all relevant episodes of care (being admitted and other episodes) in activity based funded and block funded hospitals);

(b) an appropriate reduced funding level for all hospital acquired complications, in accordance with Option 3 of the draft Pricing Framework for Australian Public Hospital Services 2017-18, as existing on 30 November 2016. This Option has regard to a funding adjustment reflecting the additional cost of a hospital admission with a hospital acquired complication and applying across all public hospitals; and

(c) undertake further public consultation to inform a future pricing and funding approach in relation to avoidable hospital readmissions, based on a set of definitions to be developed by the Australian Commission on Safety and Quality in Health Care.

Implementation of the agreed recommendations of COAG Health Council on pricing and funding for safety and quality will support improved service delivery across the health system to achieve better health outcomes and health system efficiencies.

Background

This Instrument gives effect to the COAG Heads of Agreement on Public Hospital Funding signed on 1 April 2016 (Heads of Agreement), specifically in relation to reforms to improve health outcomes and efficiency of public hospitals. The Heads of Agreement includes a commitment for the Parties to the Agreement, in conjunction with the IHPA, to develop and implement a comprehensive and risk-adjusted model to integrate quality and safety into hospital pricing and funding.

An Addendum to the National Health Reform Agreement (Schedule I) is being developed to give effect to the Heads of Agreement to be signed by First Ministers by March 2017. This Schedule, once agreed, will provide authority for the implementation of agreed outcomes in the Heads of Agreement from 1 July 2017 to 30 June 2020.

Details

Subsection 226(3) of the Act provides that a direction made under subsection 226(1) must:

(a) be of a general nature only; and
(b) not be a direction to change:
    i. a particular national efficient price for health care services provided by public hospitals; or
    ii. a particular efficient cost for health care services provided by public hospitals.

This Instrument is of a general nature only it does not direct the IHPA to change a particular national efficient price for health care services provided by public hospitals or a particular efficient cost for health care services provided by public hospitals between hospitals and sponsors.

This Instrument directs the IHPA to, have regard to the Parties to the Heads of Agreement, intention to:

(a) implement a funding model for sentinel events from 1 July 2017, to give effect to nil funding for public hospital episodes including a sentinel event; and
(b) implement a model for an agreed set of preventable hospital acquired conditions not before 1 July 2018, with a preceding shadow year. The model will give effect to a reduced funding amount for hospital acquired complications, with the reduction being reflective the additional cost of a hospital admission with a hospital acquired complication.

Consultation

Subsection 226(2) of the Act provides that the Minister must consult with the Standing Council on Health (now known as the COAG Health Council) before giving a direction. Subsection 230(1) specifies the meaning of Standing Council on Health to be as follows:

"***The Standing Council on Health is*** (subject to subsection (2)) the Ministerial Council by that name, or, if there is no such Ministerial Council, the standing Ministerial Council established or recognised by COAG whose members include all Ministers in Australia having portfolio responsibility for health."

The previous Minister for Health, the Hon. Sussan Ley, wrote to State and Territory health ministers, outlining her intention to issue a direction under subsection 226(1) of the Act.

This Instrument relates solely to the functions and duties of the IHPA. The activity that will be undertaken is not regulatory in nature. As such, a Regulation Impact Statement is not required.

This Instrument commences the day after registration on the Federal Register of Legislation.

This Determination is a legislative instrument for the purposes of the *Legislation Act 2003* and under the provisions of section 44 of the *Legislation Act 2003* the Instrument is not subject to disallowance.

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