Australian Government

Department of Health

SECRETARY

28 October 2016

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

Dear ~~Mr Downie~~ James

Department of Health Submission on the Pricing Framework for Australian Public Hospitals 2017-18

I am pleased to provide the attached submission to the Independent Hospital Pricing Authority (IHPA) on the *Consultation Paper on the Pricing Framework for Australian Public Hospitals 2017-18* (Consultation Paper) on behalf of the Department of Health (the Department).

I welcome further discussion between the IHPA and the Department regarding the Department's submission. My contact below is available to discuss any elements of the submission at your convenience.

Shannon White
Assistant Secretary
Health Systems Financing Branch
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I agree to the release of the Department of Health's submission on the IHPA website.

Yours sincerely

Martin Bowles PSM

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Australian Government

Department of Health

DEPARTMENT OF HEALTH COMMENTS ON THE DRAFT PRICING FRAMEWORK FOR AUSTRALIAN PUBLIC HOSPITAL SERVICES 2017-18

Date: 21 October 2016

Introduction

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 2017-18* (the Consultation Paper).

The Department notes that the Independent Hospital Pricing Authority (IHPA) has addressed seven topics in the Consultation Paper for comment, including:

- Pricing Guidelines
- Patient classification systems
- Data collection
- Technical adjustments to the pricing framework
- Setting the Nationally Efficient Price for private patients
- Bundled pricing for maternity services
- Pricing for quality and safety, including:
    - Sentinel events
    - Hospital acquired complications
    - Avoidable readmissions

This submission addresses the questions posed by the IHPA throughout its Consultation Paper in relation to certain topics.

The Department is supportive of the IHPA's approach to quality and safety and notes the considerable effort that has been given to preparing options to be considered in the Consultation Paper.

Continued use of appropriate classification systems plays an important role in enabling the IHPA to fulfil its role. The Department is committed to supporting investment and development of appropriate classification systems that encompass a broad range of health services.

Responses to Consultation Paper Questions

Patient classification

What additional areas should IHPA consider in developing Version 5 of the Australian National Subacute and Non-Acute Patient classification?

The Department recommends that the IHPA continue to progress work and further enhance the classification to incorporate comorbidities and case complexity into the admitted branch.

Technical adjustments

Should IHPA consider any further technical improvements to the pricing model used to determine the National Efficient Price for 2017-18?

The Department considers that the existing Nationally Efficient Price (NEP) model is adequate and fit for purpose for determining 2017-18 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.

Should IHPA further restrict year-on-year changes in price weights?

The Department has no comment on further restrictions to year-on-year changes in price weights.

What are the priority areas for IHPA to consider when evaluating adjustments to NEP17?

The Department has no additional comment on priority areas for IHPA to consider for NEP17. However, we support continued efforts by the IHPA to drive more efficient pricing for hospital services.

What patient-based factors would provide the basis for these and other adjustments?

The Department has no comment for IHPA to consider when evaluating adjustments to the NEP17.

Should IHPA phase out the private patient correction factor in 2018-19 if it is feasible to do so?

The Department is supportive of the IHPA's proposal to phase out the private patient correction factor in 2018-19 if it is feasible to do so.

The Department proposes that a report about Local Hospital Networks (LHNs), which have not yet fully implemented 'Version 3.1 of the Australian Hospital Patient Costing Standards', should be presented to the Technical Advisory Committee (TAC) and Jurisdictional Advisory Committee (JAC). This will ensure visibility of implementation issues and assist in the consistent collection of data on private patients in public hospitals.

The Department notes the review commissioned by IHPA on the impact of activity based funding on the use of private health insurance in public hospitals. Further changes to pricing for private patients in public hospitals should be informed by data and give consideration to the outcomes of this review.

Bundled pricing

Do you support IHPA's intention to introduce a bundled price for maternity care in future years?

The Department acknowledges the significant challenges in developing a bundled price for maternity care due to the diversity of care pathways for maternity patients. However, the Department is supportive of IHPA's intention to investigate and develop options for a bundled price for maternity care.

What stages of maternity care and patient groups should be included in the bundled price?

The stages of maternity care and patient groups for inclusion in the bundled price should be driven by a clinical assessment of the care packages to ensure that services continue to deliver the best patient outcomes. The Department is supportive of IHPA's consultation through an advisory group, including representation of clinicians, to provide advice on bundled pricing for maternity services.

Should IHPA include postnatal care provided to the newborn in the bundled price?

The Department is of the view that the inclusion of postnatal care provided to the newborn in the bundled price should be assessed further. The inclusion of postnatal care should be supported by clinical advice and drive better health outcomes.

What other issues should IHPA consider in developing the bundled price?

The IHPA should have regard to the reconciliation of activity under the bundled pricing model and how to accurately capture activity for reporting. The introduction of a bundled price should not result in a decrease in patient health outcomes. Further to this, IHPA should consider how the introduction of a bundled pricing model may impact on the calculation of the NEP, and ensure that it does not impact the accuracy of the calculation.

Pricing for quality and safety

Is there support for pricing and funding models for safety and quality to be applied broadly across all types of public hospitals, all services, all patients and all care settings?

The Department is supportive of a pricing model for safety and quality that applies across all types of public hospital services.

Applying a model consistently across all types of public hospitals, services and care settings will have the greatest opportunity to:

- improve patient outcomes;
- ensure the system provides the right care, in the right place, at the right time;
- decrease avoidable demand for public hospital services; and

- signal the need to reduce instances of preventable poor quality care at the health system level, while supporting improvements in data quality and information to inform clinicians' practice.

What factors should be considered in risk adjustment for safety and quality in pricing and funding models for hospital care?

The Department is supportive of a risk adjustment methodology that is rigorous, fair, transparent and offers the most suitable approach in circumstances where adjustment is necessary. The Department supports further work being undertaken by the IHPA to determine the merits of risk adjustments based on patient age and complexity being incorporated in the pricing and funding models for safety and quality.

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

The Department agrees with the use of the assessment criteria on page 31 to evaluate the merit of different approaches to pricing for safety and quality.

Further, the IHPA may wish to consider an additional criterion to assess options against the intent of the *Heads of Agreement between the Commonwealth and the States and Territories on Public Hospital Funding* (the Heads of Agreement). This criterion should assess the design of pricing and funding approaches in implementing an effective price signal in reducing the incidence of poor quality or unsafe care, and retaining funding within the overall capped funding pool.

Sentinel events

Do you support the proposal to not fund episodes that include a sentinel event? If not, what are the alternatives and how could they be applied consistently?

The Department supports the proposal not to fund episodes of care that include a sentinel event. Removing funding for episodes that include a sentinel event sends a clear and transparent price signal that these preventable events are unacceptable. Further to this, the Department supports IHPA's intent not to include risk adjustment to the proposed funding approach. The Department notes IHPA's assessment of alternative approaches, such as removing episodes with sentinel events from the calculation of the NEP.

Do you support the proposal to include a sentinel events flag to improve the timeliness and consistency of data that is used for funding purposes?

The Department is supportive of the proposal to develop a sentinel events flag to improve the timeliness and consistency of data collection. Development of improved reporting on sentinel events should consider the work of the Australian Commission on Safety and Quality in Health Care and seek to avoid any potential duplication.

Do you agree with IHPA's assessment of this option (not funding episodes with a sentinel event)?

The Department agrees that sentinel events should be considered preventable and is supportive of IHPA's approach to risk adjustment. The Department considers that the proposed approach would be both proportional and transparent. IHPA's assessment of the ease of implementation of this approach is appropriate given the intention to improve reporting of sentinel events across the system.

Hospital Acquired Complications

What are the advantages and disadvantages of Option 1 which reduces funding for some acute admitted episodes with a HAC? Do you agree with IHPA's assessment of this option?

The Department agrees with the IHPA's assessment of option 1 and further notes the following advantages and disadvantages of this option.

Advantages

- Transparent and simple to apply.
- Uses the existing NHRA architecture.

Disadvantages

- May not provide an effective price signal as it only impacts 20 per cent of episodes with a HAC.
- As hospitals are not ranked against peer hospitals, the option may not encourage innovation, competition and continued improvement across the system.
- May not fully meet the preventability criterion.

What are the advantages and disadvantages of Option 2 that adjusts funding to hospitals on the basis of differences in their HAC rates? Do you agree with IHPA's assessment of this option?

The Department agrees with the IHPA's assessment of option 2 and further notes the following advantages and disadvantages of this option.

Advantages

- Hospitals are ranked against peer hospitals which will encourage innovation and competition across the system to drive continued improvement.
- Hospitals that perform well against the median are not impacted by a pricing adjustment (inbuilt incentive).
- Sets a benchmark for preventability within the model.
- Sends a strong price signal at the hospital level.
- Transparent.

Disadvantages

- Further investigation is needed to determine appropriate hospitals in which to apply the pricing adjustment, in order to ensure a fair and equitable adjustment is applied.

What are the advantages and disadvantages of the approaches to risk adjustment?

No risk-adjustment – this approach to risk assessment would not take into account differences in case-mix between hospitals and may unfairly disadvantage some hospitals. The Department is concerned that this approach could create a disincentive to treat complex patients.

Stratification of hospitals within states – this approach does not take into account differences in case-mix and may not adequately address the need to avoid disincentives for treating patients with needs that are more complex. However, this approach would create competition between hospitals to reduce HAC rates within each jurisdiction.

Stratification of hospitals within peer groups – ranking hospitals by peer group takes into account the potential impact of different case-mixes on HAC rates. This approach creates competition between hospitals to reduce HAC rates and is not likely to create disincentives.

Risk adjustment – comparing hospitals nationally has the potential to create incentives for both individual hospitals and jurisdictions to reduce HAC rates across the system. This approach adequately addresses the need to avoid creating an unfair burden for hospitals treating a greater share of higher-risk patients.

What are the advantages and disadvantages of Option 3 that combines funding incentives and penalties? Do you agree with IHPA's assessment of this option?

The Department agrees with the IHPA's assessment of option 3 and further notes the following advantages and disadvantages of this option.

Advantages

- The removal of HAC episodes from the calculation of the NEP reflects a more efficient price.
- Encourages the sharing of information and best-practice approaches.
- Provides an effective price signal to reduce HAC rates.
- Transparent and simple to apply.

Disadvantages

- May not fully meet the preventability criterion.
- Predictability in relation to jurisdictional impacts of the adjustment is limited.
- A focus on reducing funding available within the national pool.

Are there any other pricing or funding options that IHPA should consider in relation to HACs?

The Department considers that the IHPA has examined appropriate pricing and funding options to reduce the rate of HACs in its Consultation Paper and has no further suggestions.

How should IHPA treat hospitals with poor quality COF reporting?

The Department proposes that the IHPA should work with jurisdictions and LHNs with low quality Condition Onset Flag (COF) reporting over the next 18 months to identify and resolve issues resulting in poor reporting. Progress against this should be reported at the TAC and JAC periodically and be updated regularly through the shadow pricing year.

Avoidable readmissions

What approach is supported for setting timeframes within which avoidable hospital readmissions are measured?

The Department supports the inclusion of a pricing and funding model with a focus on reducing avoidable readmissions within 5 days, as a preliminary measure. The Department further supports the development of a definition for avoidable readmissions (similar to the development of the HAC list).

Is there Australian evidence (including guidelines or recommendations) that could be used to implement condition specific readmission timeframes?

The Department has no comment on guidelines or recommendations that could be used to implement condition specific readmission timeframes.

Is there support for pricing and funding models to be based on avoidable hospital readmissions within the same LHN?

Pricing and funding models for avoidable hospital readmissions should be at the national level rather than narrowly within the same LHN. The Department notes that reporting on avoidable readmissions is largely at the individual hospital level and that improved reporting of readmissions across the system is needed.

When should a pricing and funding approach for avoidable readmissions be implemented?

A pricing and funding approach for avoidable admissions within 5 days should be implemented by 1 July 2018 with a year of shadow pricing in 2017-18 (i.e. it should align with the approach for pricing and funding for HACs).

Work related to the development of an avoidable readmissions criteria and the exploration of alternative timeframes for the pricing and funding model should commence as soon as possible, acknowledging that this may take time to develop and require input from clinicians.

What do you think are the most important considerations for implementation of pricing and funding approaches for safety and quality?

The implementation of pricing and funding approaches for safety and quality should provide a signal to the system to reduce instances of preventable poor quality care, whilst supporting improvements in data quality and information to inform clinicians' practice.

The approach taken should also ensure that any downward pricing or funding adjustment for safety and quality remains available within the overall pool of funding under the annual cap of 6.5 per cent.

Do you agree that IHPA would need to back-cast the impact of introducing new measures for safety and quality into the pricing and funding models?

The Department is supportive of a back cast model, provided the back-casting does not nullify the policy intent and the effect of the pricing signal.