



**National Health
Funding Body**

National Health Funding Body
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23 August 2017

Mr James Downie
Chief Executive Officer
Independent Hospital Pricing Authority
PO Box 483
DARLINGHURST NSW 1300
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Dear Mr Downie,

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

Thank you for the opportunity to comment on the Independent Hospital Pricing Authority's (IHPA's) *Consultation Paper on the Pricing Framework for Australian Public Hospital Services 2018-19* (Consultation Paper). Our feedback is provided at **Attachment A** to this letter.

I would like to commend the IHPA on producing a very thorough Consultation Paper. As you are aware, the IHPA's National Efficient Price (NEP) and National Efficient Cost (NEC) determinations are critical inputs to the Administrator of the National Health Funding Pool's (Administrator) calculation of the Commonwealth National Health Reform (NHR) funding for public hospital services.

The initiatives outlined in the Consultation Paper must be implementable over financial years, including the prior year. This may require the development of back-casted multipliers, a calculated proxy or shadow pricing. The National Health Funding Body (NHFB) supports a minimum one year of shadow pricing prior to implementing initiatives outlined in the Consultation Paper. This will allow the impact of new initiatives on the calculation of Commonwealth NHR funding to be assessed prior to implementation.

Your considered approach in the areas of mental health services and pricing for safety and quality are excellent examples of gathering the required data and consulting extensively to inform implementation. Other initiatives proposed in the Consultation Paper, such as Tier 2 Non-Admitted Services classification and hospital acquired complications, may also benefit from this approach.

I look forward to continuing the excellent cross-agency collaboration and consultation between the IHPA, the NHFB, and jurisdictions in successfully developing and implementing the chosen reforms. Please contact me on (02) 6289 7425 or at lynton.norris@nhfb.gov.au if you have any queries.

Yours sincerely,

Lynton Norris
Chief Executive Officer
National Health Funding Body

General comments

Integrity of the Commonwealth NHR funding calculation

A primary focus for the Administrator and NHFB is the integrity of the Commonwealth NHR funding calculation. The initiatives outlined in the Consultation Paper must be implementable relevant financial year, and the prior year. This may require the development of back-casted multipliers, a calculated proxy or, as best practice suggests, a minimum one year of shadow pricing.

Back-casting is an integral part of the Commonwealth NHR funding calculation, and the introduction of any new initiative must incorporate the ability to back-cast. If changes to the calculation methodology cannot be back-cast effectively for estimates and for actuals (such as the introduction of new services without an appropriate proxy or shadow pricing year), this may result in unintended effects to the calculation of Commonwealth NHR funding.

In modelling the funding impacts of new initiatives, the IHPA is encouraged to continue to consult with the Administrator and the NHFB to clarify the decisions and approach to applying proposed specification changes in the calculation of Commonwealth NHR funding. This consultation can occur bi-laterally, or with the involvement of jurisdictions as part of the Administrator's Jurisdictional Advisory Committee.

Specific comments

Tier 2 Non-Admitted Services classification

Multidisciplinary case conferences (MDCC) where the patient is not present

In considering the implementation of shadow pricing for non-admitted MDCCs where the patient is not present for NEP18, the NHFB would encourage the review of additional evidence before progressing.

The KPMG study referenced in the consultation paper provides a good introduction on how to count, cost and classify MDCCs for non-admitted patients, where patients are not present. Progressing the three recommendations in the KPMG study would provide further evidence to address the costing of MDCCs as a distinct component of the ABF framework, which is to:

1. Refine the current MDCC definition
2. Revise the existing counting rules
3. Conduct a comprehensive MDCC cost data collection exercise

Dependent upon the anticipated outcomes of these further investigations being acceptable to jurisdictions, the NHFB supports shadow pricing of the MDCC's for 2018-19. The Administrator and NHFB are able to assist with modelling the funding outcomes associated with the introduction of this new clinic type.

Home ventilation

The NHFB notes the increase in activity for home ventilation due to a change in the Tier 2 classification. The NHFB supports the IHPA's approach to review 2015-16 data from the National Hospital Cost Data Collection (NHCDC) in considering the case for creating multiple non-admitted classes for home ventilation.

Pending the outcomes of the NHCDC review, the Administrator and the NHFB will work with the IHPA to adjust the Commonwealth funding calculation parameters to reflect the intended outcomes of the Tier 2 classification change.

Transferring services from ABF hospitals to block funded hospitals

The NHFB supports the premise, outlined in the Consultation Paper, that there should be no net Commonwealth NHR funding advantage or penalty from the transfer of public hospital services from ABF hospitals to block funded hospitals, such as in the situation where rural patients are encouraged to use services closer to home.

Consequent to this, the IHPA should move to ensure that any increase in block funding through the NEC determination is commensurate to the decrease in ABF funding when services move to block funded hospitals (and vice versa). The NHFB suggest it would be beneficial to model the impact of this service transfer, prior to introduction.

Bundled pricing for maternity care

The NHFB reaffirms the position, stated in our 2016 response to the Pricing Framework Consultation Paper, that the bundling of maternity services could have significant impact on funding arrangements, as the Administrator currently funds all in-scope services individually, within the financial year.

In this context, the broader impacts of the proposed approach need to be considered. Bundled pricing (in general) increases the complexity of reconciliation of actual services delivered, where more than one provider (or State) is involved in the service.

Bundled pricing also impacts Commonwealth funding integrity under A6 of the NHR Agreement, as service bundling will impact the ability to readily identify if the service, or any part of the service, has received Commonwealth funding from another program, such as the Medicare Benefits Schedule.

Hospital acquired complications

The implementation of hospital acquired complications (HAC) require shadow pricing and funding from 2017-18, for potential introduction in 2018-19. To ensure integrity of Commonwealth NHR funding, accurate forecast of the impact, and incorporation of the requirements into the calculation, the Administrator and the NHFB will consult with IHPA and jurisdictions on the development of a shadow Commonwealth Contribution Model for 2017-18, that incorporates risk-adjusted pricing for HAC events.