



**The Hon Greg Hunt MP
Minister for Health
Minister Assisting the Prime Minister for the
Public Service and Cabinet**

Ref No: MS20-000036

Mr James Downie
Chief Executive Officer
Independent Hospital Pricing Authority
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29 JAN 2020

Dear Mr Downie

I am writing to inform you of the Ministerial Direction that I have issued under subsection 226(1) of the *National Health Reform Act 2011*.

The Direction requires that the Independent Hospital Pricing Authority (IHPA) to study existing and projected costs for Nationally Funded Centres (NFC) Program services, and to recommend options regarding:

- whether NFC services, individually and collectively, are more appropriately funded via Activity Based Funding (ABF) or block funding arrangements under the NHRA
- the development and operation of cost models and pricing models for the NFC Program, covering both existing and potential future services delivered under the NFC Program.

In issuing this Direction, I have consulted with the Council of Australian Governments' Health Council (CHC). Following recent reviews of the NFC Program, the work undertaken by the IHPA under this Direction will support the Australian Health Ministers' Advisory Council's (AHMAC) consideration of the future of the NFC Program as requested by CHC.

I look forward to working with the IHPA on fulfilling the requirements of this Direction.

Yours sincerely

Greg Hunt

Encl (2)



Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the *National Health Reform Act 2011* - No 1/2020

I, GREG HUNT, Minister for Health, acting under subsection 226(1) of the *National Health Reform Act 2011*, and having consulted with the Standing Council on Health, DIRECT the Independent Hospital Pricing Authority to undertake the actions set out in the schedule to this instrument.

Dated

29:1:2020

A large, stylized handwritten signature in blue ink, which appears to be 'GREG HUNT'.

GREG HUNT
Minister for Health

1 Name

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 1/2020*.

2 Commencement

This instrument commences on the day after it is registered on the Federal Register of Legislation.

3 Authority

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

4 Definitions

Note: A number of expressions used in this instrument are defined in section 5 of the Act, including the following:

- (a) COAG;
- (b) National Health Reform Agreement;
- (c) Pricing Authority;
- (d) Standing Council on Health.

In this instrument:

Act means the *National Health Reform Act 2011*.

Australian Health Ministers' Advisory Council means the advisory body established or recognised by the Standing Council on Health.

cost model includes deriving cost profiles, adjustments, parameters and relative weights of classes within each service stream for a financial year, and is based on cost and activity data for each of the historical years with only those costs and activity from Activity Based Funding (ABF) establishments being used.

direct cost means costs incurred at the Nationally Funded Centres (NFC) site (or sites) where the NFC episode of care is provided across more than one site) that are directly related to the NFC technology, including pre and post procedural care as captured in the National Health Cost Data Collection (NHCDC) Cost Bucket Matrix.

indirect cost includes, but is not limited to, the:

- (a) travel and accommodation costs incurred in the Nationally Funded Centres (NFC) Program in order to access a NFC service;
- (b) capital costs;
- (c) other overhead costs that are incidental to the provision of a NFC service, as deemed by the Pricing Authority.

NFC Program means the program recognised as the Nationally Funded Centres (NFC) Program endorsed by Australian health ministers in June 1990 (now meeting as the Council of Australian Governments Health Council) for the public sector provision of certain high cost, highly specialised clinical practices and technologies with limited demand. For a technology to be considered for NFC status it must require a national population base for efficient and effective service provision.

NFC service means a service that is specified in a service in column 1 of an item in the table under clause 5 of the schedule.

pricing model includes a National Efficient Price (NEP), Price Weights and adjustments, and is based on cost and activity data from three years prior.

reference cost means a standardised mean to ensure the measure of an NWAU remains constant over time, that is then used to convert the cost model into a cost weight model and pricing model.

specified site, in relation to a NFC service, means a site specified in column 2 of the table in clause 5 of the schedule for the particular NFC service.

5 Schedule

The schedule to this instrument sets out the direction given to the Pricing Authority on the performance of its functions and exercise of its powers.

Schedule

1 Function

The Pricing Authority, in relation to the performance of its functions under paragraphs 131(1)(h)–(i) and (n) of the Act, is directed to undertake a costing and pricing study into the NFC Program.

2 Matters Pricing Authority to study

In carrying out the study, the Pricing Authority is directed to inquire into and make findings about the following matters:

- (a) the direct and indirect cost of providing each NFC service at each specified site for that NFC service;
- (b) the aggregate direct and indirect cost of providing each NFC service across all specified sites for that NFC service;
- (c) the projected cost of providing all NFC services at all specified sites; and
- (d) the existing direct and indirect cost of providing each NFC service for each patient in each specified site for that NFC service.

3 Pricing Authority to recommend options

In carrying out the study, the Pricing Authority must recommend options in respect of the following matters:

- (a) whether NFC services, individually and collectively, are more appropriately funded via Activity Based Funding (ABF) or block funding arrangements under the National Health Reform Agreement;
- (b) the development and operation of cost models and pricing models for the NFC Program, covering both existing and potential future services delivered under the NFC Program; and
- (c) other related matters deemed appropriate by the Pricing Authority.

4 Pricing Authority must have regard to particular matters

In carrying out the study, the Pricing Authority must have regard to the following:

- (a) the National Health Reform Agreement;
- (b) NFC program cost and activity data supplied by a State or Territory;
- (c) any submissions regarding the study to the Pricing Authority from:
 - (i) the Commonwealth;
 - (ii) a State or Territory;
 - (iii) public hospitals;
 - (iv) other health bodies; and
 - (v) other parties deemed relevant by the Pricing Authority; and
- (d) other related matters deemed appropriate by the Pricing Authority.

5 NFC services and specified sites

For the purposes of section 2, at the time this direction is issued:

- (a) a service mentioned in column 1 of an item in the following table is specified as a NFC service; and
- (b) a site mentioned in column 2 of the item is specified for the particular NFC service in column 1.

| Specified service and sites | | |
|------------------------------------|--|--|
| Item | Column 1 Service | Column 2 Site |
| 1 | Islet cell transplantation for the treatment of severe hypoglycaemia unawareness and metabolic instability in p with Type-1 diabetes | (a) Royal Adelaide Hospital, South Australia (b) St. Vincent's Hospital, Victoria (c) Westmead Hospital, New South Wales |
| 2 | Paediatric heart transplantation | (a) Royal Children's Hospital, Victoria |
| 3 | Paediatric liver transplantation | (a) Queensland Children's Hospital, Queensland (b) Royal Children's Hospital, Victoria (c) The Sydney Children's Hospitals Network (Westmead), New South Wales |
| 4 | Paediatric lung and heart-lung transplantation | (a) Alfred Hospital, Victoria |
| 5 | Pancreas transplantation | (a) Monash Medical Centre, Victoria (b) Westmead Hospital, New South Wales |

6 Other matters

The Pricing Authority is directed to:

- (a) commence the study as soon as practicable;
- (b) provide updates about the study to the Australian Health Ministers' Advisory Council and the Standing Council on Health as requested;
- (c) provide an interim report of the results of the study and options to the Australian Health Ministers' Advisory Council, not later than 1 August 2020; and
- (d) submit to the Standing Council on Health a final report of the results of the study and options, not later than 31 January 2021.

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. 1/2020

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, and its powers are specified in section 135 of the Act. Paragraphs 131(1)(h), (i), and (n) set out the functions of the IHPA relevant to this Instrument.

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 conduct a costing and pricing study into the Nationally Funded Centres (NFC) Program to inquire into and make findings about the following matters:

- (a) the direct and indirect cost of providing each NFC service at each specified site for that NFC service;
- (b) the aggregate direct and indirect cost of providing each NFC service across all specified sites for that NFC service;
- (c) the projected cost of providing all NFC services at all specified sites; and
- (d) the existing direct and indirect cost of providing each NFC service for each patient in each specified site for that NFC service.

The instrument also directs the IHPA to provide the Commonwealth and the States and Territories with options in respect of the following matters:

- a) whether NFC services, individually and collectively, are more appropriately funded via Activity Based Funding or block funding arrangements under the National Health Reform Agreement (NHRA);
- b) the development and operation of cost models and pricing models for the NFC Program, covering both existing and potential future services delivered under the NFC Program; and
- c) other related matters deemed appropriate by the Pricing Authority.

This work will assist with improving effective service delivery to achieve better health outcomes and health system efficiencies for the public sector provision of certain high-cost, highly-specialised clinical practices and technologies with limited demand.

Background

The NFC Program was endorsed by Australian health ministers in June 1990 for the public sector provision of certain high cost, highly specialised clinical practices and technologies with limited demand. For a technology to be considered for NFC status it must require a national population base for efficient and effective service provision.

The Commonwealth and States and Territories commissioned a review of the NFC Program (NFC Review). The NFC Review recommends the NFC Program be integrated into NHRA funding arrangements.

This instrument gives effect to State and Territory requests that the Commonwealth direct the Independent Hospital Pricing Authority (IHPA) to conduct a study to fully understand the costing and pricing of NFC services.

As a preliminary scoping study, the IHPA's NFC Program Costing Study will inform Commonwealth and State and Territory decisions in response to the NFC Review, such as revised costing and pricing processes to apply to existing and future NFCs.

Details

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

- (a) must be of a general nature only; and
- (b) must 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.

Consultation

Subsection 226(2) of the Act provides that the Minister must consult with the Standing Council on Health 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 Minister for Health, the Hon. Greg Hunt MP, has written to State and Territory Health Ministers on his intention to issue a direction under subsection 226(1) of the Act.

This Instrument relates solely to the functions and powers 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.