



IHACPA

# National Pricing Model Consultation Policy

June 2023

## National Pricing Model Consultation Policy – Version 3.0 June 2023

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# Acronyms and abbreviations

<b>ABF</b>	Activity based funding
<b>AHPCS</b>	Australian Hospital Patient Costing Standards
<b>CAC</b>	Clinical Advisory Committee
<b>HCEF</b>	Health Chief Executives Forum <sup>1</sup>
<b>HMM</b>	Health Ministers' Meetings <sup>2</sup>
<b>IHACPA</b>	Independent Health and Aged Care Pricing Authority
<b>JAC</b>	Jurisdictional Advisory Committee
<b>NEC</b>	National efficient cost
<b>NEP</b>	National efficient price
<b>NHRA</b>	National Health Reform Agreement
<b>NMDS</b>	National Minimum Data Set
<b>Pricing Framework</b>	Pricing Framework for Australian Public Hospital Services
<b>TAC</b>	Technical Advisory Committee
<b>The Addendum</b>	Addendum to the National Health Reform Agreement 2020–25
<b>The Administrator</b>	Administrator of the National Health Funding Pool
<b>The NHR Act</b>	<i>National Health Reform Act 2011 (Cwlth)</i>
<b>This Policy</b>	<i>National Pricing Model Consultation Policy</i>

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<sup>1</sup> The Health Chief Executives Forum has been established as the advisory and support body to the Health Ministers' Meetings, and serves as the replacement for the Australian Health Ministers' Advisory Council.

<sup>2</sup> The Health Ministers' Meetings, comprised of all Australian health ministers, has been established to consider matters previously brought to the Council of Australian Governments Health Council, including matters relating to the national bodies. The Health Ministers' Meetings serves as the replacement for the Council of Australian Governments Health Council.

# Definitions

<b>Activity based funding</b>	<p>Refers to a system for funding public hospital services provided to individual patients using national classifications, cost weights and nationally efficient prices developed by the Independent Health and Aged Care Pricing Authority (IHACPA), as outlined in the Addendum to the National Health Reform Agreement 2020–25 (the Addendum).</p> <p>An activity based funding (ABF) activity may take the form of a separation, presentation or service event.</p>
<b>National funding bodies</b>	<p>Collective term for IHACPA, the National Health Funding Body and the Administrator of the National Health Funding Pool (the Administrator).</p>
<b>National funding model</b>	<p>Refers to the calculation, payment and reconciliation of Commonwealth national health reform funding for health services, by the Administrator applying the agreed methodology, business rules and policies. This is calculated from ABF based on national weighted activity units and IHACPA's national efficient price (NEP) determination, and block funding calculated from the IHACPA's national efficient cost determination.</p> <p>The agreed methodology, business rules and policies include the ABF formula, the Administrator's Calculation of Commonwealth National Health Reform Funding and associated operational documents, IHACPA's Pricing Framework for Australian Public Hospital Services and national pricing model specifications, classification systems, counting rules, data, coding and costing standards.</p>
<b>National pricing model</b>	<p>The national pricing model is produced annually by IHACPA and defines the NEP, price weights and adjustments based on the cost and activity data from three years prior. For more detail, refer to the <a href="#">National Pricing Model Technical Specifications</a>.</p>
<b>Parties</b>	<p>Refers to the signatories to the Addendum, being the Commonwealth and each state and territory.</p>
<b>Pricing Authority</b>	<p>The governing body of IHACPA established under the <i>National Health Reform Act 2011</i> (Cwlth) (the NHR Act).</p>

# 1. Executive summary

## 1.1 Background

The National Health Reform Agreement (NHRA), signed in August 2011, specifies that the Independent Health and Aged Care Pricing Authority (IHACPA) is to develop, refine and maintain systems as necessary to calculate the national efficient price (NEP), including determining classifications, costing, data elements and data collections.

The Addendum to the NHRA 2020–25 (the Addendum), signed by all Australian governments in May 2020, further defines IHACPA's role in public hospital funding arrangements, particularly when considering changes to the national pricing model and the impact on the national funding model.

The national pricing model is produced annually by IHACPA and defines the NEP, price weights and adjustments based on the cost and activity data from three years prior. The national pricing model is derived from activity based funding (ABF) based on national weighted activity units and IHACPA's NEP Determination and block funding calculated from IHACPA's national efficient cost (NEC) Determination.

## 1.2 Legislative requirements

Pursuant to section 211(1) of the *National Health Reform Act 2011* (Cwlth) (the NHR Act) the annual NEP and NEC Determinations are to be provided to the Commonwealth and state and territory health ministers for the statutory 45-day ministerial comment period prior to publication.

The Addendum outlines additional provisions relating to the consultation processes IHACPA is required to undertake for proposed changes to the national funding model, with special reference to the processes for changing ABF classifications and costing methodologies.

Clause B10 of the Addendum provides that IHACPA will undertake further consultation on changes that materially impact the application of the national funding model, in addition to specific consultation requirements and processes with the Parties, which refers to the signatories to the Addendum, being the Commonwealth and each state and territory.

Clause A42 of the Addendum requires IHACPA to use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes and pricing based on a costing study, for two years or a period agreed with the Commonwealth and a majority of states and territories.

Clauses B37 and B38 of the Addendum outline the consultation requirements whereby IHACPA must seek guidance from the Parties, through the Jurisdictional Advisory Committee (JAC), when implementing changes to the national funding model that will impact the way services are delivered and provide a Statement of Impact when material changes or significant transitions are proposed to the national funding model.

Full extracts from the Addendum are provided at **Appendix A**.

## 1.3 Purpose

The purpose of the *National Pricing Model Consultation Policy* (this Policy) is to outline the guiding principles and consultative processes associated with the development of the NEP and NEC Determinations and proposed changes that materially impact the application of the national funding model.

This Policy is intended to facilitate the engagement and participation of jurisdictions in the consultation process, through IHACPA's JAC, Technical Advisory Committee (TAC), and Clinical Advisory Committee (CAC), particularly in identifying operational, technical and clinical implications of proposed changes. In order to maintain accurate and effective pricing of public hospital services, IHACPA must ensure the consultation process is completed in a timely and predictable manner, to allow sufficient notification for implementation of changes.

This Policy is to be applied in conjunction with the following IHACPA policies:

- *Back-Casting Policy*
- *Assessment of Adjustments to the National Pricing Model Policy*
- *National Pricing Model Stability Policy*
- *Shadow Pricing Guidelines*

This Policy does not apply to IHACPA's functions pertaining to the provision of advice to the Commonwealth on aged care costing and pricing.

## 1.4 Review

The Pricing Authority and Chief Executive Officer of IHACPA will review this Policy, including associated documentation, annually or as required.

This Policy was last reviewed in May 2023.

## 2. Key principles

Under the Addendum, IHACPA is required to seek guidance from the Parties, through the Jurisdictional Advisory Committee (JAC), when implementing changes to the national funding model that will impact the way services are delivered.

In determining the NEP and NEC for public hospital services, IHACPA ensures these decisions are evidence-based and use the latest cost and activity data supplied by states and territories. IHACPA balances a range of policy objectives including improving the efficiency and accessibility of public hospital services.

This Policy signals IHACPA's commitment to transparency and accountability as it undertakes its work. IHACPA and the jurisdictions will be guided by the following principles and responsibilities associated with the consultation process for proposed changes to the national funding model. The guiding principles are outlined in **Table 1**.

**Table 1. Guiding principles for proposed changes to the national funding model**

Overarching principles to inform the policy intent behind the consultation process for proposed changes to the national funding model
<b>Accurate pricing of services:</b>
The accuracy and responsiveness of IHACPA's pricing processes will not be adversely affected by the procedures in place for consulting on proposed changes to the national funding model.
<b>Engagement:</b>
IHACPA will actively engage and involve all nine jurisdictions in the consultative processes for proposed changes to the national funding model. Jurisdictions will actively participate in the consultation process for proposed changes to the national funding model.
<b>Transparency:</b>
Jurisdictions will be able to reliably anticipate outcomes of new processes associated with national funding model changes through the provision of technical details and clear policy objectives by IHACPA. Jurisdictions will work with IHACPA to identify potential risks and notify IHACPA of unforeseen impacts identified as a result of application of the national funding model.
<b>Predictability:</b>
The pricing processes will be consistent and predictable to allow meaningful participation from jurisdictions and result in minimal disruptions to implementation of changes.



<b>Flexibility:</b>
Jurisdictions will be facilitated in making reforms to individual models of care and trialing innovative funding models.
<b>Process principles</b> to guide the timing of the jurisdictional notification and consultation process
<b>Early notification:</b>
<p>IHACPA will notify jurisdictions as early as possible of proposed changes to the national funding model to allow for meaningful contribution and smooth implementation.</p> <p>Jurisdictions will notify IHACPA as early as possible when intending to trial an innovative funding model or implement particular funding arrangements for an innovative model of care under clauses A96–A101 of the Addendum, request additional guidance be sought or to escalate a funding policy issue.</p> <p>IHACPA and jurisdictions will also notify each other as early as possible of any issues they may have identified.</p>
<b>Timeliness:</b>
<p>Processes will be timely to ensure effective and accurate pricing of public hospital services and, where possible, be aligned with jurisdiction budget cycles to minimise disruptions.</p> <p>Jurisdictions will respond to consultation requests and facilitate the provision of required data in a timely manner, to minimise delays in the consultation process.</p>
<b>Impact principles</b> to ensure consideration of all potential implications of proposed changes to the national funding model
<b>Clinical and operational implications:</b>
<p>IHACPA will consider and address potential clinical and operational implications resulting from proposed changes that extend beyond financial implications.</p> <p>Jurisdictions have a mutual obligation to advise IHACPA of any anomalies, risks or potential clinical or operational impacts that have been identified as a consequence of proposed changes to the national funding model.</p>

# 3. Consultation process

## 3.1 Overview

Under the Addendum, IHACPA is required to consult with the Parties when developing the annual NEP and NEC Determinations and when considering and implementing changes to the national funding model that will impact the way services are delivered. IHACPA seeks technical input from TAC and policy input from JAC, as well as health ministers through the statutory 45-day ministerial comment period. The Parties may escalate a funding policy issue to the Health Chief Executives Forum (HCEF) or the Health Ministers' Meetings (HMM) for consideration.

Changes proposed within the NEP and NEC development cycle will adhere to timeframes for existing annual processes relating to IHACPA's Pricing Framework for Australian Public Hospital Services (the Pricing Framework) and NEP and NEC Determinations. This is outlined in **Table 2**.

**Table 2. Timelines for the NEP and NEC development cycle**

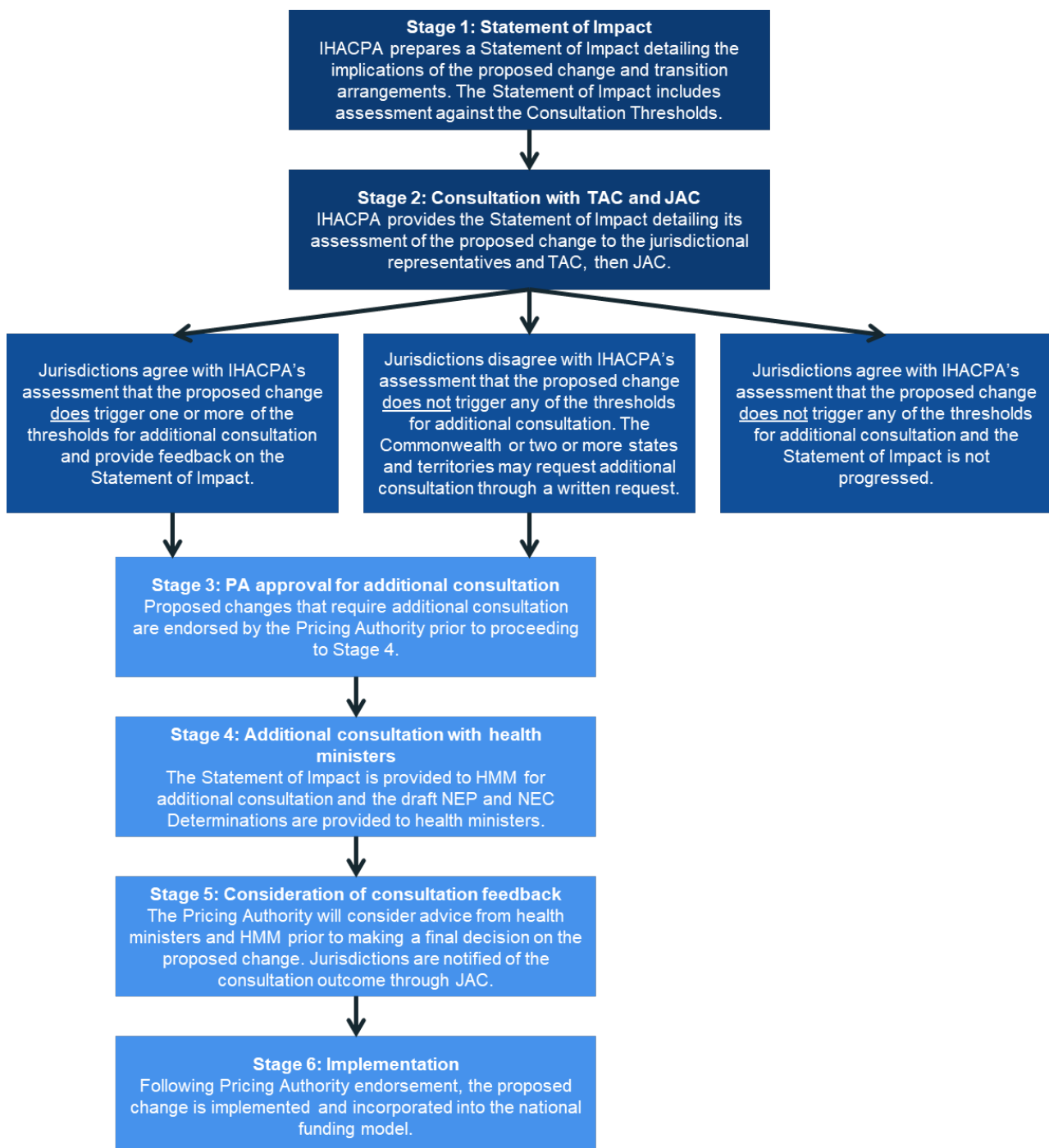
Deliverable	Consultation	Timeline	Detail
Consultation Paper on the Pricing Framework	30-day public consultation period	Commences: June of the current year	Seeks public consultation feedback on major issues and proposed changes to the national funding model for the NEP and NEC Determinations.
		Concludes: July of the current year	
Draft Pricing Framework	45-day ministerial comment period	Commences: September of the current year	Addresses and incorporates stakeholder feedback from the public consultation process.
		Concludes: October of the current year	
Draft NEP and NEC Determinations	Consultation through TAC and JAC 45-day ministerial and HMM consultation period	Commences: September of the current year	Provision of Statements of Impact to TAC and JAC for proposed changes to the national funding model. Distribution of the Statements of Impact to HMM and draft NEP and NEC Determinations to health ministers.
		Concludes: January of the following year	
Final Pricing Framework		Published: December of the current year	Addresses and incorporates feedback from the ministerial consultation process.
Final NEP and NEC Determinations		Published: March of the following year	Addresses and incorporates feedback from the ministerial and HMM consultation process, including endorsed changes to the national funding model.

As part of the draft NEP and NEC Determinations, Statements of Impact are provided to TAC and JAC for all proposed changes to the national funding model in the NEP and NEC Determinations prior to being provided to HMM for additional consultation where required.

Feedback from health ministers on the draft NEP and NEC Determinations and feedback from HMM on the proposed changes outlined in the Statements of Impact will be considered by IHACPA prior to publication of the final NEP and NEC Determinations. Unless there is significant feedback received from HMM that would require IHACPA to amend or not proceed with the proposed changes outlined in the Statements of Impact at the conclusion of the 45-day consultation period, IHACPA will progress the changes for implementation as part of the final NEP and NEC Determinations.

Further detail on the consultation process for Statements of Impact for proposed changes to the national funding model is provided at **Figure 1**.

Figure 1. **Consultation process for Statements of Impact**



# 4. Statement of Impact

## 4.1 Statement of Impact

Clause B38 of the Addendum states that IHACPA must provide a Statement of Impact to the Parties when material changes or significant transitions are proposed to the national funding model, including changes that will have a major impact on any one party or materially redistribute activity between service streams.

Clause B39 of the Addendum stipulates that the Statement of Impact must be timely in relation to the matter raised and:

- a. include a risk assessment of the proposed changes or adjustments
- b. outline appropriate transition arrangements
- c. be informed by consultation with the Parties; and
- d. have input from the Administrator of the National Health Funding Pool (the Administrator).

IHACPA will utilise the Statement of Impact to inform jurisdictions of all proposed changes to the national funding model. A Statement of Impact will be prepared for each proposed change and be provided to jurisdictions through IHACPA's TAC and JAC. IHACPA will endeavour to seek technical input from TAC on proposed changes prior to consultation with JAC. There may be situations where matters are deemed urgent by the Chair of TAC or JAC that require Statements of Impact to be provided directly to JAC.

The Statement of Impact form to be utilised by IHACPA is provided at **Appendix B**.

## 4.2 Overall scope

### 4.2.1 Materiality of proposed changes

IHACPA has developed a set of thresholds to determine what constitutes a material change or a significant transition requiring additional consultation. Proposed changes and adjustments to the national funding model will be assessed against the thresholds to ensure that the pricing process remains reactive and transparent. The proposed changes and adjustments that trigger one or more of the established thresholds will undergo additional consultation.

The thresholds are discussed further in Chapter 5.

### 4.2.2 Risk assessment

The risk assessment included in the Statement of Impact will assess the benefits and risks associated with the proposed change across different risk categories. IHACPA will assess the likelihood of the identified risks occurring and address how the risks will be mitigated and/or managed.

### **4.2.3 Transition arrangements**

The Statement of Impact provides the transition arrangements associated with the proposed change, including whether the change will require shadow pricing. As per clause B39 of the Addendum, a Statement of Impact will also be required for significant transitions, such as proposals to commence shadow pricing.

Further detail on the requirements for transitional arrangements is provided in Chapter 6.

### **4.2.4 Consultation pathway**

The purpose of the Statement of Impact is to inform jurisdictions of all proposed changes to the national funding model. The Statement of Impact includes IHACPA's assessment of whether the proposed change triggers the requirement for additional consultation, as outlined in Chapter 3.

If jurisdictions disagree with IHACPA's assessment of a proposed change and the necessity of additional consultation, the Statement of Impact provides an avenue for the Commonwealth or two or more states or territories to instigate the pathway for additional consultation. Any requests for additional consultation must be provided in writing from requesting JAC Members.

### **4.2.5 Input from the Administrator**

Clause B39 of the Addendum requires IHACPA to consult the Administrator over the content of the Statement of Impact. The Statement of Impact will include input from the Administrator regarding the proposed change.

## **4.3 Seeking guidance from jurisdictions**

All proposed changes and adjustments to the national funding model, even those that do not trigger any of the thresholds for additional consultation, will still see the provision of a Statement of Impact and existing consultative mechanisms through TAC and JAC in accordance with their Terms of Reference.

The Statement of Impact ensures that guidance is sought from the jurisdictions when IHACPA proposes changes to the national funding model that will impact the way services are delivered, as stipulated by clause B37 of the Addendum.

Additionally, the Parties may escalate a funding policy issue at any stage to HCEF or HMM for consideration.

# 5. Threshold for additional consultation

## 5.1 Requirements under the Addendum

Clause B10 of the Addendum states that given the significance to all Parties of the functions discharged by the national funding bodies, the bodies will undertake additional consultation for changes that materially impact the application of the national funding model.

In fulfilling the intent behind this clause, IHACPA has developed a set of thresholds for assessing whether a proposed change is sufficiently material to warrant additional consultation with HMM.

## 5.2 Thresholds for additional consultation

The thresholds aim to capture proposed changes that represent a significant departure from IHACPA's established annual processes or a material impact on the national funding model that requires consultation beyond IHACPA's existing consultative mechanisms with the jurisdictions.

As such, each change proposed by IHACPA will be assessed against the thresholds to determine if the change is material to require IHACPA to initiate additional consultation. This assessment will be included as part of the Statement of Impact and be provided to jurisdictions for each proposed change.

Changes that are assessed to trigger one or more of the thresholds will require additional consultation. Changes that do not meet a threshold for additional consultation will still be subject to the existing consultative mechanisms with the jurisdictions through IHACPA's TAC and JAC. However, if the Commonwealth or two or more states and territories disagree with IHACPA's assessment, additional consultation on the proposed change can be requested.

The thresholds for IHACPA to initiate additional consultation are outlined in **Table 3**.

**Table 3. Thresholds for initiating additional consultation**

Type of Change	Exceptions
<b>Pricing changes</b>	
<p>Pricing impact on funding projected to be more than 0.5 per cent at a national level.</p> <p>To be assessed separately, not cumulatively, if other changes have been proposed concurrently.</p>	<p>Changes that IHACPA is directed to implement<sup>3</sup>.</p>
<p>Pricing impact on funding projected to be more than 2 per cent on any one jurisdiction.</p> <p>To be assessed separately, not cumulatively, if other changes have been proposed concurrently.</p>	
<b>Costing methodology changes</b>	
<p>Major changes in costing methodologies, for example:</p> <ul style="list-style-type: none"> <li>• Introduction of a new version of costing standards (such as the Australian Hospital Patient Costing Standards (AHPCS) Version 4.1.</li> <li>• Introduction of a new standard, business rule or costing guideline within the AHPCS.</li> </ul>	<p>Nil.</p>
<b>New classifications and structural changes</b>	
<p>All new classifications, for example:</p> <ul style="list-style-type: none"> <li>• Introduction of the Australian Emergency Care Classification (AECC) Version 1.0 for pricing.</li> <li>• Introduction of the Australian Mental Health Care Classification (AMHCC) Version 1.0 for pricing.</li> <li>• Replacement of International Statistical Classification of Diseases and Related Health Problems, Tenth Revision, Australian Modification (ICD-10-AM), with International Classification of Diseases 11th Revision (ICD-11).</li> </ul>	<p>Nil.</p>
<p>Major structural change to new versions of an existing classification, for example:</p> <ul style="list-style-type: none"> <li>• Implementation of brand new data elements in existing or new versions of classifications that are already collected in the National Minimum Data Set (NMDS) but not currently utilised in the classification.</li> <li>• Implementation of brand new data elements in existing or new versions of classifications that are not already collected within the NMDS.</li> </ul>	<p>Moderate changes such as implementation of a new data element that was already collected and only redistributes activity.</p> <p>Standard refinements undertaken with every revision to ensure the classification maintains clinical currency and cost homogeneity</p>

<sup>3</sup> Changes arising from a prior arrangement with the jurisdictions, for example under the Addendum where IHACPA was directed to implement a pricing model for avoidable hospital readmissions and private patient neutrality.

<ul style="list-style-type: none"> <li>• Implementation of a significantly different episode clinical complexity model (such as the Version 8.0 revision of the clinical complexity model).</li> <li>• Removal of data elements that are currently collected within the NMDS.</li> </ul>	(such as amendments to thresholds of existing variables).
<b>Funding cycle impacts</b>	
Any intended retrospective adjustments to the national funding model prior to the current pricing year.	Nil.
Any changes to the national funding model proposed to be made that will impact a state or territory funding cycle mid-year.	
<b>By request</b>	
A request from the Commonwealth or at least two states or territories for the guidance to be sought.	Nil.

### 5.3 Additional consultation with HMM

IHACPA's assessment of the proposed change will be detailed in the Statement of Impact provided to jurisdictions through TAC and JAC. Proposed changes that trigger one or more of the thresholds, and therefore are determined to have a material impact on the application of the national funding model, will require additional consultation with HMM. An assessment that a proposed change requires additional consultation does not mean that the change must undergo shadow pricing. Shadow pricing requirements are discussed in Chapter 6.

The consultation process and associated timeframes for proposed changes to the national funding model has been outlined in Chapter 3.



# 6. Shadow pricing

## 6.1 Provisions under the Addendum

Clause A42 of the Addendum states that IHACPA will use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes and pricing based on a costing study. The Addendum requires shadow pricing for a period of two years or a period agreed upon by the Commonwealth and a majority of states and territories to ensure robust data collection and reporting to accurately model the financial and counting impact of changes on the national funding model.

This Chapter provides an outline of the role of shadow pricing for proposed changes to the national funding model. IHACPA has defined the criteria and timeframes associated with the use of shadow pricing to provide clear guidance for jurisdictions.

Changes to ABF classification systems and costing methodologies and associated costing studies and shadow pricing projects are usually major undertakings requiring significant resources from IHACPA and participating jurisdictions. IHACPA will have consideration of the capability of all jurisdictions to contribute data to costing studies and shadow pricing projects in order to ensure that jurisdictions are actively involved in their conduct and the evaluation of outcomes.

## 6.2 Changes requiring shadow pricing

The requirements of clause B37 of the Addendum must be satisfied before new or changed ABF classifications and new costing methodologies can be introduced. Shadow pricing will be used when significant changes to the national funding model are proposed, as detailed in **Table 4**.

**Table 4. Changes requiring shadow pricing**

Introduction of new classifications	
Examples: <ul style="list-style-type: none"><li>• AECC Version 1.0.</li><li>• AMHCC Version 1.0.</li><li>• Replacement of ICD-10-AM with ICD-11.</li></ul>	Exceptions: <ul style="list-style-type: none"><li>• Where there is an undue financial or administrative burden on jurisdictions (such as dual data collection).</li><li>• Where agreed through IHACPA's JAC.</li></ul>
Major structural change to new versions of existing classifications	
Examples: <ul style="list-style-type: none"><li>• Implementation of new data elements in existing classification.</li><li>• Implementation of new data elements that are</li></ul>	Exceptions: <ul style="list-style-type: none"><li>• Moderate changes such as implementation of a new data element that was already collected and only redistributes activity.</li><li>• Standard refinements undertaken with every revision to ensure the classification maintains clinical currency</li></ul>

currently not collected within the NMDS.	<p>and cost homogeneity (such as amendments to thresholds of existing variables).</p> <ul style="list-style-type: none"> <li>• Where there is an undue financial or administrative burden on jurisdictions (such as dual data collection).</li> <li>• Where agreed through IHACPA’s JAC.</li> </ul>
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### 6.3 Timeframes for progression from shadow pricing

The IHACPA *Shadow Pricing Guidelines* provide guidance for the use of shadow pricing in the development and implementation of changes to classification systems. The *Shadow Pricing Guidelines* establishes guiding principles for commencing shadow pricing, reporting requirements during the shadow pricing period and criteria for progression to pricing.

#### Standard shadow pricing period before progression to pricing

IHACPA has defined when the two-year shadow period will commence, in accordance with clause A42 of the Addendum. The starting point for the two-year shadow period will be the start of the financial year immediately following the Pricing Authority’s decision to undertake the shadow pricing project or any other date agreed between IHACPA, the Commonwealth and a majority of states and territories.

There may be circumstances where an extension to the prescribed two-year shadow pricing period is required, in consultation with JAC and TAC. Factors that may warrant an extension to the standard shadow pricing period are outlined in the *Shadow Pricing Guidelines*.

#### Reductions to the shadow pricing period and earlier progression to pricing

In accordance with clause A42 of the Addendum, reducing the two-year shadow pricing period for classification system or costing methodology changes or pricing based on a costing study must be agreed upon with the Commonwealth and a majority of states or territories. Proposals for reductions to the two-year shadow pricing period will be discussed by jurisdictional representatives at IHACPA’s JAC and TAC meetings, then provided to all health ministers for a 45-day consultation period. IHACPA has developed a set of circumstances where shadow pricing may not be required for the full two-year period. These are detailed in **Table 5**.

**Table 5. Circumstances for proposing a reduced shadow pricing period**

<b>Where otherwise dictated by the Addendum or other agreement between jurisdictions</b>	<p>Changes that IHACPA is required to implement under the Addendum:</p> <ul style="list-style-type: none"> <li>• avoidable hospital readmissions pricing model</li> <li>• private patient neutrality methodology</li> <li>• trials of innovative funding models.</li> </ul>
<b>Where otherwise requested or approved by a majority of jurisdictions</b>	<p>When the following conditions are satisfied:</p> <ul style="list-style-type: none"> <li>• IHACPA can provide information and evidence, through the Statement of Impact, that assures jurisdictions with regards to the impact of changes; and</li> </ul>

	<ul style="list-style-type: none"> <li>• IHACPA can reach an agreement with the jurisdictions to shorten the shadow pricing timeframe.</li> </ul>
<p><b>Where it would adversely impact the reactivity and accuracy of pricing of services</b></p>	<p>Where it represents potentially significant delays in pricing of services, for example:</p> <ul style="list-style-type: none"> <li>• Where shadow pricing for the full two-year period would render the classification outdated prior to its implementation.</li> <li>• Where shadow pricing for the full two-year period would impact the ability of the classification to reflect the most recent cost and activity data.</li> </ul>

### Progression to pricing

In line with this Policy, IHACPA will prepare a Statement of Impact to outline its intent to progress to pricing, as required under the Addendum, where the full two-year shadow pricing period has been undertaken or where IHACPA is proposing a reduced shadow pricing period.

The back-casting of new services and new counting rules, as well as any shadow pricing periods, will be made explicit in each annual determination as well as how back-casting should be applied in the calculation of Commonwealth growth funding. The process that IHACPA follows when back-casting the NEP or NEC is outlined in IHACPA's *Back-Casting Policy*.

# Appendix A: Extracts from the Addendum

Clause	Detail
A42	<p>The IHPA<sup>4</sup> will use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes and pricing based on a costing study, for two years or a period agreed with the Commonwealth and a majority of States to ensure robust data collection and reporting to accurately model the financial and counting impact of changes on the National Funding Model.</p> <ol style="list-style-type: none"> <li>a. Where a jurisdiction participates fully in the shadow pricing, including the provision of the best available data over the shadow period to support the implementation of the new ABF classification systems or costing methodologies, the Parties agree there will be no retrospective adjustments to the National Funding Model, excluding adjustments to Commonwealth contributions as a result of service volume reconciliations as set out in clauses A63, A65 and A73.</li> <li>b. Business rules will be developed by the national bodies in consultation with Parties, addressing significance of changes, process and consultation around retrospective adjustments where appropriate.             <ol style="list-style-type: none"> <li>i. If the national bodies consider there is a potential need for a retrospective adjustment to the national funding model, national bodies will communicate, consult and collaborate with Parties. The national bodies will hold a consultation period of 45 days to allow Parties an opportunity to provide submissions on the matter.</li> <li>ii. Within 45 days following the jurisdiction 45-day consultation period, national bodies will prepare a report to the Council of Australian Governments Health Council, advising them of the national bodies' decision and the nature and circumstances of the recommended adjustment to the national funding model.</li> <li>iii. Once the report is provided to the Council of Australian Governments Health Council, the national bodies will incorporate the decision regarding the retrospective adjustment into the national funding model and provide parties with an updated report on funding entitlements from the national model.</li> <li>iv. When providing payment advice to the Commonwealth Treasurer following the six-month or annual reconciliation, the Administrator will include a section that notes any matters or concerns raised by State Ministers in the 45-day consultation period in the formation of that advice.</li> </ol> </li> </ol>

<sup>4</sup> On 12 August 2022 amendments to the National Health Reform Act 2011 (Cwth) (the NHR Act) came into effect changing IHPA's name to the Independent Health and Aged Care Pricing Authority (IHACPA) and expanding its role to include the provision of costing and pricing advice on aged care to the Commonwealth Government.

Clause	Detail
B10	Given the significance to all Parties of the functions discharged by the national funding bodies, the bodies will consult with the Council of Australian Governments Health Council on changes that materially impact the application of the national funding model. Such consultation will be in addition to specific consultation requirements and processes with Parties set out in this Addendum.
B13	The Commonwealth or two or more States may request that the national funding bodies present for Health Ministers' consideration a final or draft business rule, decision or determination that affects the national funding model or the calculation of the Commonwealth funding contribution. Such consultation will be in addition to specific consultation requirements and processes set out in the Addendum, and provide no less than 45 days for response by Health Ministers.
B14	As per clause A42, National Bodies will develop business rules related to process and consultation related to retrospective adjustments, for consideration and unanimous agreement by the Council of Australian Governments Health Council, by April 2021.
B15	National Bodies will formally consult with Parties on the development of business rules and policies as per clause A42.
B37	The IHPA must seek guidance from Parties, through the IHPA Jurisdictional Advisory Committee, when implementing changes to the national funding model that will impact the way services are delivered. Parties may escalate a funding policy issue to the Health Services Principal Committee, the Australian Health Ministers' Advisory Council or the Council of Australian Governments Health Council for consideration.
B38	The IHPA must provide a Statement of Impact to Parties when material changes or significant transitions are proposed to the national funding model, including changes that will have a major impact on any one party or materially redistribute activity between service streams.
B39	The Statement of Impact must be timely in relation to the matter raised and: <ul style="list-style-type: none"> <li>a. include a risk assessment of the proposed changes or adjustments;</li> <li>b. outline appropriate transition arrangements;</li> <li>c. be informed by consultation with the Parties; and</li> <li>d. have input from the Administrator.</li> </ul>
B40	The IHPA will provide the Australian Health Ministers' Advisory Council with a clear understanding of IHPA's processes, governance arrangements and its committees on national funding model matters.

# Appendix B: Statement of Impact

<b>Statement of Impact – National Pricing Model Consultation Policy</b>			
<b>This assessment is prepared using the most recently available cost and activity data.</b>			
<b>Proposed change</b>			
For example, the introduction of a new classification for pricing.			
<b>Detailed summary of proposed change</b>			
<b>Proposed implementation timeframe</b>			
For example, proposed for implementation from 1 July 2022.			
<b>Date of assessment</b>			
<b>Initial assessment date:</b>			
<b>Final assessment date:</b>			
<b>Date of provision to jurisdictions</b>			
<b>RISK ASSESSMENT</b>			
<b>Benefits associated with proposed change</b>			
For example, the new classification is more suitable for the patient service category.			
<b>Identified risks associated with proposed change</b>			
1.			
2.			
3.			
<b>Identified risk #1</b>			
<b>Risk associated with proposed change</b>			
<b>Risk category</b>	For example, administrative risk or funding risk.		
<b>Risk description</b>			
<b>Risk mitigation and/or management</b>			
<b>Risk rating (evaluated using the matrix at Attachment A)</b>	<b>Likelihood</b>	<b>Consequence</b>	<b>Overall rating</b>
<b>Identified risk #2</b>			
<b>Risk associated with proposed change</b>			
<b>Risk category</b>	For example, administrative risk or funding risk.		
<b>Risk description</b>			
<b>Risk mitigation and/or management</b>			

Risk rating (evaluated using the matrix at <b>Attachment A</b> )	Likelihood	Consequence	Overall rating
<b>Identified risk #3</b>			
Risk associated with proposed change			
Risk category	For example, administrative risk or funding risk.		
Risk description			
Risk mitigation and/or management			
Risk rating (evaluated using the matrix at <b>Attachment A</b> )	Likelihood	Consequence	Overall rating
<b>Risk assessment outcome (accept/decline)</b>			
<b>TRANSITION REQUIREMENTS</b>			
<b>How long has the proposed change been in development?</b>			
<b>Has a costing study been undertaken?</b>			
<b>Shadow pricing arrangements</b>			
<b>BACK-CASTING REQUIREMENTS</b>			
<b>Is back-casting required for the proposed change?</b>			
<b>INPUT FROM THE ADMINISTRATOR</b>			
<b>Has input been sought from the Administrator?</b>			
<b>Advice from the Administrator</b>			
<b>ASSESSMENT AGAINST CONSULTATION THRESHOLDS</b>			
Consultation threshold	Y/N	Comments	
Pricing impact on funding projected to be more than 0.5 per cent at a national level			
Pricing impact on funding projected to be more than 2 per cent on any one jurisdiction			
Major change in costing methodology			
New classification			

<b>Major structural change to new versions of an existing classification</b>		
<b>Intended retrospective adjustments to the national funding model prior to the current pricing year</b>		
<b>Change to the national funding model proposed to be made that will impact a state or territory funding cycle mid-year</b>		
<b>Request from Commonwealth or at least two states or territories for additional guidance to be sought</b>		
<b>CONSULTATION PATHWAY</b>		
<b>Does the proposed change trigger one or more of the consultation thresholds?</b>		
<b>Is additional consultation required?</b>		
<b>Feedback from jurisdictions</b>		
<ul style="list-style-type: none"> <li>• Feedback on the Statement of Impact received through JAC and TAC, and assessment of whether the proposed change requires additional consultation</li> </ul>		



## Risk assessment matrix and assessment criteria

Risk assessment matrix		Likelihood			
		Rare	Unlikely	Likely	Almost Certain
Consequence	Severe	Medium	High	Extreme	Extreme
	Major	Medium	High	High	Extreme
	Moderate	Low	Medium	High	High
	Minor	Low	Low	Medium	Medium

## Assessment criteria: likelihood of risk occurrence

Likelihood	Description of likelihood
Rare	Risk is an unusual event that would only occur in exceptional circumstances
Unlikely	Risk is an unusual event but could occur in some circumstances
Likely	Risk would be expected to occur in some routine circumstances
Almost certain	Risk would occur in routine circumstances

## Assessment criteria: consequences associated with risk

Consequence	Description of consequence
Minor	Risk represents minimal funding impacts (less than the thresholds of 0.5 per cent nationally and 2 per cent on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions, though some aspects of delivery may require minor adjustment
Moderate	Risk represents moderate funding impacts (equal to the thresholds of 0.5 per cent nationally and 2 per cent on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions
Major	Risk represents major funding impacts (thresholds of up to 5 per cent nationally and 20 per cent on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions
Severe	Risk would prevent the delivery of IHACPA's pricing functions due to funding impacts (thresholds of greater than 5 per cent nationally and 20 per cent on any one jurisdiction) or administrative impacts



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