



## **Independent Hospital Pricing Authority**

### **Submission to the Productivity Commission Inquiry into Introducing Competition and Informed User Choice into Human Services**

IHPA is an independent agency established under Commonwealth legislation as part of the National Health Reform Act 2011.

IHPA was established under the National Health Reform Agreement to contribute to significant reforms to improve Australian public hospitals. The Agreement aimed to improve patient access to public hospital services and public hospital efficiency. A major component of this was a new way of funding public hospitals to ensure increased efficiency and more transparency with the implementation of national activity based funding (ABF) for Australian public hospitals.

Since 2011 IHPA has overseen the implementation of national ABF and has published an annual National Efficient Price (NEP) Determination for Australian public hospital services. The NEP is a major determinant of the level of Commonwealth Government funding for public hospital services and provides a price signal or benchmark for the efficient cost of providing public hospital services. The implementation of ABF has increased transparency in the delivery of public hospital services. ABF also establishes the technical requirements for contestability and contracting of public hospital services to the private sector.

#### **Technical Requirements for Contestability**

##### Classification Systems

ABF has established classification systems through which the health care sector can classify all types of patient services, their treatment and associated costs in order to provide better management, measurement and funding of high quality and efficient healthcare. Patients are linked to the resources consumed during their treatment to create the data required for effective decision making on pricing and funding.

There are six patient service categories which have classifications being used nationally or are currently in development including admitted acute care, subacute and non-acute care, non-admitted care, mental health care, emergency care and teaching, training and research. Together, these classifications cover all public hospital health care services provided in Australia. IHPA undertakes regular reviews and updates of existing classifications to ensure that classifications are fit for purpose, reflect the latest clinical practice and provide relevant and meaningful data to health care service providers, administrators and funders.

Admitted acute episodes of care, which account for over 70 per cent of expenditure on public hospital services in Australia, are grouped to the Australian Refined Diagnosis Related Group (AR-DRG) classification system. This is recognised as a world class classification and used in 15 countries around the world. The continual refinement and improvement of the AR-DRG classification system will see the finalisation and release of Version 9 of the classification in November 2016 for eventual implementation in ABF.

##### Activity Data Collections and Standards

The system of ABF is predicated on a large, robust set of national activity data that accurately captures the nature of services provided at hospitals across Australia.

Activity data details the nature and volume of services provided to patients in Australian hospitals. This data is collected through a number of national data collections and compiled into National Minimum Data Sets (NMDS), the specifications of which outlined on the Australian Institute of Health and Welfare's online metadata registry METeOR. An NMDS is a minimum set of data elements agreed for mandatory collection and reporting at a national level. Crucially, each NMDS is backed by an agreement between all parties involved to collect and supply uniform data.

##### Benchmark Price – National Efficient Price

ABF explicitly links funds allocated to the services provided. By design, the NEP provides a price signal or benchmark about the efficient cost of providing public hospital services and is an important driver of change.

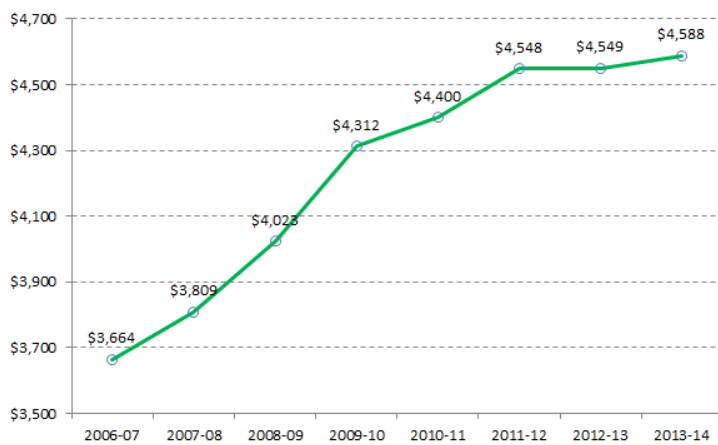
It enables comparisons between hospitals and allows system and hospital managers to identify inefficient practices, manage costs, and optimise resource allocation. The NEP, along with the classification systems and activity and cost data used to calculate it, provide a valuable framework through which to drive contestability in the provision of public hospital services.

### **ABF Supports and Drives Efficiency in Public Hospital Service Delivery**

ABF promotes transparency so that health system administrators (states and territories, Local Hospital Networks and public hospitals) can make choices about the range of public hospital services they provide, the models of care and the settings in which care is provided that are consistent with accessible, equitable and high quality public hospital services provided on an efficient basis.

The NEP is expressed in a common unit called the National Weighted Activity Unit (NWAU), a point of relativity for pricing of hospital services, which are weighted for resource consumption. Since the introduction of the NEP, the growth in public hospital unit costs, expressed as the cost per NWAU, has slowed. This has had a direct impact on the calculation of the NEP. Figure 1 shows the changes in cost per NWAU since 2006-07. The slower growth in the NEP is the result of, amongst other factors, increased efficiencies in the public health care system and has resulted in significant decreases in budgeted health expenditure by both state and federal governments. The NEP, by design, supports continued improvement in public hospital efficiency.

**Figure 1: Decreased growth in cost per NWAU**



### **National benchmarking portal**

In late 2016 IHPA launched the [National Benchmarking Portal](#) which allows clinicians and hospital managers to compare costs and activity data from public hospitals across the country. The portal is built on patient-level activity and cost data and provides the ability, for the first time, to compare difference in activity, costs and efficiency at similar hospitals to inform conversations about differences in cost, efficiency and patient care.