



Independent Hospital Pricing Authority

Submission to the Productivity Commission Human Services Inquiry – Draft Report

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 Determination for Australian public hospital services. The National Efficient Price provides a price signal or benchmark for the efficient cost of providing public hospital services and has increased the transparency in costs of delivering public hospital services.

In making this submission, IHPA is not expressing a view regarding the desirability of introducing an activity based funding system for dental services. Furthermore, as an independent agency, IHPA's submission does not represent the position of the Australian Government on this issue.

A critical precondition to the implementation of any activity based funding approach is agreement from all levels of government that this a desirable approach and the establishment of a framework to guide the agency charged with developing and implementing such an approach. In the case of public hospital services this was achieved through the National Health Reform Agreement and the National Health Reform Act.

Activity Based Funding

Activity Based Funding (ABF) is a way of funding service providers whereby they get paid for the number and mix of patients they treat. If a service provider treats more patients, it receives more funding. Because some patients are more complicated to treat than others, ABF also takes this in to account.

ABF funding should support timely access to quality health services, improve the value of the public investment in hospital care and ensure a sustainable and efficient network of service providers. ABF payments should be fair and equitable, including being based on the same price for the same service across public, private or not for profit providers of services.

The essential steps to implementing an ABF system are detailed below.

Scope Definition

It is critical that the scope of services to be included in an ABF approach is clearly defined. This should include both the types of services to be included for funding as well as the range of providers eligible.

Under the National Health Reform Agreement, IHPA was charged with determining the scope of public hospital services eligible for Commonwealth growth funding, reflecting the fact that there was no agreed definition of public hospital services

Counting

ABF requires high quality patient level data that form the inputs for the classification system and payment model. The data requirements include patient demographics, (age, residential area, indigenous status etc.), diagnosis information and data on any procedures that patient has had.

Costing

Detailed, patient level cost data is crucial to the implementation of ABF. Cost data is used to design and refine the classification system, and forms the basis of setting the price.

To ensure that cost data is consistently captured across providers, costing standards are required. They clearly define the expenditure that must be included in the cost data submission, as well the allocation methods used for allocating general ledger expenditure to individual patients.

In the hospital sector, IHPA is responsible for the National Hospital Cost Data Collection, which collects patient level costs from both public and private hospitals. IHPA also sets and maintains the Australian Hospital Patient Costing Standards.

Classification

Classifications aim to provide the health care sector with a nationally consistent method of classifying all types of patients, their treatment and associated costs in order to provide better management, measurement and funding of high quality and efficient health care services.

Classifications are comprised of codes that provide clinically meaningful ways of relating the types of patients treated by a hospital to the resources required. They enable hospital and health service provider performances to be measured by creating a link between the patients treated and the resources consumed for providing those treatments. This allows hospital and health service provider output to be measured, which forms the crucial data for policies on funding, budgeting and setting costs.

IHPA undertakes reviews and updates of existing classifications and is also responsible for introducing new classifications for those service categories without an existing classification. Updating classifications periodically is critical to ensuring that the classification represents the latest clinical practice.

IHPA understands that the Australian Dental Association maintains The Australian Schedule of Dental Services and Glossary, but is not able to provide comment on the suitability of this as a classification for ABF at this time.