

ALERT

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Independent Hospital Pricing Authority

The Independent Hospital Pricing Authority (**Authority**) commenced operation on 1 September 2011. From 1 July 2012, the Authority will control a national approach to activity-based funding (**ABF**) of public hospitals and promises better value for public money spent on hospital services and a more transparent system that takes efficiency into account.

The Authority has taken on a role of dispensing funding for independent hospitals based on the delivery of care, as opposed to blanket delivery of funds based on hospital and region.

The Authority is responsible for a nationally consistent production of ABF of public hospitals. Its chair is Mr Shane Solomon and its Deputy Chair Jim Birch.

New supporting legislation will allow the commonwealth to make payments into the new national health funding pool alongside state and territory funds. It will also establish the role of an administrator to oversee the pool, out of which hospitals are to be paid for the services they deliver. Hospital funding will face new accountability measures, with increased transparency about how much money, from which government, goes to which local hospital network and for what.

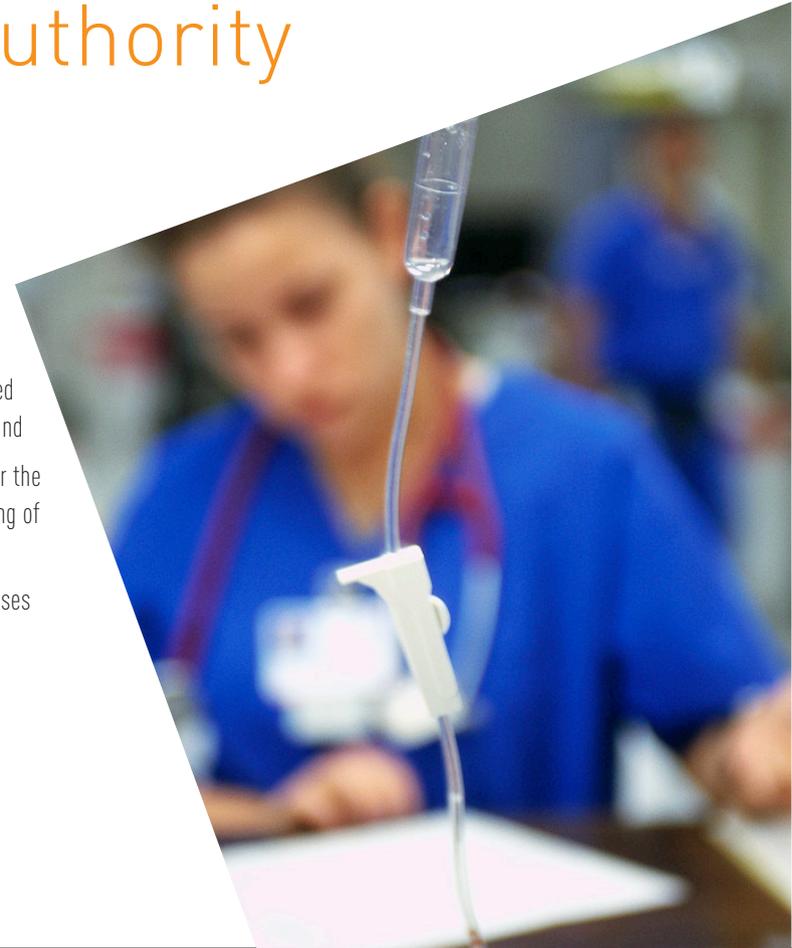
Functions

The main functions of the Authority are to:

1. determine the national efficient price (**NEP**) for healthcare services provided by public hospitals where the services are funded on an activity basis;
2. determine the efficient cost of healthcare services provided by public hospitals where the services are block funded; and
3. publish this and other information in a report each year for the purpose of informing decision makers regarding the funding of public hospitals.

The Authority's education, training and research strategy comprises three elements:

1. ABF workforce development;
2. development of national training resources; and
3. ABF related research.



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Education

In relation to education, training and research, the key stakeholders that the Authority must engage with include the Health Information Management Association of Australia, universities and Clinical Costing Standards Association of Australia.

Cost and price

The other functions of the Authority are to:

- a. determine the nationally efficient price of public hospital services funded by ABF;
- b. calculate block funding amounts for hospitals not funded by ABF;
- c. advise on loadings to the efficient price to take into account variations in the cost of delivery (for example, in rural areas);

- d. develop data and reporting standards for state and territory health departments; and
- e. investigate cost-shifting disputes.

Another role is to provide advice to state and territory governments about the efficient price procedure or operation in public hospitals. The government will use the NEP to determine the commonwealth contribution to growth funding for public hospitals. Importantly, the advice provided by the Authority is not binding on the state and territory governments and the price paid by state and territory governments to hospitals will be at their discretion.

Sub-committees

The Authority will have two sub-committees – the Clinical Advisory Committee and the Jurisdictional Advisory Committee. The main function of the committees is to provide advice to the Authority on developing and specifying classification systems for healthcare and other services provided by public hospitals. The Clinical Advisory Committee must table a report on its operations in parliament on an annual basis.

Membership

The Authority consists of nine members including the Chair and Deputy Chair. Each member is appointed by the Minister for Health with the agreement of the Prime Minister, Premiers and Chief Ministers. Each member of the Authority is appointed for five years. At least one member of the Authority must have substantial experience in healthcare in rural and regional areas.

Budget

The 2010-2011 Budget allocated funding of \$91.8 million for the Pricing Authority and \$118.6 million for the Performance Authority over four years.

National efficient price

The Authority has announced that the NEP for public hospital services will be \$4,808 per National Weighted Activity Unit. The units are indicative of the cost of each of the services according to weight. For example, inpatient services are weighted more heavily than outpatient services.

The NEP has been formulated, taking into consideration:

1. the scope of public hospital services eligible for commonwealth government ABF under the National Health Reform Agreement;
2. the criteria for services to be funded by block grants; and
3. the methodology to be used to price services that are provided to private patients in public hospitals.

The NEP applies to large hospitals that will be paid for each service they deliver from 1 July 2012. Small hospitals, particularly those in country regions, will continue to be paid by block grants. The funding for block grants will flow from the commonwealth and states via separate state managed funds.

Activity-based funding

The NEP for public hospital services will be the basis for the introduction of ABF for commonwealth funded services nationally



from 1 July 2012. This means that, rather than receiving funding in blocks based on location, they will receive funding based on the number and type of services they provide.

One of the features of the government's health reform package first announced in 2010 was the introduction of ABF and a nationally efficient price for the payment of public hospital services. ABF funds hospitals on the basis of the activity they perform that does not include teaching, research, public health and health promotion services.

ABF provides a classification system to define and count hospital activity. Each patient is classified according to their diagnosis, surgical procedures and other data. There are around 670 patient classifications with a different price paid for each.

The intent of the new regime is to give the community and clinicians unprecedented insight into the performance of hospitals and to expose good and bad performance. The Authority will advise governments on the efficient cost of performing the procedure or operation by comparing and benchmarking hospitals across the country.

At the moment, the commonwealth government contributes about \$12.6 billion a year, or 38% of public hospital funding, but has agreed to contribute 50% of the growth in funding from 2017. It is estimated that the commonwealth contribution will total an additional \$175 billion in public hospital funding to 2030. From 1 July 2014 commonwealth funding will be uncapped, which means that if public hospitals provide more services, they will be paid more and their entitlement will only be restricted by the number of services they are capable of providing.

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