IHPA and Activity Based Funding

IHPA

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Chief Executive Officer

National Health Reform Agreement

- Signed by all First Ministers in August 2011
- Activity based funding has been a requirement of Commonwealth funding for hospitals since 2008
- 2011 agreement provides for the establishment of the Independent Hospital Pricing Authority
- IHPA is governed by an Authority of nine members chaired by Shane Solomon
- Federal Budget 2014 changes

Strategic intent

- Transparency
- Value for money
- Independence
- National comparability
- Efficiency

Role of IHPA

- The NHRA defines IHPA's role which is reflected in legislation passed by the federal parliament in November 2011
- Key roles:
  - Independently set "the efficient price" for activity based funded public hospital services and any "loadings" to account for variations in prices
  - Specify all of the classification, costing, data and modelling standards that are required to develop
  - Determine the criteria for defining block funded services and the national efficient cost of providing block funded services
  - Resolve cross border and assess cost shifting disputes

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The products of IHPA

- Currently, a national efficient price for activity based funded public hospital services:
  - acute inpatients (including mental health inpatient services)
  - emergency department services
  - outpatient services
  - subacute services

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The products of IHPA cont...

- Clearly defined transparent adjustments to the efficient price
- Specifications for costing, classification, data provision and modelling
- Block funding criteria
- Define the scope of public hospital services
- Dispute determinations and assessments

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Uses of the IHPA products

- The national efficient price is used to determine Commonwealth funding to Local Hospital Networks (LHN) for the activity provided. States and territories can contribute above or below the efficient price level
- States and territories determine the volume and distribution of services not IHPA

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When does this happen?

- 2012-13 and 2013-14 were transitionary years in which the total Commonwealth funding is limited to the level prescribed in the 2008 National Health Care Agreement

- From 2014-15 onwards the Commonwealth will be required to pay defined percentages of the growth in public hospital services

Pricing guidelines

- Timely – quality care
- Efficiency
- Fairness
- Maintain agreed roles and responsibilities as determined in the NHRA

In Scope Services

- All admitted programs including hospital in the home and forensic mental health inpatients
- All emergency department services
- Non-admitted services:
  - Outpatient clinics
  - Other non-admitted services that meet the following criteria…

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In Scope Services cont….

The non-admitted service must be:

1. Directly related to inpatient admission or ED attendance, OR
2. Intended to substitute directly an inpatient admission or ED attendance, OR
3. Expected to improve the health or better manage the symptoms of persons with physical or mental health conditions who have a history of frequent hospital attendance or admission

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Other Non-Admitted Services In Scope

- IHPA has included a range of community-based public hospital services in scope
- A wide range of post-acute programs, chronic disease management programs and hospital avoidance programs are included in scope
- Some community-based mental health services are included in scope such as crisis teams, step-up/step-down services, as well as adult and older persons community mental health services
- Prevention and community-based programs that primarily focus on the ongoing management of stable patients were not included in scope

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Classifications to be used in 2014-15

- Admitted patient services: AR-DRG 7.0
- Emergency Department Services:
  - Urgency Related Groups 1.4 (ED levels 3B – 6)
  - Urgency Disposition Groups 1.3 (ED levels 1 – 3A)
- Non-Admitted Patient Services Tier 2 Outpatient Clinics Definitions Version 3.0
- Subacute: AN-SNAP V3.0

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National Efficient Price for 2014-15

- The NEP will be $5,007 per NWAU(14) which is a 3.9% increase on last year when revisions to the 2013-14 NEP are taken into account
- Equivalent to the mean cost per activity unit
- 3.9% per annum indexation factor applied to 2011-12 costs

National Weighted Activity Unit (NWAU)

- This is the single measure of cost across all three service lines – admitted services, ED services, and outpatient services
- Examples
  - Uncomplicated hip replacement = 4.1855 NWAU
  - Non-admitted Triage 1 ED presentation 0.3099 NWAU
  - General medical outpatient service 0.0641 NWAU
  - Palliative Care – terminal phase 0.5613 NWAU/episode + 0.1367 NWAU/day

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Private Patients

- NEP is adjusted by deducting revenue sources by each DRG using actual patient level revenue data
- Revenue might include:
  - MBS payment
  - Accommodation fees
  - Prosthesis fees
- Private non-admitted services are not eligible for case payment under the NHRA (clause A6 and A7)

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Adjustments for 2014-15

- Indigenous patients + 4%
- Locational adjustment:
  - Outer regional residents +7%
  - Remote residents +15%
  - Very remote residents +21%
- Specialist paediatric hospitals – some DRGs adjusted where there is a statistically significant difference in cost to general hospitals
- ICU use adjustment in some DRGs where ICU use is not universal and the ICU qualifies (in 2014-15 – over 24,000 ICU hours per year and 20% of those hours accounted for by mechanical ventilation)
- Radiotherapy adjustment – 24% for inpatient admissions

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Adjustments for 2014-15 cont.

- Subacute patients adjustments:
  - Paediatric (196%)
  - Indigenous (17%)
- Patients with specialist psychiatric care days:
  - 65 - 84 years (5%)
  - >85 years (9%)
  - Aged 17 and under (40%)

Block funding criteria

- Have to be approved by COAG
- Public hospitals, or public hospital services, will be eligible for block funding if:
  1. The technical requirements for activity based funding are not able to be satisfied
     Example: Teaching, Training and Research
  2. There is an absence of economics of scale that means that some services would not be financially viable under activity based funding
     Example: small rural hospital ≤3,500 NWAU per annum

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Small rural hospitals (≤3500 NWAU per annum)

- Matrix of activity versus remoteness
- A single National Efficient Cost has been set and a ratio set for each cell in the matrix of hospital size versus remoteness of location
- The National Efficient Cost will be $5.725M per small rural hospital in 2014-15
- Commonwealth funding to each small rural hospital is NEC ($5.725M) x ratio x Commonwealth share in each jurisdiction (0.38 nationally)

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Future Development of Activity Based Funding

- IHPA will design two new classification systems:
  - A new Mental Health classification system
  - A new Teaching, Training and Research classification system
- IHPA is reviewing the classification systems for Outpatient services and Emergency Department services
- IHPA is working with the ACSQHC on exploring a quality dimension to pricing

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What IHPA does not do

- IHPA does not handle cash – the National Funding Pool Administrator handles state/territory and Commonwealth cash and distributes it to LHNs
- IHPA does not evaluate performance – that is the job of the governing bodies, the states and territories, and the National Health Performance Authority
- IHPA does not determine what service goes where – this is still determined by states and territories
- IHPA does not determine private hospital funding

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Activity Based Funding Conference 2014

23 - 25 June 2014, Melbourne Convention and Exhibition Centre, Australia

www.abfconference.com.au

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Cathy Schoen, Senior Vice President of The Commonwealth Fund in New York

Dr Michael Wilke, Managing Partner of Dr Wilke GmbH, Munich based private Diagnosis Related Groups (DRG) research institute and consulting company.

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