

## EXPLANATORY STATEMENT

### *National Health Reform Act 2011*

#### **Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the *National Health Reform Act 2011*** *No. 1/2016*

##### Authority

This Instrument is made under subsection 226(1) of the *National Health Reform Act 2011* (the Act), which provides that the Minister may give directions to the Independent Hospital Pricing Authority (IHPA) in relation to the performance of its functions and exercise of its powers. Section 131 of the Act sets out the functions of the IHPA, which include determining the national efficient price for health care services provided by public hospitals where the services are funded on an activity basis: paragraph 131(1)(a).

This Instrument operates by directing the IHPA in relation to the performance of its functions and the exercise of its powers. Under subsection 226(4) of the Act, the IHPA must comply with a direction made under subsection 226(1).

##### Purpose

This Instrument directs the IHPA to provide the Commonwealth and the States and Territories (the Parties) with an option, or options for:

- (a) a comprehensive and risk adjusted model to determine how funding and pricing can be used to improve patient outcomes and reduce the amount the Commonwealth pays for sentinel events, and a set of preventable hospital acquired conditions, defined by the Australian Commission on Safety and Quality in Health Care and agreed by the Parties, that occur in public hospitals; and
- (b) a comprehensive and risk-adjusted strategy and funding model to reduce avoidable readmissions to hospital that will adjust the funding to hospitals that exceed a predetermined avoidable readmission rate for an agreed set of conditions and the circumstances in which they occur.

This work will assist with improving service delivery across the health system to achieve better health outcomes and health system efficiencies.

##### Background

This Instrument gives effect to the Council of Australian Governments (COAG) Heads of Agreement on Public Hospital Funding signed on 1 April 2016, specifically in relation to reforms to improve the efficiency of public hospitals. The Heads of Agreement includes a commitment for the Parties, in conjunction with the IHPA, to

develop a comprehensive and risk-adjusted model to integrate quality and safety into hospital pricing and funding.

### Details

Subsection 226(3) of the Act provides that a direction made under subsection 226(1) must:

- (a) be of a general nature only; and
- (b) not be a direction to change:
  - i. a particular national efficient price for health care services provided by public hospitals; or
  - ii. a particular efficient cost for health care services provided by public hospitals.

This Instrument is of a general nature only; it does not direct the IHPA to change a particular national efficient price for health care services provided by public hospitals or a particular efficient cost for health care services provided by public hospitals between hospitals and sponsors.

This Instrument directs the IHPA to, have regard to the Parties intention to:

- (a) implement a model for sentinel events from 1 July 2017; and
- (b) implement a model for an agreed set of preventable hospital acquired conditions not before 1 July 2018, with a preceding shadow year.

### Consultation

Subsection 226(2) of the Act provides that the Minister must consult with the Standing Council on Health (now known as the COAG Health Council) before giving a direction. Subsection 230(1) specifies the meaning of Standing Council on Health to be as follows:

***“The Standing Council on Health is*** (subject to subsection (2)) the Ministerial Council by that name, or, if there is no such Ministerial Council, the standing Ministerial Council established or recognised by COAG whose members include all Ministers in Australia having portfolio responsibility for health.”

The Minister has written to State and Territory health ministers, outlining her intention to issue a direction under subsection 226(1) of the Act.

This Instrument relates solely to the functions and duties of the IHPA. The activity that will be undertaken is not regulatory in nature. As such, a Regulation Impact Statement is not required.

This Instrument commences the day after registration on the Federal Register of Legislation.

This Determination is a legislative instrument for the purposes of the *Legislation Act 2003* and under the provisions of section 44 of the *Legislation Act 2003* the Instrument is not subject to disallowance.