

## 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. 2/2016*

##### 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: subsection 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 progress implementation of agreed recommendations of the Council of Australian Governments (COAG) Health Council on pricing for safety and quality to give effect to:

- (a) nil funding for public hospital episodes including a sentinel event which occurs on or after 1 July 2017. This applies to all relevant episodes of care (being admitted and other episodes) in activity based funded and block funded hospitals);
- (b) an appropriate reduced funding level for all hospital acquired complications, in accordance with Option 3 of the draft Pricing Framework for Australian Public Hospital Services 2017-18, as existing on 30 November 2016. This Option has regard to a funding adjustment reflecting the additional cost of a hospital admission with a hospital acquired complication and applying across all public hospitals; and
- (c) undertake further public consultation to inform a future pricing and funding approach in relation to avoidable hospital readmissions, based on a set of definitions to be developed by the Australian Commission on Safety and Quality in Health Care.

Implementation of the agreed recommendations of COAG Health Council on pricing and funding for safety and quality will support improved service delivery across the health system to achieve better health outcomes and health system efficiencies.

## Background

This Instrument gives effect to the COAG Heads of Agreement on Public Hospital Funding signed on 1 April 2016 (Heads of Agreement), specifically in relation to reforms to improve health outcomes and efficiency of public hospitals. The Heads of Agreement includes a commitment for the Parties to the Agreement, in conjunction with the IHPA, to develop and implement a comprehensive and risk-adjusted model to integrate quality and safety into hospital pricing and funding.

An Addendum to the National Health Reform Agreement (Schedule I) is being developed to give effect to the Heads of Agreement to be signed by First Ministers in February 2017. This Schedule, once agreed, will provide authority for the implementation of agreed outcomes in the Heads of Agreement from 1 July 2017 to 30 June 2020.

## 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 to the Heads of Agreement, intention to:

- (a) implement a funding model for sentinel events from 1 July 2017, to give effect to nil funding for public hospital episodes including a sentinel event; and
- (b) implement a model for an agreed set of preventable hospital acquired conditions not before 1 July 2018, with a preceding shadow year. The model will give effect to a reduced funding amount for hospital acquired complications, with the reduction being reflective the additional cost of a hospital admission with a hospital acquired complication.

## 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 previous Minister for Health, the Hon. Sussan Ley, wrote 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.