



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*

I, GREG HUNT, Minister for Health, acting under subsection 226(1) of the *National Health Reform Act 2011* (the Act), having consulted with the Standing Council on Health, DIRECT that in relation to the performance of its functions and exercise of its powers the Independent Hospital Pricing Authority undertake the functions set out in Item 1 of the Schedule to this instrument and have regard to the matters set out in Item 2 of the Schedule to this instrument.

Dated:

16

February 2017

GREG HUNT
Minister for Health

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Part 1 Preliminary

1. Name of Direction

This Instrument is the *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*.

2. Commencement

This Direction takes effect on the day after it is registered on the Federal Register of Legislation.

3. Authority

This Direction is made under section 226 of the *National Health Reform Act 2011*.

4. Definition

In this Direction:

Act means the *National Health Reform Act 2011*.

avoidable hospital readmission means readmission to hospital for a condition or conditions arising from complications of the management of the condition for which the patient was originally admitted.

hospital acquired complication means a hospital acquired patient complication, as defined by the national list developed, and amended from time to time, by the Australian Commission on Safety and Quality in Health Care¹, for which clinical risk mitigation strategies may reduce (but not necessarily eliminate) the risk of that complication occurring.

sentinel event means one of a subset of adverse events that result in death or serious harm to a patient.

5. Schedule

The Schedule to this Instrument describes the direction given to the Independent Hospital Pricing Authority on the performance of its functions and exercise of its powers.

¹ Indicators of Safety and Quality <https://www.safetyandquality.gov.au/our-work/information-strategy/indicators/>

Schedule

1. Functions

- (i) The Independent Hospital Pricing Authority, in relation to its functions under s. 131(1)(a) and (h) of the Act, is to undertake implementation of agreed recommendations of COAG Health Council (on 20 January 2017) on pricing for safety and quality to give effect to:
- (a) nil funding for a public hospital episode including a sentinel event which occurs on or after 1 July 2017, applying to all relevant episodes of care (being admitted and other episodes) in hospitals where the services are funded on an activity basis and hospitals where services are block funded; and
- Note: For *hospitals where the services are funded on an activity basis* and *hospitals where services are block funded* see Chapter 4 of the Act.
- (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, to reflect the additional cost of a hospital admission with a hospital acquired complication, to be applied 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.

2. Matters the Independent Hospital Pricing Authority is to have regard to

- (i) In performing the activity referred to in Item 1(i)(a), the Independent Hospital Pricing Authority must have regard to the intention of COAG Health Council to:
- (a) implement an adjusted funding model for sentinel events from 1 July 2017;
 - (b) have regard to the Australian Commission on Safety and Quality in Health Care's review of sentinel events; and
 - (c) monitor and review the reporting of sentinel events by States and Territories to ensure those events are adequately reported for the purpose of funding adjustments.
- (ii) In performing the activity referred to in Item 1(i)(b), the Independent Hospital Pricing Authority must have regard to the intention of COAG Health Council to:

- (a) further refine the risk adjustment methodology for the COAG Health Council agreed hospital acquired complication model prior to 1 July 2017;
 - (b) shadow the implementation of the hospital acquired complication model to assess impact on funding, data reporting (e.g. condition onset flags), clinical information systems, and specific population and peer hospital groups; and
 - (c) public consultation on the findings of the shadow implementation with a final report submitted to COAG Health Council by 30 November 2017;
 - (d) provide direction and monitoring of State and Territory programs to audit medical records and coding to support continued improvement in reporting of hospital acquired complications; and
 - (e) implementation of reduced funding levels for all hospital acquired complications, subject to the results of the shadow period, from 1 July 2018.
- (iii) In performing the activity referred to in Item 1(i)(c), the Independent Hospital Pricing Authority must have regard the intention of COAG Health Council for:
- (a) the Australian Commission on Safety and Quality in Health Care to develop a list of clinical conditions that can be considered avoidable hospital readmissions, including identifying suitable condition-specific timeframes for each of the identified conditions;
 - (b) the Independent Hospital Pricing Authority to provide additional advice on feasibility and financial implications of potential future pricing or funding adjustments for avoidable readmissions in accordance with the list of clinical conditions; and
 - (c) the development of pricing or funding adjustments to target avoidable hospital readmissions which arise from complications of the management of the original condition that was the reason for the patients original hospital stay.
- (iv) The Independent Hospital Pricing Authority's inclusion of the options referred to in Item 1 of this Direction in The Pricing Framework for Australian Public Hospital Services, in March 2017.
- (v) In undertaking implementation, evaluation and provision of the advice described in Item 1 of this Schedule, the Independent Hospital Pricing Authority is to have regard to the following design principles:
- (a) Reforms prioritise patient outcomes and are evidence based:
 - i. Better patient health outcomes underpin the design and implementation of reform

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- ii. The implementation and evaluation of pricing and funding models for safety and quality, and reducing avoidable readmissions, are based on robust evidence
 - iii. Adjustments are based on evidence of a causal link to the condition or complication, and are commensurate with the additional care required as a result of the complication
 - iv. Adjustments relate to conditions or complications which clinicians and other health professionals are reasonably able to take action to reduce their incidence or impact
 - v. Any models should add to the evidence base for strategies to address safety and quality, with robust monitoring of the effectiveness of implementation and ultimately, their impact on patient outcomes.
- (b) Reforms are consistent with whole-of-system efforts to deliver improved patient health outcomes:
- i. Adjustments complement existing national and state measures to improve patient health outcomes and reduce avoidable hospital demand, including but not limited to the Australian Commission on Safety and Quality in Health Care's goals, national benchmarking, data reporting, and accreditation
 - ii. The implementation of pricing and funding models acknowledges that mechanisms other than pricing and funding have a role in achieving the reform intention and that complementarity of all mechanisms is desirable
 - iii. The design and implementation of pricing and funding models should not compromise state system financial sustainability and quality and should therefore be focused on system level performance improvement.
- (c) Reforms provide transparency and comparability:
- i. As far as practicable, implementation of financial levers provide transparency between the approach and the intended outcome
 - ii. Pricing models use an appropriate risk adjustment methodology to consider different patient complexity levels or specialisation across jurisdictions and hospitals.
- (vi) In addition, in relation to undertaking functions as described in Item 1 of this Schedule, the Independent Hospital Pricing Authority is to have regard to

submissions from the Australian Commission on Safety and Quality in Health Care, the National Health Funding Body, the Commonwealth, States and Territories, and other parties deemed relevant by the Independent Hospital Pricing Authority.

- (vii) The Australian Commission on Safety and Quality in Health Care will curate the Australian Sentinel Events List and the Hospital Acquired Complications List, develop rates of preventability for each hospital acquired complication to inform a risk adjustment methodology and lead development of a national consistent definition of avoidable hospital readmissions.