

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. 1/2017

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, and its powers are specified in section 135 of the Act. Paragraphs 131(1)(c), (e), (h) and (n) set out the functions of the IHPA relevant to this Instrument.

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 take steps to ensure that changes introduced to classification systems or costing methodologies across all activity based funding service categories are effectively back-cast for the purposes of clause A40 of Schedule A to the *National Health Reform Agreement* (NHRA), to negate any unintended impact on the calculation of efficient growth for funding purposes.

This Instrument also directs the IHPA to take steps to ensure that the introduction of changes in the non-admitted service category that occurred in the 2014-15 and 2015-16 financial years, including changes in scope, funding type and counting methodologies, do not have an unintended impact on the calculation of efficient growth for the 2015-16 financial year. In undertaking this, the IHPA must review and take any necessary steps to address anomalies in efficient growth as a result of:

- (a) the transfer of non-admitted care clinics from block funding arrangements to Activity Based Funding (ABF) arrangements;
- (b) the change in counting methodology from counting every service event to temporal bundling; and
- (c) the impact of scope changes for non-admitted care clinics, including the expanded scope of 10.19 Ventilation – home delivered to include patients who are dependent on ventilation at night and who without ventilation support would be at risk of imminent hospitalisation.

In undertaking the above, the IHPA may consider development of a methodology, or methodologies, for the Administrator of the National Health Funding Pool to consider in calculating the final funding entitlement for the 2015-16 financial year.

Further, this Instrument directs the IHPA to undertake a review and provide advice on the impact of the data reporting practices utilised in Western Australia for the non-admitted service category. In undertaking this, the IHPA is to review the practice in Western Australia of using a mix of patient and aggregate level data at a hospital for funding purposes, including whether there is potential for duplicate payments under this arrangement.

Background

This Instrument directs the IHPA to review and take steps to address matters that are having an effect on the calculation of the efficient growth in actual public hospital services delivered by States and Territories (the States).

Under clause 12 of the NHRA, the Commonwealth and the States have agreed that the Commonwealth will fund 45 per cent efficient growth in public hospital services delivered between the 2014-15 and 2016-17 financial years (inclusive). The accurate calculation of activity growth is necessary to ensure that each State's National Health Reform (NHR) funding entitlement is calculated correctly.

A payment determination to finalise NHR funding to the States for the 2015-16 financial year is yet to be made. This is due to growth in hospital activity for that year which are inconsistent with historical trends. The work undertaken by the IHPA under this Direction will support the determination of a final NHR payment for the 2015-16 financial year.

Analyses already undertaken by the IHPA and the Administrator of the National Health Funding Pool have identified the matters outlined in Item 1(ii)(a) and Item 1(iii) of the Instrument as changes that appear to have contributed to increases in funding growth.

Details

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

- (a) must be of a general nature only; and
- (b) must 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.

Consultation

Subsection 226(2) of the Act provides that the Minister must consult with the Standing Council on Health 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 for Health, the Hon. Greg Hunt MP, consulted with COAG Health Council members on his intention to issue a direction under subsection 226(1) of the Act.

This Instrument relates solely to the functions and powers 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.