

IHPA and Activity Based Funding



IHPA

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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.



Strategic Intent

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



Role of the IHPA

- The NHRA defines the 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



The products of IHPA

- Initially, a national efficient price for activity based funded public hospital services:
 - acute inpatients
 - emergency department services
 - outpatient services
 - From 1 July 2013, activity based funding will be introduced for Sub-acute and Mental Health Services



The products of IHPA cont...

- Clearly defined transparent adjustments to the efficient price
 - indigenous patients
 - remote residents
 - specialist paediatric hospitals (some DRGs)
 - ICU utilisation in some DRGs
- Specifications for costing, classification, data provision and modelling
- Block funding criteria
- Define the scope of public hospital services
- Dispute determinations and assessments



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
- Block funding criteria developed by IHPA are applied by the states and territories who then advise IHPA of their impact
- IHPA then determines which hospital services are eligible for Commonwealth funding on a block grant basis based on the advice from states and territories



When does this happen?

- 2012/13 and 2013/14 are transitional 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.



What is likely to happen?

- As expected, the efficient price has already been contentious
- There is a significant increase in transparency
- In 2012/13 it will become much clearer where Commonwealth funding for public hospital services goes with the level of state/territory contribution becoming readily apparent
- The distribution of Commonwealth and state/territory funding within a jurisdiction will become much more transparent



What is likely to happen? Cont...

All governments have already become much more conscious of the relative costs of providing public hospital services across jurisdictions and across LHNs



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.....



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, OR
4. Reported as a public hospital service in the Public Hospitals Establishment Collection 2010.



Classifications used

- Admitted patient services : ARDRG
Version 6.X
- Emergency Department Services :
 - Urgency Related Groups 1.2 (ED levels 3B – 6)
 - Urgency Disposition Groups 1.2 (ED levels 1 – 3B)
- Non-Admitted Patient Services : Tier 2
Outpatient Clinics Definitions Version 2.0



National Efficient Price for 2012/13

- The NEP is \$4,808 per NWAU(12)
- Equivalent to the mean cost per activity unit
- 5.1% indexation factor applied to 2009/10 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
 - Limb amputation = 4.8387 NWAU
 - Non-admitted Triage 1 ED presentation 0.2203 NWAU
 - General medical outpatient service 0.0588 NWAU



Private Patients

- NEP is adjusted by deducting revenue sources by each DRG
- 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)



Adjustments

- Indigenous patients + 5.0%
- Locational adjustment:
 - Outer regional residents +8.7%
 - Remote residents +15.3%
 - Very remote residents +19.4%
- Specialist paediatric hospitals – some DRG's adjusted where there is a statistically significant difference in cost to general hospitals providing paediatric care
- ICU use adjustment in some DRG's where ICU use is not universal and the ICU is a Level 3 ICU

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 $\leq 3,500$ NWAU per annum



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 National Health Performance Authority, the states and territories and governing bodies
- IHPA does not determine what service goes where – this is still determined by states and territories
- IHPA does not determine private hospital funding



More information



IHPA

www.iHPA.gov.au