MEMBER BULLETIN

Release of the IHPA Pricing Framework for Australian Public Hospital Services 2015-16

12th November 2014

The Independent Hospital Pricing Authority (IHPA) has released the *Pricing Framework for Australian Public Hospital Services 2015-16*. This document provides the key principles, scope and approach to be adopted by IHPA in pricing public hospital services, effective from 1st July 2015. The document can be found at: **http://ihpa.gov.au/internet/ihpa/publishing.nsf/content/media-2015-16-pricing-framework**.

IHPA will be issuing the 2015-16 *National Efficient Price (NEP)* and *National Efficient Cost Determinations* in February 2015. The Pricing Framework will inform the NEP and NEC Determinations.

The VHA sent a submission to IHPA in July of this year[1]. This submission put forward the views of the VHA and its membership about: The treatment of complexity in the AR-DRG classification system; emergency care classifications; private patient costing and pricing; rebasing and the need to use a more recent dataset when determining the pricing framework.

Many of our views were supported in the 2015-16 Pricing Framework, and the views from VHA and our members were referenced throughout the document.

Key points in the 2015-16 Pricing Framework

The key agreed changes in principles, scope and approach in pricing public hospital services, and future work, put forward by IHPA are:

1. **Scope of public hospital services eligible for Commonwealth funding**
   - IHPA does not propose any changes to the definition or criteria for determining in-scope public hospital services that are eligible for Commonwealth funding under the NHRA in 2015-16
   - Full details of the public hospital services determined to be in-scope for Commonwealth funding will be provided in the 2015-16 NEP Determination.

2. **Classification, costing and counting**
   - Acute admitted services (Classification systems):- IHPA has determined that ICD-10-AM 9th Edition and Australian-Refined Diagnosis Related Groups Version 7.0 will be used in setting the NEP in 2015-16 for admitted acute services. IHPA will implement the new AR-DRG case complexity process in the development of AR-DRG Version 8.0, which will be used for pricing in NEP16.

[1] See: http://vha.org.au/docs/20140725--submission--ihpa-2015-16-public-hospital-pricing-framework.pdf

- Emergency department services:- IHPA will price emergency department services in *URG V1.4* for NEP15. IHPA will continue to use *V1.3 of the UDG classification system*. Feedback from VHA about the emergency care classification system has been referred to the Emergency Care Advisory Working Group for consideration in the development of a new emergency care classification. This is work in progress, and is unlikely to be completed in the next two years.
- Subacute services:- In 2014-15, subacute and non-acute services for NEP15:
    - will be priced using only the AN-SNAP classification;
    - will use AN-SNAP Version 3; and
    - will retain paediatric per diem prices.
- IHPA will continue the development of AN-SNAP Version 4 for its use in pricing for NEP16. As AN-SNAP Version 4 will include paediatric price weights, paediatric subacute activity will be priced using only AN-SNAP grouped services from 1 July 2016.
- Mental health services:- IHPA's approach to pricing acute admitted mental health services in 2015-16 remains unchanged from 2014-15. IHPA is working towards implementation of the new Australian Mental Health Classification by 1 July 2016 with implementation trials conducted in 2015-16.
- Non-admitted services:- IHPA will use the Tier 2 non-admitted services Version 4 classification for pricing non-admitted services for NEP15. In 2014-15 IHPA will continue to program of work to develop a new non-admitted care classification.
- Teaching, training and research (TTR):- In 2015-16 IHPA will determine block funding amounts for teaching training and research activity based on jurisdictional advice. IHPA will advise the COAG Health Council on the feasibility of ABF for TTR shortly. Meanwhile, IHPA will progressively work on classifying, counting and costing TTR, with the aim of establishing a TTR Classification and, possibly, a Research Classification for future use.
- Costing standards:- Version 3.1 of the APHCS will be published in late 2014 for use in Round 18 of the NHCDC.
- Additional costing studies:- To inform the development of NEP15, IHPA has commissioned the following work:
    - A review of the extent to which the costs associated with the treatment of Indigenous patients are identified and correctly allocated in hospital costing systems;
    - A review of the extent to which data on "language spoken at home" would be a better indicator to ascertain whether an adjustment is warranted for CALD patients or certain subgroups of CALD patients (such as for patients receiving mental health or geriatric services);
    - An investigative study to ascertain the costs associated with the delivery of home-delivered ventilation, TPN and HEN services; and
    - A review of existing data to estimate the costs of delivering home-based haemodialysis and peritoneal dialysis.

- Non-admitted telehealth counting rules:- For NEP15 IHPA will update the Tier 2 patient classification system in order to price the patient end of a non-admitted telehealth service. IHPA will confirm its approach to pricing these services in the NEP15 Determination.
- Multi-disciplinary care conferences where the patient is absent:- MDCCs where the patient is not present will be considered in the development of a new non-admitted care classification.
- Alternative approaches to pricing chronic disease services:- IHPA's intention is to develop temporal care bundled price weights for Home Enteral Nutrition, Total Parenteral Nutrition, home-delivered dialysis and home ventilation for NEP15, subject to satisfactory cost data being available from the current costing studies, and will confirm its approach in the NEP15 Determination. Further, IHPA will work with jurisdictions, the CAC, SAC and other stakeholders to further develop a bundled pricing approach that considers additional targeted services for future years.

3. Setting the National Efficient Price

- Determining the NEP:- For NEP15 IHPA will continue to set the NEP based on the arithmetic mean cost at the patient level.
- Indexation:- IHPA has reviewed the indexation methodology again in preparation for determining NEP15, and has decided that there is no cause to alter this methodology.
- Pricing very long stay patients:- In line with the Pricing Guidelines, IHPA will not adjust the national pricing model if it undermines appropriate incentives to improve public hospital efficiency through length of stay reductions. IHPA has analysed the data and has identified a small number of DRGs where a small number of long-stay patients have costs that are material, are not adequately recognised by the national pricing model and are unlikely to be due to inefficiency. For NEP15 IHPA will adjust the methodology for calculating the inlier boundaries for these specific DRGs to better reflect the costs associated with the high cost of their long-stay patients.
- An improved model for the pricing of subacute patients:- IHPA has developed an updated subacute pricing model based on the latest cost and activity data. The model uses a modified approach to setting the inlier boundaries for length of stay when compared to the acute admitted approach. The new model will provide greater incentives for improved efficiency in subacute services. For NEP15 IHPA will use the updated model for the pricing of subacute patients and IHPA will confirm the approach taken in the NEP15 Determination.
- Setting the NEP for private patients in public hospitals:- For NEP15 IHPA will continue to utilise the methodology from NEP14 for pricing private patients. IHPA will review the data collected in Round 18 of the NHCDC with the intention of phasing out the private patient correction factor in future years.
- Blood and blood products:- IHPA is not amending the existing approach of removing blood and blood products costs from the NHCDC prior to determining NEP15.
- Commonwealth funded pharmaceutical programs:- IHPA will maintain the existing approach of removing blood costs from the NHCDC prior to determining NEP15. IHPA will make

deductions for in-scope Commonwealth pharmaceutical program payments by matching actual in-scope Commonwealth pharmaceutical payments to the NHCDC at the patient level.

4. **Adjustments to the National Efficient Price**
   - ICU adjustment:- For NEP15 IHPA has re-examined the 50 per cent threshold for bundling ICU costs to ascertain whether this provides the best statistical fit for the pricing model. IHPA's analysis indicates that the unbundling of ICU costs would improve the national pricing model as it would better reflect costs incurred by hospitals for providing ICU services. For NEP15 IHPA will unbundle ICU costs. This means that all patients admitted to an eligible ICU will receive the ICU Adjustment.
   - Paediatric adjustment:- For a person who is aged up to and including 16 years and is admitted to a specialist paediatric hospital for admitted acute patients or treated in any facility for admitted subacute patients
   - Specialist psychiatric age adjustment:- IHPA has re-examined the current adjustment approach and has determined that the costs attributed to patients who receive one or more specialist psychiatric care days, but do not have a mental health primary diagnosis, are not adequately reflected in the national pricing model. IHPA has therefore revised its specialist psychiatric care adjustment methodology for NEP15 to better recognise the costs of these patients.
   - Dialysis adjustment:- For NEP15 IHPA will introduce an adjustment for acute admitted patients receiving dialysis services who are not assigned to the AR-DRG L61Z Haemodialysis.
   - Indigenous patient adjustment:- *No changes for NEP15*.
   - Remoteness area adjustment:- *No change*.
   - CALD background:- *There will be no specific CALD adjustment for NEP15*. However, IHPA has undertaken a study examining the extent to which "language spoken at home" would be a better indicator to ascertain whether an adjustment is warranted for CALD patients
   - Radiotherapy:- There will be a radiotherapy adjustment for a person with a specified ICD-10-AM 9th edition radiotherapy procedure code recorded in their medical record

5. **Pricing for safety and quality**:- IHPA will not make any adjustments to the NEP for safety and quality for 2015-16.

6. **The evaluation of the national implementation of activity based funding**
   - IHPA is undertaking an independent evaluation of the implementation of national ABF for in-scope Australian public hospital services. The main objective of the evaluation is to learn about the impacts of ABF implementation to better enable IHPA to continuously improve the national ABF system. The evaluation has been split into two phases:
     - Phase 1: development of an evaluation framework methodology and the establishment of a baseline; and
     - Phase 2: undertaking the evaluation using the criteria and baseline established in Phase 1 as a basis for the evaluation.

- IHPA has engaged an independent consultant to undertake Phase 1 of the evaluation. Phase 1 commenced in mid-2014 and is expected to be completed in mid-2015.

7. Block funded services

- Low volume thresholds:- IHPA will apply the new low volume thresholds to the block funding criteria, particularly that hospitals will be eligible for block funding if they are:
    - in a metropolitan area (defined as 'major city' in the Australian Statistical Geography Standard (ASGS)) and they provide ≤ 1,800 acute inpatient NWAU per annum; or
    - in a rural area (defined as all remaining areas, including 'inner regional', 'outer regional', 'remote' and 'very remote' in the ASGS) and they provide ≤ 3,500 total NWAU per annum.

  IHPA will further refine the methodology for determining the National Efficient Cost and confirm the approach taken in the NEC15 Determination. *The implementation of the low volume threshold is subject to approval from COAG.*
- Non-admitted mental health services:- IHPA has decided to retain the current block funding approach for these services in 2015-16 whilst work continues to design appropriate classification, counting and costing systems for mental health. This arrangement is anticipated to continue until the Australian Mental Health Care classification is introduced in 2016.
- Teaching, Training and Research:- For NEC15 IHPA will continue to block fund teaching, training and research expenditure in ABF hospitals

Further information

See the *IHPA Pricing Framework for Public Hospital Services 2015-16:*
http://www.ihpa.gov.au/internet/ihpa/publishing.nsf/Content/pricing-framework-lp

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