



## **Direction to the Independent Hospital Pricing Authority on the performance of its functions under section 226 of the *National Health Reform Act 2011 - No. 1/2016***

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I, SUSSAN LEY, Minister for Health and Aged Care, acting under subsection 226(1) of the *National Health Reform Act 2011* (the Act), having consulted with the Standing Council on Health, DIRECT that the Independent Hospital Pricing Authority provide the relevant advice 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: 29<sup>th</sup> August 2016

SUSSAN LEY  
Minister for Health and Aged Care

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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. 1/2016*.

### 2. Commencement

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

### 3. Authority

This Direction is made under subsection 226(1) of the *National Health Reform Act 2011*.

### 4. Definition

In this Direction:

*Act* means the *National Health Reform Act 2011*.

***hospital acquired condition*** means a hospital acquired patient complication, as defined by the Australian Commission on Safety and Quality in Health Care, for which clinical risk mitigation strategies may reduce (but not necessarily eliminate) the risk of that complication occurring.

***avoidable hospital readmission*** means readmission to hospital within 28 days of discharge, with a particular focus on avoidable readmission within 5 days of discharge, for a condition or conditions arising from complications of the management of the original condition.

***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.

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## Schedule

### 1. Functions

- (i) The Independent Hospital Pricing Authority, in relation to its functions under paragraphs 131(1)(a) and (h) of the Act must advise the Commonwealth, the States and the Territories (the Parties) on an option or options for:
  - (a) a comprehensive and risk-adjusted model to determine how funding and pricing can be used to improve patient outcomes and reduce the amount the Commonwealth pays for sentinel events, and a set of preventable hospital acquired conditions, defined by the Australian Commission on Safety and Quality in Health Care and agreed by the Parties, that occur in public hospitals; and
  - (b) a comprehensive and risk-adjusted strategy and funding model to reduce avoidable readmissions to hospital that will adjust the funding to hospitals that exceed a predetermined avoidable readmission rate for an agreed set of conditions and the circumstances in which they occur.
- (ii) In performing the activity referred to in Item 1(i)(a), the Independent Hospital Pricing Authority must have regard to the Parties' intention to:
  - (a) implement a model for sentinel events from 1 July 2017; and
  - (b) implement a model for an agreed set of preventable hospital acquired conditions not before 1 July 2018, with a preceding shadow year.
- (iii) In performing the activity referred to in Item 1(i)(b), the Independent Hospital Pricing Authority must have regard to the Parties' intention to focus on avoidable hospital readmissions within 5 days of discharge for conditions referred to in Item 1(i)(b) arising from complications of the management of the original condition that was the reason for the patient's original hospital stay.
- (iv) In performing the activities referred to in Item 1(i), the Independent Hospital Pricing Authority must ensure that any option developed reflects the Parties' intention to send a signal at the health system level of the need to reduce instances of preventable poor quality patient care, while supporting improvements in data quality and information available to inform clinicians' practice.
- (v) In performing the activities referred to in Item 1(i), the Independent Hospital Pricing Authority, should give consideration to any probable known costs and expected benefits.

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- (vi) The Independent Hospital Pricing Authority must provide the advice referred to in Item 1(i) of this Direction to COAG Health Council by 30 November 2016.

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

- (i) In performing the activity described in Item 1 of this Schedule, the Independent Hospital Pricing Authority must have regard to the matters set out in subsection 131(3) of the Act.
- (ii) In addition, in relation to performing the activity described in Item 1 of this Schedule, the Independent Hospital Pricing Authority must, under section 132 of the Act, have regard to the Heads of Agreement on Public Hospital Funding, signed by the Parties on 1 April 2016.
- (iii) In providing the advice described in Item 1 of this Schedule, the Independent Hospital Pricing Authority is to have regard to the following design principles:
- (a) Options prioritise patient outcomes and are evidence based:
    - i. Better patient health outcomes underpin the design and implementation of reform.
    - ii. The design and implementation 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) Options 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 design and 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) Options are transparent and comparable:

- i. As far as practicable, the financial levers are designed to ensure there is transparency between the approach and the intended outcome
- ii. The model uses an appropriate risk adjustment methodology to consider different patient complexity levels or specialisation across jurisdictions and hospitals.

(iv) In addition, in relation to performing the activity 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.