

COAG: April 2010 Update on reforms on Activity Based Funding, Risk Adjustment and Evidence Based Medicine (EBM) Implementation

Background

Some reported 'agreed' principles of the reforms announced recently by State and Federal Governments for the April 2010 COAG meeting provide excellent '*evidence based policy*' frameworks to deliver a significantly improved health system. Features reported recently in the media that appeal to both levels of government include local governance, Activity Based Funding (ABF) of local hospital networks and detailed, transparent reporting of performance. Issues yet to be agreed relate to funding and accountability arrangements^{1 2 3 4} and the number of local area hospital networks⁵. The recently released reports by the Victorian and Federal Governments have provided impetus to the national deliberations^{6 7 8}

Given these developments, I hereby provide a progress update on my deliberations, given further feedback from Health Ministers on my two reform papers considered in 2008 and 2009 by Federal and State stakeholders regarding the negotiation of the National Health Care Agreements (NHA). These reforms related to Risk Adjustment of ABF and the implementation of EBM via new State Centres. I also highlight a *new reform initiative* that arose as a consequence of my invited presentation at the *Inaugural Hospital Performance Measurement Forum*, December 2009 on my proposed NHA reforms which were based on the successful Victorian experience. This National Hospital Performance Forum was well attended by both Federal and some State governments. The new reform I now recommend involves the creation of an *International Centre of Evidence Based Medicine and Health Economics*.

The progress report below may be of some interest to Federal and State government stakeholders in the context of the April 2010 COAG meeting, given they can 'value add' to the local governance and ABF reforms. They can address, through achieving greater cost effectiveness, the Treasury's⁹ concern about the impact of inefficiencies in the current health sector on the 'drag on the nation's productivity growth'. Integration and streamlining health services through *best practice implementation* at the State and local hospital network level, facilitated by the proposed State and International Centres, are crucial issues. Further, ABF can adequately reflect *health need* via risk adjustment, thereby enhancing equity.

Issues

1. Evidence Based Medicine The Governments' reforms to be considered by COAG can be further enhanced by a cost-effective focus on implementing Evidence Based Medicine (EBM) via a proposed *International Centre of EBM and Health Economics*. This Centre would link to the proposed *State/Territory Centres of EBM, Health Services and Workforce Redesign* recommended in my papers forwarded prior to the COAG meeting of November 2008 and in May 2009 to all Premiers and Chief Ministers, State and Federal Health Ministers and Treasurers, Department of Prime Minister and Cabinet (PM&C) and the Federal Minister for Finance and Deregulation.

My two reform papers were publicly released by the National Health and Hospitals Reform Commission (NHHRC) following approval to do so by the Department of PM&C and the NT Health Minister. Some Health Ministers had encouraged me to provide my papers to the NHHRC. My two papers and the NT Health Minister's letter on ABF and risk adjustment (an attachment to my May 2009 paper) are included in the Federal Government's weblinks: <http://www.health.gov.au/internet/nhhrc/publishing.nsf/Content/297-interim>

Some Health Ministers wrote to me during 2009 indicating that their Departments were considering my reform proposals for their implementation of the NHAs and Partnership programs, with one large jurisdiction indicating that the State planned to introduce a State Centre similar to that proposed in my reform papers. My newly proposed *International Centre of EBM and Health Economics* arose as a consequence of my invited presentation at the recent

¹ Brumby, J "Pact for a genuine healthy outcome". *The Australian* April 14, 2010. pg 12

² Salusinsky, I "States offering to be light on detail" *The Australian* April 14, 2010 pg 6

³ Crowe, D "What's the big rush, mate?" *Australian Financial Review* (AFR) 15 April, 2010 pg 6

⁴ Breusch, J "Labor split widens over health reform" *AFR* 15 April, 2010 pg 1 & 6

⁵ Maher, S "States fear GST raids by Rudd" *The Australian*, 15 April, 2010, pg 1.

⁶ Victorian government (2010) "*Putting Patients First: Working in Partnership to Deliver a Better Australian Health System*"

⁷ Australian government (2010) "*A National Health and Hospitals Network for Australia's Future*"

⁸ Australian government (2010) "*A National Health and Hospitals Network: Further Investments in Australia's Health*"

⁹ Grattan, M; Rood, D "Blowtorch put on Brumby" *The Age*. April 14, 2010. pg 1, 2

Inaugural Hospital Performance Measurement Forum in Sydney in December 2009. An overview of issues I raised in Sydney are shown in the agenda on Day 2 at this website <http://www.informa.com.au/conferences/healthcare/hospital-performance-measurement-summit/agenda>

I have discussed the International Centre concept during 2010 with State Government, national stakeholders, public and private hospital CEOs and University stakeholders who have expressed interest. The International Centre could link with the proposed *State/Territory Centres of EBM, Health Services and Workforce Redesign*, and together they could assist in streamlining all health sectors: aged care, hospitals, community and primary care (including community mental health services¹⁰) and improve quality, access and efficiency through implementation of the latest EBM and change management techniques in health service delivery, medicine, surgery and preventive health. The International Centre would disseminate information on best practice and innovation/EBM nationally to the States and have international linkages of the highest order. It would work with Health Workforce Australia on Workforce redesign concepts, the Australian National Preventive Health Agency when established and the NHMRC. The State and International Centres can assist the initiatives proposed by the Australian Government* to achieve the National Access Guarantee, facilitate links between public and private hospitals, a unified aged care system, new Primary Health Care Organisations, implement clinical standards, and improve performance for the annual hospital performance reports.

My May 2009 paper indicated national cost savings of \$273.524m pa and \$1,367.620m over five years via implementation of the State Centres, modeled on cost savings achieved by reductions of adverse events and length of stay in the Victorian hospital experience I led. The proposed International Center could work synergistically with the new reforms under consideration in April 2010 by COAG. The State/Territory Centers and International Centre concept have generally arisen from my experience working in the senior management of the Victorian hospital network system, in the context of Activity Based Funding (ABF) and following input by stakeholders internationally and across Australia.

2. Risk Adjustment ABF worked well in Victoria, especially when it included risk (severity) adjustments to facilitate equity, given the unique features of each hospital network. It is the analyses of State-wide referral services and their associated patient complexity, at each hospital network level, that can enable adequate risk adjustment to be analysed and funding modifications implemented. The Governments' proposals for local area hospital networks across Australia with funding using ABF and the casemix tool, provide a unique opportunity to thoroughly investigate risk adjustment nationally when the most 'efficient price' for specific DRGs are being determined, given data can be analysed at the local network level, by state and nationally. My international journal article on the risk adjustment reform that I led in Victoria when I was the appointed Chair of the Victorian Government's Risk Adjustment Working Group (RAWG) is at the following weblink. The methodology and insights from the Victorian work have served as a model for other countries to follow internationally, especially in Europe.

http://people.bu.edu/ellisrp/EllisPapers/2007_AntiochEllisGillett_EJHE_RiskAdj.pdf

Risk Adjustment analyses of ABF and related performance data could also assist in addressing the data validity concerns raised by Kehoe¹¹ generally about comparisons between State and Territory performance data in COAG deliberations.

Recommendation: That you note the above.

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¹⁰ Minister Roxon announced Federal Government to fund 100% of primary care services which would include mental health services. Vasek, L "Mental care vow in bid for reform deal". *The Australian* April 16, 2010 pg 2. Austin, P, Grattan, M "Brumby, Rann talks on compromise health deal: Roxon makes offer on mental health". *The Age* April 16 2010 pg 3.

¹¹ Kehoe, J "Long Road ahead for Rudd's list" *Australian Financial Review*. 15 April, 2010 pg 6