



Ms Christine McDonald
Secretary
Senate Committee on Finance and
Public Administration
Parliament House
CANBERRA ACT 2600

Dear Ms McDonald

Thank you for your letter of 26 August 2011 about the Inquiry that the Committee is holding into the *National Health Reform Amendment (Independent Hospital Pricing Authority) Bill 2011* ('the Bill'). On behalf of the Australian Private Hospitals Association (APHA), I attach a short submission to the Inquiry.

APHA is the peak national body representing the interests of the private hospital sector, with a diverse membership that includes large and small hospitals and day surgeries, for profit and not for profit hospitals, groups as well as independent facilities, located in both metropolitan and rural areas throughout Australia. The range of facilities represented by APHA includes acute medical surgical hospitals, specialist psychiatric and rehabilitation hospitals and also free-standing day hospital facilities.

Yours sincerely

Michael Roff
CHIEF EXECUTIVE OFFICER
2 September 2011

**APHA SUBMISSION TO THE INQUIRY OF THE SENATE COMMITTEE ON FINANCE AND PUBLIC
ADMINISTRATION INTO THE *NATIONAL HEALTH REFORM AMENDMENT (INDEPENDENT HOSPITAL
PRICING AUTHORITY) BILL 2011***

APHA notes that this Bill was introduced the Parliament on 24 August 2011. Its stated purpose is to add a new chapter (Chapter 4) to the *National Health and Hospitals Network Act 2011* to establish an Independent Hospital Pricing Authority ('the Authority'). The Explanatory Memorandum to the Bill states:

The object of the Pricing Authority is to promote improved efficiency in and access to public hospital services by providing independent advice to the Commonwealth, State and Territory governments in relation to the efficient costs of services and developing and implementing robust systems to support activity based funding for those services **[section 130]**.

Its functions include the following: determining the national efficient price for healthcare services provided by public hospitals where the services are funded on an activity basis; determining the efficient cost for health care services provided by public hospitals where the services are block funded; developing and specifying classification systems for health care and other services provided by public hospitals; determining adjustments to the national efficient price; determining data requirements and data standards in relation to data that is to be provided by States and Territories; determining public hospital functions that are to be funded in the State or Territory by the Commonwealth (except where otherwise agreed between the Commonwealth and a State or Territory; advising the Commonwealth, the States and the Territories in relation to funding models for hospitals and costs of providing health care services in the future; considering cost-shifting and cross-border disputes; and doing anything incidental to or conducive to the performance of any of its functions **[subsection 131(1)]**. (Explanatory Memorandum, p. 5).

The Bill goes on to specify in some detail the administrative arrangements for the Authority, including such matters as cost-shifting disputes, cross-border disputes, membership and the terms and conditions of members of the Authority and its subsidiary bodies.

APHA notes that in her Second Reading Speech, the Minister, the Hon. Nicola Roxon MP said:

It (the Bill) is also of interest to the private health sector where activity based funding has been in operation for some time.

APHA agrees with this statement. Private hospitals have for many years been contracting with private health insurance funds, as well as with the Department of Veterans' Affairs, on the basis of funding for activity carried out. Contracts between payers and hospitals include detailed specifications in regard to the activity that will be funded, the information that will be required to be provided to the paying body, and specific penalties for non-compliance. The regime is rigorous and well-understood by the private hospital sector.

Given this depth of expertise in the private hospital sector, it has been a continuing cause for query by APHA that the private hospital sector has not to date been consulted by the Government about its public hospital funding reform agenda. APHA has frequently offered to make its members' expertise available to discuss any aspects of reform in the sector. We believe we have a real contribution to make, given that private hospitals perform 65 per cent of all elective surgery in

Australia. There are other compelling reasons why the private hospital sector should be an integral part of developing reform solutions, as is evidenced by the findings of the Productivity Commission in its 2009 Research Study into Public and Private Hospitals.

The Commission found that:

- on average treatment in Private Hospitals costs \$130 per case-mix adjusted separation less than in public hospitals;
- when analysing the costs that private hospitals can control they cost 32% or \$1,089 less than public hospitals;
- private hospitals have a more complex casemix than public hospitals;
- where comparable safety and quality data exists in the report private hospitals are shown to be safer than public hospitals;
- private hospitals offer more timely access to elective surgery; and
- analysis by the Commission shows that private hospitals carry out more elective surgery with patients from disadvantaged socioeconomic backgrounds than public hospitals.

APHA contends that this data shows that the new Authority would be well advised to draw some of its membership and some of its staffing as well, from the ranks of people who have appropriate experience in the private hospital sector. We were disappointed, but not surprised, to see no reference in the Bill to the need to draw on the knowledge held by the private hospital sector.

As quoted above, the Authority will have the function of “developing and specifying classification systems for health care and other services provided by public hospitals”. This raises some questions which the Bill as it stands does not answer. For example, is it the Government’s intention that the Authority will develop a separate or replacement system to that of Australian Refined Diagnosis Related Groups (AR-DRGs)? DRGs are a patient classification system that provides a clinically meaningful way of relating the types of patients treated in a hospital to the resources required by the hospital. AR-DRGs are used in the public and private sectors and have been under development for many years in collaborative work amongst the Commonwealth, States, Territories and the private sector through the Clinical Casemix Classification Committee of Australia and its various coding and clinical groups. The Bill implies that there will be some kind of new system. APHA believes that this would be an unnecessary and costly duplication of resources. The Committee might seek to establish what the Government’s plans are in regard to classification systems.

In her second reading speech on the Bill, the Minister said:

The authority will have strong independent powers: it will be for public hospitals what the independent Reserve Bank is for monetary policy. This is unprecedented for the public hospital system. The result will be a thorough and rigorous determination without fear or favour to governments. The government is confident that the authority will provide the health system with the stability and robustness that the Reserve Bank has provided for monetary policy for decades.

However, APHA notes that the disclosure regime for the Authority does not aspire to the same standards as those required of the Board of the Reserve Bank. The Explanatory Memorandum states:

The Minister or a State/Territory Health Minister may require the Pricing Authority to prepare reports and documents on particular matters, and cause to publish these, whether on the internet or otherwise **[section 208]**.

The Minister or a State or Territory Health Minister may by written notice, require the Pricing Authority to prepare a report about one or more specified matters relating to the performance of the Authority's functions or to prepare a document setting out specified information relating to the Authority's functions and give copies of those to the requesting Minister as the case requires within the period specified in the notice **[subsections 208(1) and (2)]**. The Pricing Authority is required to comply with a requirement under subsection (1) or (2) **[subsection 208(3)]**. The Minister or the State/Territory Health Minister may publish the report or document provided by the Pricing Authority **[subsection 208(4)]**....

The Pricing Authority is prohibited from publishing a report (whether on the internet or otherwise) unless the report, and a period of 45 days to comment on the report has been given to the Minister and each State or Territory Health Minister **[section 211]**. However, this requirement does not apply to a report under section 200 which is an annual report prepared and given to the Minister for presentation to the Parliament about its operations during the financial year **[section 212]**
(Explanatory Memorandum pp. 16, 17)

APHA believes that these provisions fall a long way short of the practise of the Board of the Reserve Bank of releasing its decisions and its monthly Minutes publicly with no prior comment by the Executive. If the Authority is to truly "be to public hospitals what the Reserve bank is for monetary policy" then its governing legislation should require the Authority to publish on its website the minutes of its meetings and the reasons for its decision in regard to pricing. This would be in the best interests of hospitals, health consumers and the broader community. We urge the Committee to look closely at the disclosure and reporting regime of the Authority as specified in the Bill, as we believe there is room for significant improvement in terms of transparency and accountability.