

**Senate Community Affairs Committee**

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

**Budget Estimates 5, 6 & 7 June 2013**

**Question:** E13-241

**OUTCOME:** 13 – Acute Care

**Topic:** Independent Hospital Pricing Authority – Activity Based Funding

**Type of Question:** Written Question on Notice

**Senator:** Di Natale

**Question:**

Under the Activity Based Funding model, hospitals can make a profit from services provided at a cost less than the fixed price. This provides hospitals with incentives to deliver services that generate the greater profits. However, research shows that the most profitable services are not necessarily those that produce the best health outcomes for consumers.

What steps are being taken to address the potential for misallocation of funds under Activity Based Funding?

**Answer:**

The introduction of a national activity based funding (ABF) system is intended to improve efficiency, as well as improving the transparency of funding contributions of the Commonwealth, state and territory governments for each Local Hospital Network across Australia. To achieve this, the Independent Hospital Pricing Authority IHPA is required to determine the National Efficient Price (NEP) and the National Efficient Cost that will be used to calculate Commonwealth payments for in-scope public hospital services that are funded on an activity basis.

While the NEP determines Commonwealth funding for public hospital services, it does not require the states and territories to fund at the NEP. Under the National Health Reform Agreement (NHRA), states and territories have autonomy as to the level of funding they choose to invest in public hospital services. States and territories “meet the balance of the cost of delivering public hospital services and functions over and above the Commonwealth contribution”. States and territories may choose to provide a higher or lower share of the NEP.

The NHRA requires IHPA to actively monitor the impact of the implementation of ABF. This includes monitoring changes in the mix, distribution and location of public hospital services to identify any significant anomalies in service provision. IHPA also engages with

the Jurisdictional Advisory Committee and the Clinical Advisory Committee as part of this monitoring activity.

IHPA receives quarterly activity data from all states and territories to monitor the patterns of clinical care evident within public hospitals and the effect of the pricing regime determined by IHPA.

Additionally, IHPA has developed a set of Pricing Guidelines in order to be transparent about how it makes decisions. These guidelines are available on IHPA's website [www.iHPA.gov.au](http://www.iHPA.gov.au). One of the Pricing Guidelines is to minimise undesirable and inadvertent consequences.