

7 June 2017

Mr James Downie
Chief Executive Officer
Independent Hospital Pricing Authority (IHPA)
PO Box 483
Darlinghurst NSW 1300

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Dear Mr. Downie,

Re: Universities Australia's response to IHPA's Draft Work Program 2017-18

I write on behalf of Universities Australia's (UA), the national peak body for Australian universities, regarding IHPA's draft work program 2017-18. Universities have a keen interest in IHPA's work given the role universities play in training our future health professional workforce and the compulsory requirement for all entry level health professionals to undertake clinical training, the majority of which occurs in public hospitals.

UA broadly supports IHPA's work regarding the development and implementation of Activity Based Funding (ABF) for hospital services. This includes IHPA's current work on the development of a classification system and subsequently, a national efficient Price (NEP) and ABF for Teaching, Training and Research. Our comments in regard to the draft work plan therefore relate specifically to Program Objective 3 (f) Teaching, Training and Research (TTR¹).

UA understands that the purpose of ABF is to bring greater efficiency, equity and transparency to public hospital funding. UA has a real concern that this goal will not be met because of the proposed treatment of the embedded costs of TT in the TT classification system currently under development by IHPA.

Embedded TT refers to those teaching and training activities which are delivered in conjunction with patient care (ward rounds, operating theatre, outpatient clinics, work based assessments) IHPA stated at an 18 May presentation to UA's Health Professions Education Standing Group (HPESG) that, from available costing study data, IHPA has estimated that embedded TT constitutes about 80% of the overall TT activity within a public hospital. Direct and indirect TT activities make up the remaining 20%. IHPA also stated at that meeting that the embedded costs will not be included in the TT determinations as such costs are already covered by the ABF that hospitals receive for patient care/service delivery. UA has three concerns with this approach:

¹ From hereon referred to as TT as the Research component is still under development.

Firstly: We understand that IHPA's work on the TT classification system is developing relativities of TT activity per full time student across different health disciplines and year levels. IHPA has stated that removing the embedded costs from the TT data will not affect the determination of relativities. However, this would only be true if the embedded costs were strongly correlated with the direct and indirect costs of teaching and training – that is, if the embedded costs were distributed in the same way as the direct and indirect costs. UA is not aware that this analysis has been undertaken and believes that showing such a correlation is important if only direct and indirect costs are to be included. We would also recommend that, if possible, the analysis be undertaken on a larger data set than the one currently used for the classification work.

Secondly: IHPA has stated that the embedded TT component will not be included in the overall TT classification because public hospitals already receive payment for embedded TT activities through ABF clinical service funding. UA is not aware that the calculation of the clinical services ABF included consideration of any TT activity. Without such consideration in the original determinations, UA believes that the current ABF may be inadequate as hospitals may report these costs differently if TT is now considered to be included in it.

Thirdly: UA has a real concern about reduced funding transparency if the embedded costs are removed from the TT classification and subsequent NEP/ABF development. In an early ABF document commissioned by the interim IHPA², it was stated that:

“Unless clinical education in public hospitals is explicitly funded, it runs the risk of being squeezed out. This prompted the recommendation by the National Health and Hospitals Reform Commission (2009) that the cost of clinical education should be specifically funded in all relevant payment streams, including under ABF for clinical education provided through public hospitals.”

The document also states that:

“While teaching is sometimes considered a ‘joint product’ that is associated with clinical care, the [National Health Reform] Agreement [NRHA] identifies that teaching, training and research will be funded separately...”

The NHRA underscores the importance of TT being explicitly recognised and funded. Omitting the embedded TT component from the TT classification and subsequent ABF development will not achieve this stated goal. There will be very limited improvement in funding transparency if only 20% of the cost of teaching and training (the direct and indirect TT activities) is used to determine total TT funding for public hospitals.

Universities are committed to developing high quality health professionals to meet future health workforce needs. Clinical education and training is a critical and compulsory component of our courses. Without the full and explicit recognition and funding of TT in public hospital ABF we believe that public hospitals are likely to see any TT ABF they receive as falling short. We are extremely concerned that this will lead to increased requests from public hospitals for universities to make up this perceived shortfall. This would put even further pressure on universities at a time when substantial funding cuts are also proposed for the Higher Education sector.

² Activity Based Funding for Australian public hospitals: towards a pricing framework: https://www.ihoa.gov.au/sites/g/files/net636/f/publications/activity_based_funding_for_australian_public_hospitals.pdf

UA recognises that distinguishing the embedded component of teaching and training from clinical service delivery presents challenges. However we urge IHPA to reconsider ways in which this could be done, particularly given the emphasis the National Health Reform Agreement places on funding teaching and training separately.

If embedded TT does remain funded under clinical services ABF, UA strongly recommends that the clinical services NEP/ABF:

- be reviewed for adequacy in relation to the TT component
- be clearly linked to TT funding – that is, have some sort of written label /acknowledgement that clinical services ABF covers roughly 80% of the TT funding to public hospitals.

We appreciate your consideration of this matter and would be pleased to talk with you further regarding this work and how we might address these very real concerns.

Yours sincerely,



Catriona Jackson
Deputy Executive Officer

CC: Jennifer Nobbs, Executive Director Activity Based Funding IHPA
David Hallinan, FAS, Health Workforce Department of Health (DoH)
Dom English, Group Manager, Higher Education, Dept. of Education and Training (DET)