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Independent Hospital Pricing Authority releases National Efficient Price and National Efficient Cost for Australian public hospital services

The Independent Hospital Pricing Authority (IHPA) today released the National Efficient Price (NEP) and National Efficient Cost (NEC) Determinations for Australian public hospital services for 2014-15

The NEP and NEC determine the Commonwealth funding contribution to Australian public hospitals according to either hospital activity levels, or in the case of small rural hospitals, an allocation of block funding.

The NEP underpins Activity Based Funding and will apply to approximately 260 public hospitals nationwide including all of the large metropolitan hospitals.

For the first time, from 1 July 2014 the Commonwealth funding for most public hospital services will be directly determined by Activity Based Funding. Under the new system public hospitals are paid for the number and mix of patients they treat.

The NEP for 2014-15 is \$5,007 per National Weighted Activity Unit (NWAU). Each public hospital service is allocated a complexity weighting which reflects the cost of delivering that service. The complexity weighting (NWAU) is multiplied by the NEP to calculate the total efficient price of a hospital service as defined by the Pricing Authority.

For example:

- A tonsillectomy has a weight of 0.7058 NWAU which equates to \$3,534 per admission.
- A hip replacement has a weight of 4.1855 NWAU which equates to \$20,957 per admission.

The National Efficient Cost (NEC) is used when Activity Based Funding is not suitable for funding such as in the case of small rural public hospitals. In these cases services are funded by a block allocation based on size and location. The overall NEC for 2014-15 is \$5.725 million.

For example in 2014-15 a small public hospital in a remote region has an efficient cost of approximately \$2.9 million, whereas a larger public hospital in an inner regional area has an approximate efficient cost of \$5.7 million.

This type of funding applies to 436 small rural public hospitals which are listed in the NEC Determination.

Independent Hospital Pricing Authority

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Shane Solomon, Chair of the Pricing Authority, said “These prices are determined following a comprehensive national study of the costs of delivering hospital services.”

“IHPA has consulted widely with the Commonwealth, state and territory governments as well as a range of national health advocacy bodies to determine a National Efficient Price and a National Efficient Cost that reflect the costs of delivering the many different services provided by public hospitals across Australia.

“This year IHPA has introduced a number of methodological improvements in calculating the National Efficient Price including the incorporation of the recommendations of an independent review to assess how private patients are priced in public hospitals.

“We have also achieved significant improvements to the block funding process. This has been achieved through close collaboration with our jurisdictional colleagues to improve data robustness and the ongoing guidance from health experts in small rural hospitals to improve the methodology applied to determine the NEC,” said Mr Solomon.

“The quality of state and territory data that underpins the National Efficient Cost Determination for smaller block funded hospitals has improved rapidly over the last 12 months but significant improvement is still required. This means the use of the NEC for individual small rural hospital budget determination needs to be considered with circumspection by each state and territory.

“We look forward to our ongoing partnership with all Australian governments as we continue to improve and refine these funding models. We will continue to work together to improve the value of the public investment in hospital care and ensure a sustainable and efficient network of public hospital services,” concluded Mr Solomon.

For a full copy of the National Efficient Price and National Efficient Cost and a guide to understanding the Determinations visit www.iHPA.gov.au

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About the Independent Hospital Pricing Authority (IHPA)

IHPA is an independent Commonwealth agency established under Commonwealth legislation on 15 December 2011 as part of the National Health Reform Agreement (NHRA) reached by the Council of Australian Governments (COAG) in August 2011.

The NHRA sets out the intention of the Australian Government and state and territory governments to work in partnership to improve health outcomes for all Australians.

IHPA is charged with determining the National Efficient Price and the National Efficient Cost for public hospital services, allowing for the national introduction of Activity Based Funding (ABF).

The implementation of ABF will improve transparency, and strengthen incentives for efficiency in the delivery of public hospital services.

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