



**Monday, 6 March 2017**

**IHPA releases National Efficient Price and National Efficient Cost Determinations and *Pricing Framework for Australian Public Hospital Services 2017-18***

The Independent Hospital Pricing Authority (IHPA) today released its annual Determination of the National Efficient Price and National Efficient Cost and the *Pricing Framework for Australian Public Hospital Services 2017-18*.

As outlined in the National Health Reform Agreement, the National Efficient Price and National Efficient Cost determine the Commonwealth funding contribution to Australian public hospitals. The *Pricing Framework for Australian Public Hospital Services 2017-18* outlines the major policy decisions that underpin the National Efficient Price and National Efficient Cost Determinations.

For the first time, the *Pricing Framework for Australian Public Hospital Services 2017-18* introduces measures to consider safety and quality in the national funding model following the Heads of Agreement between the Commonwealth and States and Territories on Public Hospital Funding signed in April 2016.

This means that from 1 July 2017, episodes of care that include sentinel events, such as surgical procedures involving the wrong body part or medication errors leading to death, will no longer receive Commonwealth funding.

During 2017-18, further work will also be undertaken to reduce the funding for hospital episodes where the patient incurs a hospital acquired complication, such as a hospital associated infection or a fall resulting in a fracture.

Mr Shane Solomon, Chair of the Pricing Authority said, "The commitment by governments to integrate safety and quality into public hospital pricing and funding follows a four-year program of collaborative work between IHPA and the Australian Commission on Safety and Quality in Health Care to consider the incorporation of safety and quality measures into the National Efficient Price.

"The inclusion of a strong price signal regarding the importance of safety and quality will encourage clinicians and managers to build on existing efforts to improve safety and quality in Australian public hospitals," he said.

"IHPA recognises that pricing and funding plays just one part in the drive to improve safety and quality in public hospitals. The success of a pricing and funding mechanism for safety and quality is dependent on national, state, and local health systems working together to support implementation of the model and ensure that it is working to improve safety and quality across all services," said Mr Solomon.

The National Efficient Price for 2017-18 is \$4,910 per National Weighted Activity Unit (NWAU). This is a 1.6 percent increase in price from the revised National Efficient Price for 2016-17.

Commonwealth funding of public hospital services is determined by Activity Based Funding. This is a way of funding public hospitals whereby they get paid for the number and mix of patients they treat. The price of each public hospital service is calculated by multiplying the NWAU allocated to that service by the National Efficient Price.

For example:

- A tonsillectomy has a weight of 0.7080 NWAU which equates to \$3,476
- A coronary bypass (without complications) has a weight of 5.3034 NWAU which equates to \$26,040.
- A hip replacement (without complications) has a weight of 4.1429 NWAU which equates to \$20,342.

“The National Efficient Price provides a clear benchmark for all Australian governments regarding the costs of delivering the services provided by public hospitals across Australia,” said Mr Solomon.

The National Efficient Cost for 2017-18 is \$5.406 million. This is used when activity levels are not suitable for funding based on activity, such as small rural hospitals. In these cases, services are funded by a block allocation based on size and location instead.

For a full copy of the National Efficient Price, National Efficient Cost, the *Pricing Framework for Australian Public Hospitals 2017-18* and a guide to understanding the Determinations for 2017-18, visit [www.iHPA.gov.au](http://www.iHPA.gov.au).

A full copy of the [Directions](#) issued to IHPA regarding options for pricing and funding for safety and quality are available on the IHPA website.

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