



Media release
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IHPA releases National Efficient Price and National Efficient Cost Determinations 2020–21

The Independent Hospital Pricing Authority (IHPA) today released the [National Efficient Price](#) and [National Efficient Cost](#) Determinations for the 2020–21 financial year.

The Determinations play a crucial role in setting the Commonwealth funding contribution to Australian public hospital services, and offer a benchmark for the efficient cost of providing those services as outlined in the National Health Reform Agreement.

The **national efficient price (NEP)** for 2020–21 is \$5,320 per national weighted activity unit (NWAU). This is a 2.1 per cent increase in price from the NEP for 2019–20.

As part of the activity based funding model, the efficient price of a public hospital service is calculated by multiplying the NWAU allocated to that service by the NEP for that financial year. For example:

- A tonsillectomy has a weight of 0.7398 NWAU which equates to \$3,936.
- A coronary bypass (minor complexity) has a weight of 5.3468 NWAU which equates to \$28,445.
- A hip replacement (minor complexity) has a weight of 3.7733 NWAU which equates to \$20,074.

Shane Solomon, Chair of the Pricing Authority said since its national introduction in 2012, activity based funding continues to maintain a stable and sustainable rate of growth in public hospital costs.

Public hospitals that are not suitable for funding based on activity alone are funded through the **national efficient cost (NEC)**.

This year, IHPA further improved the NEC funding model to accurately reflect the costs of block-funded hospitals, in consultation with the Commonwealth, states and territories.

‘The refined model, based on a fixed-plus-variable structure will create more equitable funding for small rural hospitals,’ said Mr Solomon.

For 2020–21, the NEC fixed cost is \$2.040 million and the variable cost is \$5,687 per NWAU. An additional loading of 39.1 per cent is applied for very remote hospitals.

Approximately 480 public hospitals nationwide receive funding based on their activity levels whereby they get paid for the number and mix of patients they treat. Funding based on a block grant basis applies to around 373 small rural hospitals.

IHPA continues to refine the approach it takes to improve patient outcomes through safety and quality measures by working closely with the [Australian Commission for Safety and Quality in Health Care](#).

From July 2017 no Commonwealth funding has been provided for episodes of care with sentinel events such as medication errors leading to death. Since July 2018 funding has been adjusted for any episode of care where a hospital acquired complication occurs.

'IHPA is committed to designing pricing systems that promote safe and efficient public hospital care for all Australians,' Mr Solomon concluded.

About Independent Hospital Pricing Authority (IHPA)

IHPA is an independent government agency established under Commonwealth legislation as part of the National Health Reform Agreement, reached by the Council of Australian Governments in August 2011.

The agreement 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 was established to give independent and transparent advice in relation to funding for public hospitals by determining the national efficient price and national efficient cost for public hospital services each year.

The policy consideration underpinning the Determinations is provided in the annual [Pricing Framework for Australian Public Hospital Services](#).

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