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Independent Hospital Pricing Authority releases 2015-16 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 2015-16.

As outlined in the National Health Reform Agreement, 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 towards block funded services.

Currently the majority of Commonwealth funding is determined by Activity Based Funding (ABF). This is a way of funding public hospitals where they get paid for the number and mix of patients they treat. The NEP underpins ABF to approximately 260 hospitals nationwide including all the large metropolitan hospitals.

Shane Solomon, Chair of the Pricing Authority said, IHPA has consulted widely with the Commonwealth, state and territory governments to determine a NEP and a NEC that reflect the costs of delivering the many different services provided by public hospitals across Australia.

The NEP for 2015-16 is \$4,971, per National Weighted Activity Unit (NWAU). This is a three percent increase in price from the revised NEP for 2014-15.

Activity Based Funding (ABF) is payment for the actual hospital services that are provided. The price of each public hospital service is calculated by multiplying the NWAU allocated to that service by the NEP.

For example:

- A tonsillectomy has a weight of 0.7066 NWAU which equates to \$3,513
- A coronary bypass (without complications) has a weight of 4.8491 NWAU which equates to \$24,105
- A hip replacement (without complications) has a weight of 4.0591 NWAU which equates to \$20,178.

“This year IHPA has introduced a number of methodological improvements in calculating the NEP including opportunities for bundled payments rather than individual payments, such as dialysis treatments that take place in the home. This will assist in cutting bureaucracy and administration, is more patient centric and provides a focus on quality,” said Mr Solomon.

The NEC for 2015-16 is \$4.784 million. The NEC 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. This type of funding applies to approximately 380 small rural hospitals.

“This year the eligibility limit for block funded hospitals has been reduced to encourage more Activity Based Funded hospitals. This provides an overall improvement to sustainability and predictability in funding outcomes for public hospitals from year-to-year,” said Mr Solomon.

IHPA looks forward to its ongoing partnership with all Australian governments to continue to improve the value of the public investment in hospital care.” concluded Mr Solomon.

For a full copy of the National Efficient Price and National Efficient Cost and a guide to understanding the Determinations for 2015-16, visit www.iHPA.gov.au

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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For more information contact:

Alison Wares

A/g Manager, Communication and Media

communications.iHPA@iHPA.gov.au

T: 02 8215 1176 M: 0434 629 469