

The Independent Hospital Pricing Authority (IHPA) was established under the *National Health Reform Act 2011* to contribute to significant reforms to improve Australian public hospitals.

A vital component of these reforms is the implementation of Activity Based Funding for Australian public hospitals.

Each financial year, IHPA releases the annual National Efficient Price and National Efficient Cost to determine the Commonwealth Government's contribution to public hospitals.

The funding is then distributed by the Administrator of National Health Funding Pool.



NATIONAL EFFICIENT PRICE 2019

\$5,134

Average cost of an episode of care in a public hospital

 **460 AUSTRALIAN PUBLIC HOSPITALS**
receive funding based on their activity levels

NATIONAL EFFICIENT COST 2019

\$5.319 MILLION

Average cost of block funded small rural hospitals

 **370 SMALL RURAL HOSPITALS**
receive a fixed amount of funding based on location, size and types of services

The **National Efficient Price (NEP)** underpins the implementation of Activity Based Funding. The NEP aims to determine the levels of Commonwealth funding for public hospital services and to provide a cost benchmark. To determine the NEP, IHPA relies on a vast amount of health system cost data at a patient level, provided by states and territories using the National Hospital Cost Data Collection.

Every hospital admission is then allocated a National Weighted Activity Unit (NWAU). It also considers 'price adjustments' to reflect legitimate and unavoidable variations in the cost of delivering services, such as whether a patient lives in a remote area or is a child. The 'average' hospital service is worth one NWAU. More intensive and expensive activities are worth multiple NWAUs. Simpler and less expensive activities are worth fractions of an NWAU.

Price of a public hospital service = NWAU x the NEP for the financial year

For example: A hip replacement (minor complexity) has a weight of 3.8794 NWAU which equates to \$19,917.

The **National Efficient Cost (NEC)** is used when Activity Based Funding is not suitable for funding. The NEC represents the average cost of Commonwealth funding contribution on a block grant basis for:

- small rural hospitals
- non-admitted mental health
- teaching, training and research outputs.

Pricing and funding for safety and quality

All Australian governments signed a Heads of Agreement in 2016 that committed to improving Australians' health outcomes and decreasing avoidable demand for public hospital services.

IHPA continues to further develop and implement pricing for safety and quality into the funding of public hospital services.

Cost per National Weighted Activity Unit (NWAU)



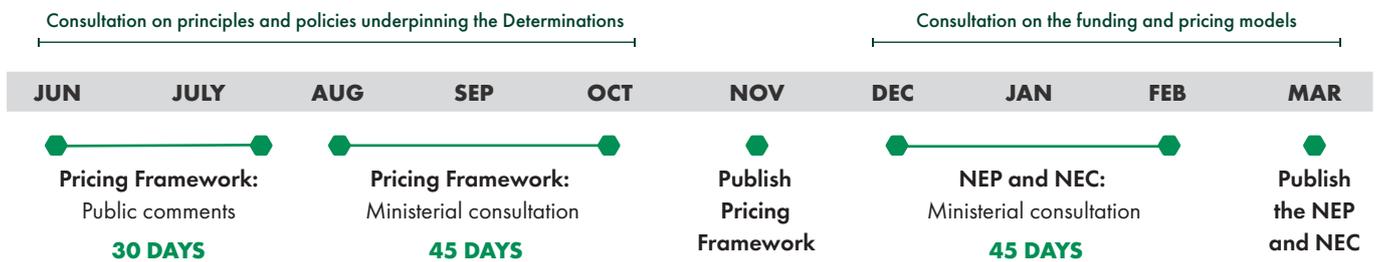
Cost per NWAU indicates a significant reduction in the rate of growth in costs since 2011 – 12, to a sustained growth rate of 1.6 per cent.

Activity Based Funding timeline



Robust consultation process

IHPA releases the Pricing Framework for Australian Public Hospital Services before the release of NEP and NEC Determinations. This allows a range of stakeholders – including all Australian governments, peak healthcare bodies and the general public – to consider the principles and policies underpinning the Determinations, providing an extra level of transparency and accountability.



Further information

To learn more about the Independent Hospital Pricing Authority, find us online, or get in touch using the details below.

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Independent Hospital Pricing Authority

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