

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 2020

# \$5,320

Average cost of an admitted episode of care in a public hospital



## 480 AUSTRALIAN PUBLIC HOSPITALS

receive funding based on their activity levels.

## NATIONAL EFFICIENT COST 2020

The fixed cost is **\$2.040 MILLION**      The variable cost is **\$5,687**

Average cost of a small rural hospital



## 373 SMALL RURAL HOSPITALS

receive a fixed and variable amount of funding based on location, size and type of services they provide.

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 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)**. The NWAU includes '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' admitted 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 3.7733 NWAU which equates to \$20,074.

For the 2020–21 **national efficient cost** (NEC), a new cost model based on a fixed-plus-variable structure has been introduced in consultation with states and territories. The total modelled cost of a small rural hospital is the sum of a fixed cost component and variable cost component. This new model has a more sophisticated approach in calculating block funding to better reflect the changes in activity delivered in small rural hospitals, and it ensures there is no disincentive for states to provide services in rural areas. An additional loading of 39.1 per cent is applied for very remote hospitals.

## 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



Cost per NWAU reduction in the rate of growth in costs since 2012-13, to a sustained growth rate of 1.9 per cent.

## Activity based funding timeline

2011

National Health Reform Agreement signed by all Australian governments; this agreement outlines the establishment of IHPA

2012

First national efficient price was established for NEP12 at \$4,808

2013

First national efficient cost was established for NEC13 at \$4.738million

2020

Ninth NEP was established at \$5,320  
Eighth NEC was established at \$2.040 million fixed cost and \$5,687 variable cost

## 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.

Consultation on principles and policies underpinning the Determinations

Consultation on the funding and pricing models

JUN

JULY

AUG

SEP

OCT

NOV

DEC

JAN

FEB

MAR



**Pricing Framework**  
Public comments  
**30 days**



**Pricing Framework**  
Ministerial consultation  
**45 days**



**Publish Pricing Framework**



**NEP and NEC Determinations**  
Ministerial consultation  
**45 DAYS**



**Publish the NEP and NEC**

## Further information

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

+61 2 8215 1100

[www.iHPA.gov.au](http://www.iHPA.gov.au)

[enquiries.iHPA@iHPA.gov.au](mailto:enquiries.iHPA@iHPA.gov.au)

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@IHPAnews

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