



IHPA

Independent Hospital Pricing Authority

Understanding the NEP and NEC 2015-16

February 2015



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1. Introduction

The Independent Hospital Pricing Authority's (IHPA) key role is to determine the annual [National Efficient Price \(NEP\)](#) and [National Efficient Cost \(NEC\)](#) for Australian public hospital services.

The NEP underpins Activity Based Funding (ABF) across Australia for public hospital services. IHPA publishes the NEP and NEC Determination every year.

ABF is a way of funding hospitals whereby they get paid for the number and mix of patients they treat. ABF should improve the value of the public investment in hospital care and ensure a sustainable and efficient network of public hospital services.

In order to make these Determinations IHPA develops and publishes the annual *Pricing Framework for Australian Public Hospital Services*. This document is crucial as it outlines the principles and policies adopted by IHPA to determine the NEP and the NEC for each financial year.

IHPA consults with all stakeholders, including state and territory governments, the Commonwealth Government and the general public, prior to finalising the Pricing Framework each year.

The Pricing Framework is released prior to the NEP and NEC Determinations to provide transparency and accountability by making available the key principles and policies adopted by IHPA to inform the NEP and NEC Determinations.

About the National Efficient Price (NEP)

The NEP has two key purposes:

1. To determine of the amount of Commonwealth Government funding for public hospital services.
2. To provide a price signal or benchmark about the efficient cost of providing public hospital services.

Each NEP Determination includes the scope of public hospital services eligible for Commonwealth Government funding on an activity basis (detailed in a document released by IHPA called the 'General List'). It also includes adjustments to the price to reflect legitimate and unavoidable variations in the cost of delivering health care services, such as location of patient residence and patient complexity.

The NEP is used by jurisdictions as an independent benchmarking tool to measure the efficiency of public hospital services in their state or territories. For instance, it is possible to compare the cost of the hip replacement in two different hospitals which may assist jurisdictions to identify best practice and make funding decisions.

About the National Efficient Cost (NEC)

It has always been recognised by governments that ABF is not practicable for all public hospitals, especially those which see a low volume of patients but must remain open to provide essential access.

The NEC allows for these services and funding is provided as block funding. This applies largely to small rural hospitals, but also public hospital services or functions that are not yet able to be described in terms of 'activity' such as teaching, training and research.

Some of these hospitals and services may operate with a mix of block grant and ABF.

The NEC Determination provides a set dollar amount that represents the average cost of block funded hospitals across Australia. Hospitals are assigned to a size-locality grouping and mean expenditure is calculated for groupings.

IHPA works closely with a Small Rural Hospital Working Group which includes representatives from states and territories, small rural hospitals and peak healthcare bodies and associations. The working group provides vital guidance and advice to IHPA about setting an effective cost for block funding.

The key difference between the NEP and the NEC is that the states and territories manage the total block funding amount provided to hospitals. This is determined through service level agreements that are made between the states and territories and the Local Hospital Networks.

2. Summary of key changes

Based on the principles in the *Pricing Framework for Australian Public Hospital Services 2015-16*, IHPA has determined the NEP and NEC for 2015-16.

National Efficient Price 2015-16

The NEP for 2015-16 is \$4,971 per National Weighted Activity Unit (NWAU).

The NEP has been impacted by a number of methodological improvements. The improvements with material impacts on the NEP for 2015-16 are as follows:

Bundled payments

IHPA has implemented an improved methodology for pricing bundled payments rather than individual payments of home delivered chronic disease services such as home ventilation and dialysis treatments that take place in the home.

This improvement will assist in cutting bureaucracy and administration and ensures there is a focus on quality and patient centric care.

Genetic services

IHPA has revised the methodology for the pricing of genetic services in the non-admitted cost model in NEP15. This had a result of increasing the average cost of genetic services for 2015-16.

Multi-disciplinary clinics

Clinics where there is involvement of health care professionals from three or more disciplines (for example a nurses, clinicians or allied health professionals) presenting in one service event has been adjusted in the non-admitted cost model for NEP15.

This adjustment encourages multi-disciplinary care for patients in a non-admitted setting.

Indexation

IHPA uses an indexation methodology to account for the time lag between the costing data used and the price to be set. IHPA has reviewed the indexation methodology again in preparation for determining NEP15, and has decided that there is no cause to alter this methodology. This has had an impact on the perceived growth rate of the NEP 15 and NEC15.

There is a lower rate of growth in the NEP15 than what was announced for NEP14 due to a result of actual growth in hospital costs being lower than estimated in the calculation of NEP14.

The Pricing Authority recalculated NEP14 and NEC14 using more up to date cost data that was not available when the price was calculated. This is allowed for within the National Health Reform Agreement (clause A40).

This means that the NEP14 and NEC14 have been revised (back-cast), which in turn means that the basis for the calculation of Commonwealth growth funding for 2015-16 does in fact increase by three percent.

NEP14	Back-cast NEP14	NEP15
\$5,007	\$4,826	\$4,971

Commonwealth funded pharmaceutical programs

The National Health Reform Agreement (NHRA) requires IHPA to adjust the NEP to account for Commonwealth funding that is delivered to hospitals through programs not included in the NHRA such as pharmaceutical funding programs.

IHPA has adopted an improved methodology for the NEP15 which has improved upon NEP14 by matching online pharmaceutical payments to activity data. This represents a significantly more robust approach towards Commonwealth pharmaceutical payments.

National Efficient Cost 2015-16

The NEC for 2015-16 is \$4.784 million.

The NEC15 has been impacted by a number of methodological improvements as well as improved data robustness. These improvements have been achieved through the collaborative efforts of the Small Rural Hospital Working Group that has assisted IHPA with constructive advice and expert guidance.

These include methodological improvements in how input data is derived and improvements to the cost model including the treatment of outliers.

The NEC15 indexation rate is different to that determined for NEP15 because it accounts for both price and volume changes, whilst the NEP indexation rate relates only to unit price movements. The NEC15 is lower than NEC14 principally due to 25 hospitals moving to being funded on an activity basis.



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3. More information

For more information about IHPA, Activity Based Funding or the NEP and NEC Determinations, please visit www.iHPA.gov.au or contact enquiries.iHPA@iHPA.gov.au.