

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 public hospital services.

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 2021

\$5,597

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



510 AUSTRALIAN PUBLIC HOSPITALS

receive funding based on their activity levels.

NATIONAL EFFICIENT COST 2021

The fixed cost is **\$2.199 MILLION** The variable cost is **\$5,762**

Average cost of a small rural hospitals



370 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' 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 3.5226 NWAU which equates to \$19,716.

The **national efficient cost** (NEC) is based on a fixed-plus-variable structure, which was introduced in consultation with states and territories in 2020–21.

The total modelled cost of a small rural hospital is the sum of a fixed cost component and variable cost component.

This 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.

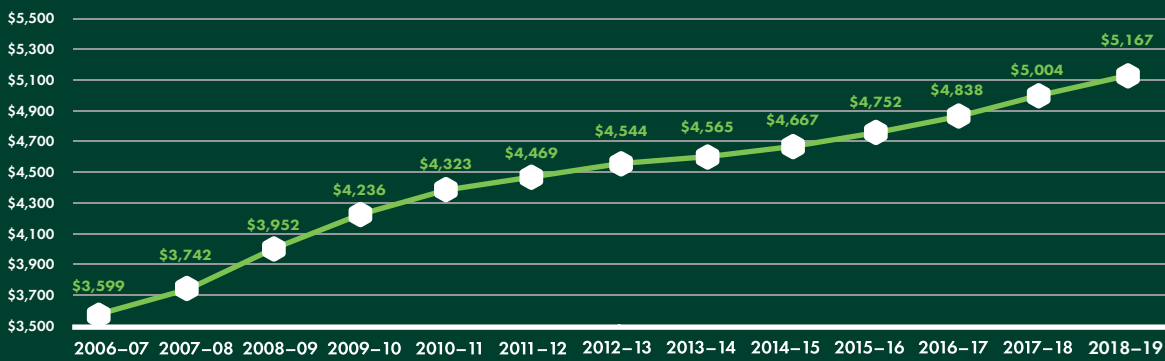
An additional loading of 30.2 per cent is applied for very remote hospitals.

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 unit



Cost per NWAU reduction in the rate of growth in costs since 2012-13, to a sustained growth rate of 2.2 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

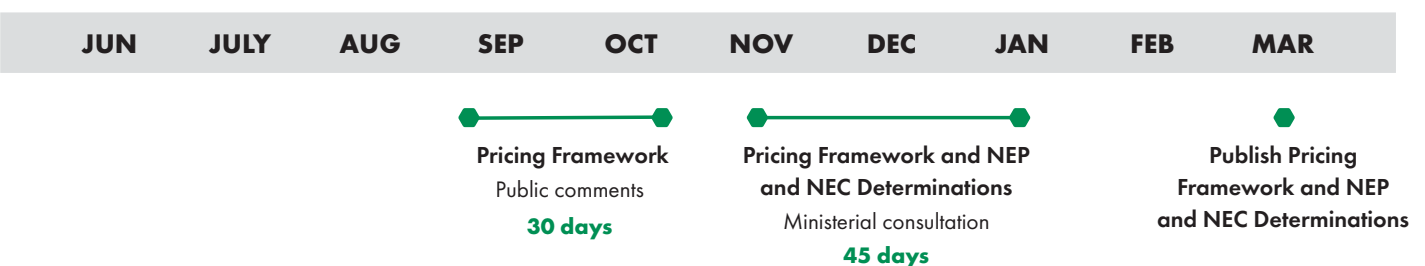
First national efficient cost was established for NEC13 at \$4.738million

2021

Tenth NEP was established at \$5,597
Ninth NEC was established at \$2.199 million fixed cost and \$5,762 variable cost

Robust consultation process

IHPA consults widely on the [Pricing Framework for Australian Public Hospital Services](#) with a range of stakeholders including all Australian governments, peak healthcare bodies and the general public to consider the principles and policies underpinning the Determinations. For 2021, the Pricing Framework is being released alongside the Determinations to ensure the consultation included feedback on the [Addendum to the National Health Reform Agreement 2020-25](#). The adjusted timeline for release has also allowed IHPA to conduct early consultation on the emerging issues resulting from the Coronavirus Disease 2019 (COVID-19) pandemic.



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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