IHACPA

Understanding the NEP and NEC Determinations 2025–26

March 2025

Understanding the NEP and NEC Determinations 2025–26
March 2025

© Independent Health and Aged Care Pricing Authority 2025

This publication is available for your use under a Creative Commons BY Attribution 4.0 International license, with the exception of the Independent Health and Aged Care Pricing Authority logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from the Creative Commons website.

Use of Independent Health and Aged Care Pricing Authority material under a Creative Commons BY Attribution 4.0 International licence requires you to attribute the work (but not in any way that suggests that the Independent Health and Aged Care Pricing Authority endorses you or your use of the work).

Independent Health and Aged Care Pricing Authority material used 'as supplied'.

Provided you have not modified or transformed Independent Health and Aged Care Pricing Authority material in any way including, for example, by changing Independent Health and Aged Care Pricing Authority text – then the Independent Health and Aged Care Pricing Authority prefers the following attribution:

Source: The Independent Health and Aged Care Pricing Authority

Table of contents

1. Introduction

The Independent Health and Aged Care Pricing Authority (IHACPA) was established under the *National Health Reform Act 2011* as part of the National Health Reform Agreement (NHRA) to improve health outcomes for all Australians.

IHACPA enables the implementation of national activity based funding (ABF) for Australian public hospital services through the annual determination of the national efficient price (NEP) and national efficient cost (NEC). These determinations play a crucial role in calculating the Australian Government funding contribution to Australian public hospital services and offer a benchmark for the efficient cost of providing these services, as outlined in the NHRA.

The NEP underpins ABF across Australia for public hospital services. ABF is a way of funding hospitals whereby they are paid for the number and mix of patients they treat. ABF is intended to improve the value of the public investment in hospital care and ensure a sustainable and efficient network of public hospital services.

The NEC is used to determine the Australian Government funding contribution to local hospital networks (LHNs) for public hospital services that are not suitable for ABF, such as for small rural hospitals.

IHACPA annually develops and publishes the Pricing Framework for Australian Public Hospital Services (Pricing Framework), which outlines the principles and policies adopted by IHACPA to determine the NEP and NEC for that financial year.

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

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

1.1 About the national efficient price

The NEP is based on the average cost of an admitted acute episode of care provided in public hospitals during a financial year. Each episode of patient care is allocated a national weighted activity unit (NWAU).

The NWAU is a measure of hospital activity expressed as a common unit, against which the NEP is paid. It is a point of relativity for the pricing of public hospital services, which are weighted for clinical complexity. The ‘average’ hospital service is worth one NWAU. More complex and expensive activities are worth multiple NWAUs, and simpler and less expensive activities are worth fractions of an NWAU.

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 0.7421 NWAU, which equates to $5,386.
- A coronary bypass (minor complexity) has a weight of 5.8610 NWAU, which equates to $42,539.
- A hip replacement (minor complexity) has a weight of 4.0251 NWAU, which equates to $29,214.

The NEP has 2 key purposes:

1. To determine the amount of Australian 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 Australian Government funding on an activity basis as per the General List of In-Scope Public Hospital Services. It also includes loadings (‘adjustments’) to the price to reflect legitimate and unavoidable variations in the cost of delivering health care services, including patient factors such as patient complexity, residence and treatment location, and hospital factors such as hospital type, size, and location.

Approximately 461 public hospitals nationwide, including all large metropolitan hospitals, receive funding based on their activity levels.

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

1.2 About the national efficient cost

The NEC is used when activity levels are not suitable for funding based on activity, such as for small rural hospitals. In these cases, hospitals are funded by a block allocation based on size, location and the type of services they provide. This type of funding applies to 361 small rural hospitals. Some of these hospitals may operate with a mix of block funding and ABF.

The NEC also applies to public hospital services or functions that are not yet able to be described in terms of ‘activity’, such as teaching, training and research.

The NEC Determination outlines the efficient cost of a small rural hospital, which is the sum of the fixed component and a variable cost component.

IHACPA works closely with its Small Rural Hospitals Working Group, which includes representatives from the states and territories, small rural hospitals and peak healthcare bodies and associations. The working group provides vital guidance and advice to IHACPA about setting the efficient cost of a small rural hospital.

2. Summary of key changes

Based on the principles and policies in the Pricing Framework for Australian Public Hospital Services 2025–26 (Pricing Framework), the Independent Health and Aged Care Pricing Authority (IHACPA) has determined the national efficient price (NEP) and national efficient cost (NEC) for 2025–26.

2.1 National Efficient Price Determination 2025–26

The NEP for 2025–26 (NEP25) is $7,258 per national weighted activity unit (NWAU).

Some of the key changes and policy considerations for the NEP Determination 2025–26 (NEP25 Determination) are outlined below.

Community mental health care

In the Pricing Framework, IHACPA signalled its intent to transition community mental health care to activity based funding (ABF) using the Australian Mental Health Care Classification (AMHCC) Version 1.1 for the NEP25 Determination, following 4 years of shadow pricing.

Community mental health care is currently block funded as part of the NEC determination, with states and territories advising IHACPA of their community mental health care aggregated expenditure amounts each year. Introducing ABF for community mental health care aims to improve the transparency of funding, which will be based directly on the volume and type and complexity of care provided to mental health care consumers.

IHACPA shadow priced community mental health care services using AMHCC Version 1.0 as part of the NEP Determinations for 2021–22, 2022–23, 2023–24, and NEP24 to provide jurisdictions with more time to identify and mitigate local system impacts and support the development of transition arrangements and risk mitigation strategies for funding stability.

In 2024, IHACPA continued working closely with jurisdictions to mitigate any potential risks associated with the transition of community mental health care to ABF. The NEC25 Determination includes transitional block funding arrangements to support funding stability year-on-year, including for rural and regional local hospital networks delivering a low volume of community mental health services and specialised forensic community mental health care establishments.

Community mental health care will transition from block funding to ABF using AMHCC Version 1.1 from 1 July 2025.

Classification system updates

For the NEP25 Determination, IHACPA will use the International Statistical Classification of Diseases and Related Health Problems, Tenth Revision, Australian Modification (ICD-10-AM), the Australian Classification of Health Interventions (ACHI) and the Australian

Coding Standards (ACS), collectively known as ICD-10-AM/ACHI/ACS Thirteenth Edition to price admitted care.

IHACPA will price admitted mental health care using AMHCC Version 1.1, and price emergency department presentations using the Australian Emergency Care Classification Version 1.1 for NEP25. Both classification refinements do not represent a significant change to the classification structures or include new data elements and are minor refinements to incorporate more recent information from activity and cost data.

IHACPA will use the Tier 2 Non-Admitted Services Classification (Tier 2) Version 9.1 to price non-admitted services for the NEP25 Determination. Tier 2 Version 9.1 incorporates refinements to the Tier 2 classes – 10.20 *Radiation therapy – simulation and planning*, 40.34 *Specialist mental health* and 40.48 *Haematology and immunology*.

Pricing model refinements

In developing the NEP25 Determination, IHACPA has undertaken analysis to understand whether the impact of the coronavirus disease 2019 (COVID-19) pandemic response endured into 2022–23 and if the measures implemented in previous years are required for NEP25. The analysis indicated that modification of the admitted acute activity applied for the National Efficient Price 2024–25 is no longer required for NEP25 as the 2022–23 hospital activity reflects the data trends prior to the COVID-19 pandemic response.

The analysis also indicated that a COVID-19 diagnosis may continue to be a relevant risk factor in predicting some hospital acquired complications and avoidable hospital readmission categories. Additionally, the cost of treating patients with a COVID-19 diagnosis has continued to be substantially higher when compared to patients without a COVID-19 diagnosis patients in the same Australian Refined Diagnosis Related Groups (AR-DRGs), and that activity in these AR-DRGs includes high proportions of such patients. The current pricing model does not fully account for these cost differences through its existing length of stay price structure and intensive care unit adjustment. Without a further adjustment, there is a risk of under-pricing the treatment of COVID-19 patients and over pricing non-COVID-19 patients.

For NEP25, IHACPA will retain the following temporary measures to account for the ongoing impact of the COVID-19 pandemic response on hospital activity and cost data in the 2022–23 financial year:

- application of the COVID-19 treatment adjustment in a limited number of AR-DRGs
- application of the ICU adjustment to patients with a COVID-19 diagnosis
- exemption of the safety and quality adjustments for episodes of care with a COVID-19 diagnosis.

Back-casting

As with previous years, the Pricing Authority has recalculated (‘back-cast’) the NEP for 2024–25 (NEP24) to incorporate the most up-to-date cost data and to take account of methodological changes introduced in the NEP25 Determination that impact on the ability to compare the NEP between years. IHACPA is required to back-cast the previous year’s NEP

under clause A41 of the Addendum to the National Health Reform Agreement 2020–26 (Addendum).

Back-casting is important to ensure the calculation of Australian Government funding is not adversely impacted by changes in the calculation of the NEP over the years. Under the Addendum, the Australian Government funds 45% of the efficient growth in public hospital services that are funded on an activity basis with a growth cap of 6.5% a year.

The Pricing Authority has recalculated NEP24 using more up-to-date cost data than was available when NEP24 was initially calculated.

The back-cast NEP24 results in an increase of 5.9% between NEP24 to NEP25, which is the basis for Australian Government growth funding for 2025–26.

NEP24	Back-cast NEP24	NEP25
$6,465	$6,855	$7,258

2.2 National Efficient Cost Determination 2025–26

The NEC Determination 2025–26 (NEC25 Determination) uses a ‘fixed-plus-variable’ model, where the total modelled cost of a small rural hospital is the sum of the fixed cost component and the variable cost component.

For 2025–26, the fixed cost is $2.637 million and the variable cost is $7,617 per NWAU. An additional loading of 35.3% is applied for ‘very remote’ hospitals.

For the NEC25 Determination, IHACPA has determined an indexation rate of 7.6%, which includes an allowance to account for increases in the minimum superannuation guarantee between 2022–23 and 2025–26.

In addition, the Pricing Authority determines the efficient cost of some services in public hospitals that do not meet the technical requirements for applying ABF. Usually this means that they cannot be counted and/or costed. For example, teaching, training and research services are instead provided a block-funding amount.

IHACPA recognises that service delivery models are not static, and innovative models of care offer the potential to provide more efficient health services. The Pricing Guidelines in the Pricing Framework outline the policy objectives to guide IHACPA’s work, with reference to fostering clinical innovation whereby the pricing of public hospital services responds in a timely way to the introduction of evidence-based, effective new technology and innovations in the models of care that improve patient outcomes.

With this in mind, IHACPA will continue to block-fund public hospital programs that have been approved by the Pricing Authority for inclusion on the General List of In-Scope Public Hospital Services.

The Addendum contains provisions around specific arrangements for high cost, highly specialised therapies recommended for delivery in public hospitals by the Medical Services

Advisory Committee. In 2025–26, the following high cost, highly specialised therapies are recommended for delivery, based on advice received from the Australian Government:

- Kymriah® – for the treatment of acute lymphoblastic leukaemia in children and young adults
- Kymriah® or Yescarta® – for the treatment of diffuse large B-cell lymphoma, primary mediastinal large B-cell lymphoma and transformed follicular lymphoma
- Yescarta® – for the treatment of relapsed or refractory large B-cell lymphoma
- Qarziba® – for the treatment of high risk neuroblastoma
- Luxturna™ – for the treatment of inherited retinal dystrophies
- Tecartus® – for the treatment of relapsed or refractory mantle cell lymphoma and relapsed or refractory B-precursor acute lymphoblastic leukaemia.

Measures supporting the transition of community mental health care to ABF

Activity based funding will be implemented for community mental health care services in 2025–26. As part of this transition, the Pricing Authority has determined that an additional year of block funding eligibility will be applicable to community mental health services delivered in 2025–26 within specified standalone hospitals and local hospital networks (LHNs).

As part of the planned transition of community mental health services from block funding to ABF, IHACPA has worked with stakeholders to develop appropriate block funding criteria for community mental health establishments for the NEC25 Determination, as the activity profile of community mental health establishments is sufficiently different to hospitals. The 2 block funding arrangements for community mental health establishments for 2025–26 apply to:

- rural and regional LHNs delivering a low volume of community mental health services
- standalone establishments delivering specialised forensic community mental health care services.

In addition to these block funding criteria and arrangements, a composite block funding and ABF model will apply to states and territories with community mental health services subject to ABF in 2025–26.

Back-casting

The back-cast NEC Determination 2024–25 for the purpose of estimating Australian Government growth funding between 2024–25 and 2025–26 is the sum of the fixed component and the variable component.

The fixed component is determined as:

- $2.451 million for hospitals with an annual (NWAU(24)) less than or equal to 169.
- $2.451 million less 0.029% per NWAU(24) for hospitals with an annual NWAU(24) greater than 169, with an additional loading of 35.3% for ‘very remote’ hospitals.

The variable component of the efficient cost is determined as $7,079 per NWAU(24) for hospitals with an annual NWAU(24) greater than 169.

3. More information

For more information about the Independent Health and Aged Care Pricing Authority, activity based funding and the National Efficient Price and National Efficient Cost Determinations for 2025–26, please visit www.ihacpa.gov.au or contact enquiries.ihacpa@ihacpa.gov.au.

Independent Health and Aged Care Pricing Authority

Eora Nation, Level 12, 1 Oxford Street
Sydney NSW 2000

Phone 02 8215 1100
Email enquiries.ihacpa@ihacpa.gov.au

www.ihacpa.gov.au