

Dear Member,

The Independent Hospital Pricing Authority (IHPA) has finalised its paper on the *Pricing Framework for Australian Public Hospital Services*. This paper outlines the final Pricing Framework, which is a key strategic document to guide the IHPA in setting a National Efficient Price (NEP) for public hospital services throughout Australia, following the assessment of submissions to the *Draft Pricing Framework* in February. The IHPA has also published a companion document entitled the *National Efficient Price Determination 2012-2013*, which provides the formula for calculating the price of an activity based funded service and has an appended table of price weights.

The IHPA has determined that from 1 July 2012, the scope of public hospital services eligible for Commonwealth funding will be:

- All admitted programs, including hospitals in the home programs
- All emergency department services provided by recognised department services
- Non-admitted services that meet the criteria for inclusion on the General List ([see VHA Bulletin 201202](#))
- To be included as an in-scope non-admitted service, the service must meet the definition of a Service Event – *An interaction between one or more healthcare provider(s) with one non-admitted patient, which must contain therapeutic/clinical content and result in a dated entry in the patient's medical record*

Block Grant Funding

In-scope public hospital services may be funded on an activity basis, through block grants, or using a mix of activity based and block grant funding. In 2012/13, the IHPA will not have a determinative role in regards to which service will be block grant funded. It will instead implement the outcomes that emerge from a bilateral agreement on block grant funding between the Commonwealth and each state/territory. This entails that there will be differences across states in whether the same service (i.e. mental health) will be block funded or funded on an activity basis. The IHPA will undertake further development of, and consultation on, the Draft Block Funding Criteria when it assumes responsibility for the determination of block grants from 2013/14 onwards.

Setting the National Efficient Price

The NEP will be one of the major determinants of the level of Commonwealth funding on public health services. The NEP will also be a benchmark of efficiency and not a price at which public hospital services can be provided most cheaply at the lowest price. The costing unit, which will be used to express price weights, is the National Weighted Activity Unit (NWAU). This will be updated annually and in 2012/13, the NWAU (12) is \$4,808.

Adjustments to the NEP

The IHPA has determined that for all relevant in-scope public hospital services in all settings in 2012/13, there will be:

- An adjustment for patients who are treated in an Intensive Care Unit (ICU). This applies only to patients in DRGs that do not normally have ICU treatment AND are admitted to a level 3 ICU
- A specialist paediatric service adjustment that will take the form of DRG-specific adjustments to the price weights in relevant hospitals
- An adjustment of +5.0% to the NEP for Indigenous patients
- An adjustment of +8.7% to the NEP for public hospital services provided to patients from outer regional locations, payable wherever these patients are treated
- An adjustment of +15.3% to the NEP for public hospital services provided to patients from remote locations, payable wherever these patients are treated
- An adjustment of +19.4% to the NEP for public hospital services provided to patients from very remote locations, payable wherever these patients are treated

The IHPA will undertake further work on determining whether there is empirical basis for other patient-adjustments to the NEP such as socio-economic status and patient severity, and to identify more accurately the real costs of provision of public hospital services to Indigenous patients. The IHPA will also work in partnership with the Australian Commission on Safety and Quality in Health Care to explore options for the inclusion of safety and quality considerations in determining the NEP to commence in 2013/14.

The States and Territories have a guaranteed level of funding from the Commonwealth from 2012/13 and 2013/14. From 1 July 2014, Commonwealth funding will be uncapped so public hospitals will have more funding if they provide more services.

The full papers are available online at the IHPA website and can be accessed [here](#). For further information, please contact the VHA office at 9094 7777.

Kind regards,



Trevor Carr
Chief Executive