

Release of IHPA National Efficient Cost Determination 2015-16

26 February 2015

The Independent Hospital Pricing Authority (IHPA) has released the *National Efficient Cost Determination 2015-16*. The National Efficient Cost (NEC) is the average cost of a block funded rural hospital. The NEC is used to calculate the Commonwealth Government's contribution of funding to small rural health services.

IHPA has changed its approach to grouping according to rurality and service provision, which has resulted in different cost weight allocated to each hospital. Subsequently, the NEC has changed to reflect this approach.

The complete NEC determination and appendix of hospital groupings can be found at:

<http://www.iHPA.gov.au/internet/iHPA/publishing.nsf/Content/nec-determination-2015-16-html>.

1. Impact on Victorian small rural hospitals

While IHPA's NEC and hospital groupings have changed in 2015-16, the funding determination for Victorian small rural hospitals will continue be set out in the 2015-16 Victorian Health Policy and Funding Guidelines, which are yet to be published.

2. National Efficient Cost

The NEC in 2015-16 is **\$4.784 million**. This represents the average cost of a block funded rural hospital.

Members should note that this is significantly lower than the NEC in 2014-15. This is due to the revised grouping of hospitals and their cost weights, and the subsequent recalculation of the NEC.

3. Groupings for small rural hospitals by services volume, ASGS region and type

A revised approach to hospital classification and grouping has been introduced. In previous years hospitals were grouped according to location (e.g. metropolitan, inner regional, outer regional, remote and very remote) and their reported National Weighted Activity Unit (NWAU) activity.

Hospitals are now grouped as follows:

- 'Group 0' is for small rural block funded hospitals with in-scope expenditure below \$0.5 million. The group is determined on the basis of in-scope expenditure.
- 'Group A' to 'Group G' are determined on the basis of total reported NWAU activity.

Groups are further divided by hospital location on the basis of Australian Statistical Geography Standard (ASGS) Region:

- 'Region 1' is for inner regional, outer regional and remote areas. These hospitals are subdivided into three types which reflect the services they provide.
 - 'Type A' is for hospitals reporting more than 30 NWAUs of either surgical or obstetric episodes.
 - 'Type B' is for hospitals that do not fall into the above category, but have more than 30 per cent of their total NWAU reported as admitted acute activity.
 - 'Type C' is for the remaining 'Region 1' block funded small rural hospitals that do not meet the above two criteria.
- 'Region 2' is for small rural block funded hospitals in very remote areas.

Table 1: Groupings for Small Rural Hospitals by service volume, ASGS region and type – 2015-16

| Service Volume Grouping (Total NWAU) | | | | | | | | | |
|--------------------------------------|--------|------------------------------|---------------------------------|-----------------------------------|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| ASGS Region | Type | Group 0 <\$0.5 million | Group A 0 - 259.9 NWAU | Group B 260 - 459.9 NWAU | Group C 460 - 659.9 NWAU | Group D 660 - 1049.9 NWAU | Group E 1050 - 1699.9 NWAU | Group F 1700 - 2499.9 NWAU | Group G 2500 - 3500 NWAU |
| Region 1 | Type A | N/A | N/A | N/A | 0.903 | 1.149 | 1.604 | 2.236 | 3.589 |
| | Type B | N/A | N/A | 0.544 | 0.769 | 0.979 | 1.367 | 1.905 | 3.058 |
| | Type C | 0.040 | 0.347 | 0.473 | 0.670 | 0.852 | 1.190 | 1.658 | N/A |
| Region 2 | | 0.085 | 0.248 | 0.536 | 0.800 | 1.068 | 1.767 | 2.814 | 6.571 |

- N/A = no hospitals are present in that combination of service volume, ASGS region and type.

4. Calculation of the NEC for small rural hospitals

The efficient cost of a hospital is determined by multiplying the cost weight of the relevant cell in **Table 1** by the NEC. In-scope rural hospitals are listed [the IHPA document](#), with the appropriate cost weights included.

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