

Independent Hospital Pricing Authority – the National Efficient Price; the National Efficient Cost; Pricing for Quality

8 March 2017

The Independent Hospital Pricing Authority (IHPA) has released its annual pricing framework for Australian public hospitals, including further details on the funding mechanisms to improve safety and quality in public hospitals.

This bulletin outlines IHPA's key changes and determinations as they apply to VHA members.

Activity-based funded hospitals - the National Efficient Price determination 2017-18

The National Efficient Price for 2017-18 (NEP17) is **\$4,910** per National Weighted Activity Unit 2017-18 (NWAU(17)).

NEP17 was based on the average cost of public hospital activity in FY2014-15 of **\$4,682** per NWAU(17), indexed at 1.6 per cent per annum.

Block funded hospitals – the National Efficient Cost determination 2017-18

The National Efficient Cost (for 2017-18 (NEC17) is **\$5.406 million**. This represents the average cost of a block-funded small rural hospital.

NEC17 was determined using the average in-scope expenditure data from 2014-15 reported in the National Public Hospitals Establishments Database of **\$4.710 million** indexed at 4.7 per cent per annum.

Pricing and Funding for Safety and Quality – context

IHPA has released detail on the anticipated reforms to pricing safety and quality in public hospitals.

The full document, including information about IHPA's consultations can be accessed here: <https://www.iHPA.gov.au/publications/pricing-framework-australian-public-hospital-services-2017-18/>.

In April 2016 the Council of Australia Governments (COAG) signed a Heads of Agreement that committed to introduce a series of reforms including the development and implementation of funding and pricing approaches for safety and quality.

IHPA consulted on potential changes and subsequently provided advice to the COAG Health Council on options for the integration of safety and quality into public hospital pricing and funding frameworks.



In February 2017 the Commonwealth Minister for Health directed IHPA to undertake implementation of three recommendations of the COAG Health Council relating to **sentinel events**, **hospital acquired complications**, and **avoidable readmissions**.

An outline of IHPA's determination on each and the future work needed to implement reform is outlined below.

Sentinel events

There will be no funding for public hospital episodes that include a sentinel event that occur on or after 1 July 2017. This will apply to all episodes of care (all streams) in both ABF and block funded hospitals.

For block-funded hospitals, the funding deduction associated with a sentinel event will be calculated by multiplying the National Efficient Price 2017-18 (NEP17) by the NWAU(17) for that episode.

For episodes that occur at ABF hospitals the NWAU(17) for that episode will be set to zero.

Hospital acquired complications

IHPA intends to reduce the funding level for all hospital acquired complications (HAC) across every hospital to reflect the additional cost of a hospital admission with a complication by 1 July 2018, subject to the results of a review of a shadow implementation year from 1 July 2017.

IHPA will undertake a public consultation following the shadow implementation and report to the COAG Health Council by 30 November 2017.

Avoidable hospital readmissions

IHPA will undertake further public consultation to inform a future pricing and funding approach to avoidable hospital readmissions, based on a set of definitions to be developed by the Australia Commission on Safety and Quality in Health Care.

No pricing or funding approach for avoidable hospital readmission will be implemented until after the completion of this program of work.

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