IHACPA

Understanding the NEP and NEC Determinations 2024–25

March 2024

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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 Commonwealth 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 Commonwealth funding contribution to local hospital networks 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 0.7901 NWAU, which equates to $5,108.
- A coronary bypass (minor complexity) has a weight of 6.0518 NWAU, which equates to $39,125.
- A hip replacement (minor complexity) has a weight of 4.0954 NWAU, which equates to $26,477.

The NEP has two key purposes:

1. To determine the amount of Commonwealth 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 Commonwealth 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 478 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 364 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 2024–25 (Pricing Framework), the Independent Health and Aged Care Pricing Authority (IHACPA) has determined the national efficient price (NEP) and national efficient cost (NEC) for 2024–25.

2.1 National Efficient Price Determination 2024–25

The NEP for 2024–25 (NEP24) is $6,465 per national weighted activity unit (NWAU).

Some of the key changes and policy considerations for the NEP Determination 2024–25 (NEP24 Determination) are outlined below.

Impact of COVID-19

In developing the NEP24 Determination, IHACPA conducted extensive analysis and consultation with jurisdictions to understand and account for the impact of coronavirus disease 2019 (COVID-19) on the 2021–22 activity and cost data, including consideration of the lockdown periods.

IHACPA's analysis indicated that activity in the admitted acute stream was below trend in 2021–22, which was not apparent in the other patient service categories. IHACPA's analysis also indicated there was substantial growth in average cost in 2021–22 compared to the previous year, which is partially explained by the reduction in activity due to inflexible costs that did not fall commensurately with lower activity levels in the admitted acute stream.

Furthermore, IHACPA's analysis indicated that patients being treated for COVID-19 had longer lengths of stay and increased costs compared to non-COVID-19 patients within some admitted acute care end-classes. However, this difference is declining over time.

For the NEP24 Determination, IHACPA has normalised the admitted acute activity in 2021–22 for all jurisdictions during the periods where the activity level was below trend. IHACPA has also applied a COVID-19 treatment adjustment to account for the legitimate and unavoidable higher costs associated with treating patients for COVID-19.

Classification system updates

For the NEP24 Determination, IHACPA will use the Australian Subacute and Non-Acute Patient Classification Version 5.0 to price admitted subacute and non-acute care, following the completion of a two-year shadow pricing period.

IHACPA will use the Tier 2 Non-Admitted Services Classification (Tier 2) Version 9.0 to price non-admitted services for the NEP24 Determination. Tier 2 Version 9.0 incorporates two new classes – 10.22 *Subcutaneous immunoglobulin (SCIg) infusion therapy - home delivered* and 40.68 *Supervised administration of opioid substitution therapy*.

Community mental health care

In the Pricing Framework, IHACPA signalled its intent to transition community mental health care to ABF using the Australian Mental Health Care Classification (AMHCC) Version 1.0 for the NEP24 Determination, following three 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. Progression to pricing would provide greater funding transparency and enable funding to be based directly on the volume, type and complexity of care provided to mental health care consumers.

However, IHACPA has identified that an additional year of shadow pricing is required for 2024–25 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. For 2024–25, community mental health care services will continue to be block funded while a fourth and final year of shadow pricing is undertaken using AMHCC Version 1.0.

Community mental health care will transition from block funding to ABF from 1 July 2025.

Back-casting

As with previous years, the Pricing Authority has recalculated ('back-cast') the NEP for 2023–24 (NEP23) to incorporate the most up-to-date cost data and to take account of methodological changes introduced in the NEP24 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 2020–25 (Addendum).

Back-casting is important to ensure the calculation of Commonwealth funding is not adversely impacted by changes in the calculation of the NEP over the years. Under the Addendum, the Commonwealth 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 NEP23 using more up-to-date cost data than was available when NEP23 was initially calculated.

The back-cast NEP23 results in an increase of 4.5% between NEP23 to NEP24, which is the basis for Commonwealth growth funding for 2024–25.

NEP23	Back-cast NEP23	NEP24
$6,032	$6,187	$6,465

2.2 National Efficient Cost Determination 2024–25

The NEC Determination 2024–25 (NEC24 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 2024–25, the fixed cost is $2.380 million and the variable cost is $6,770 per NWAU. An additional loading of 49.4% is applied for 'very remote' hospitals. For the NEC24 Determination, IHACPA has determined an indexation rate of 6.1%, which includes an allowance to account for increases in the minimum superannuation guarantee between 2021–22 and 2024–25.

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 2024–25, 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
- 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.

Back-casting

The back-cast NEC Determination 2023–24 for the purpose of estimating Commonwealth growth funding between 2023–24 and 2024–25 is the sum of the fixed component and the variable component.

The fixed component is determined as:

- $2.243 million for hospitals with an annual NWAU 2023–24 (NWAU(23)) less than or equal to 174.
- $2.243 million less 0.029% per NWAU(23) for hospitals with an annual NWAU(23) greater than 174, with an additional loading of 49.4% for ‘very remote’ hospitals.

The variable component of the efficient cost is determined as $6,381 per NWAU(23) for hospitals with an annual NWAU(23) greater than 174.

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 2024–25, please visit www.ihacpa.gov.au or contact enquiries.ihacpa@ihacpa.gov.au.

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