

Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Budget Estimates 2012-2013, 30 & 31 May and 1 June 2012

Question: E12-341

OUTCOME 13: Acute Care

Topic: Independent Hospital Pricing Authority

Type of Question: Written Question on Notice

Number of pages: 2

Senator: Senator Fierravanti-Wells

Question:

Has a central tendency (mean or median) of cost been decided on for pricing? Is this the cost of “best practice” or is it just the mean of pricing that service across all hospitals? On this model, about half of Local Hospital Networks (LHNs) will get less funding than it costs them to provide the service? When would you expect a proper normative pricing model that truly reflects the efficient price to be fully operational? From 1 July 2012, there won't be an efficient price operating – the Commonwealth's contribution to LHNs will just be based on the mean cost of historical data from a few years ago?

Answer:

The Independent Hospital Pricing Authority (IHPA) has determined that the National Efficient Price (NEP) for 2012-2013 will be set on the basis of a measure of central tendency, being the arithmetic mean (average cost per weighted separation). The decision to set the NEP as a measure of central tendency was underpinned by analysis of the distribution of public hospital costs which indicated that the median cost per weighted separation was approximately 80 per cent of the mean cost per weighted separation. IHPA considers that the mean a more appropriate measure than median as it provides a fairer representation of the actual costs faced by most hospitals; the wide variation between the mean and median is not necessarily indicative of inefficiency, but reflects the very high costs associated with small numbers of very sick or very complex patients.

At this stage, the NEP does not reflect the cost of “best practice”, but is simply representative of the average costs incurred in the provision of public hospital services. The NEP will not affect the level of Commonwealth funding available to states and territories for public hospital services in the 2012-2013 and 2013-2014 financial years, during which states' and territories' entitlements are fixed under the National Health Reform Agreement at the level specified in the National Health Specific Purpose Payment. In 2014-2015, activity based funding becomes “live” and Commonwealth funding will vary in response to changes in activity and the cost of public hospital services as represented by the NEP. It is important to note that in either case, states and territories can choose to provide LHNs with a higher or lower proportion of the NEP.

Normative pricing is under consideration by IHPA, but is not proposed in the 2012-2013 or 2013-2014 financial years. The 2012-2014 period is intended to be a transitional period in which LHNs can develop an understanding of their cost structures relative to the benchmark set by the NEP. Normative pricing will be informed by consultations over what constitutes "best practice".