



IHPA

Developing a
National Efficient
Cost for small rural
hospitals

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Health Reform and IHPA

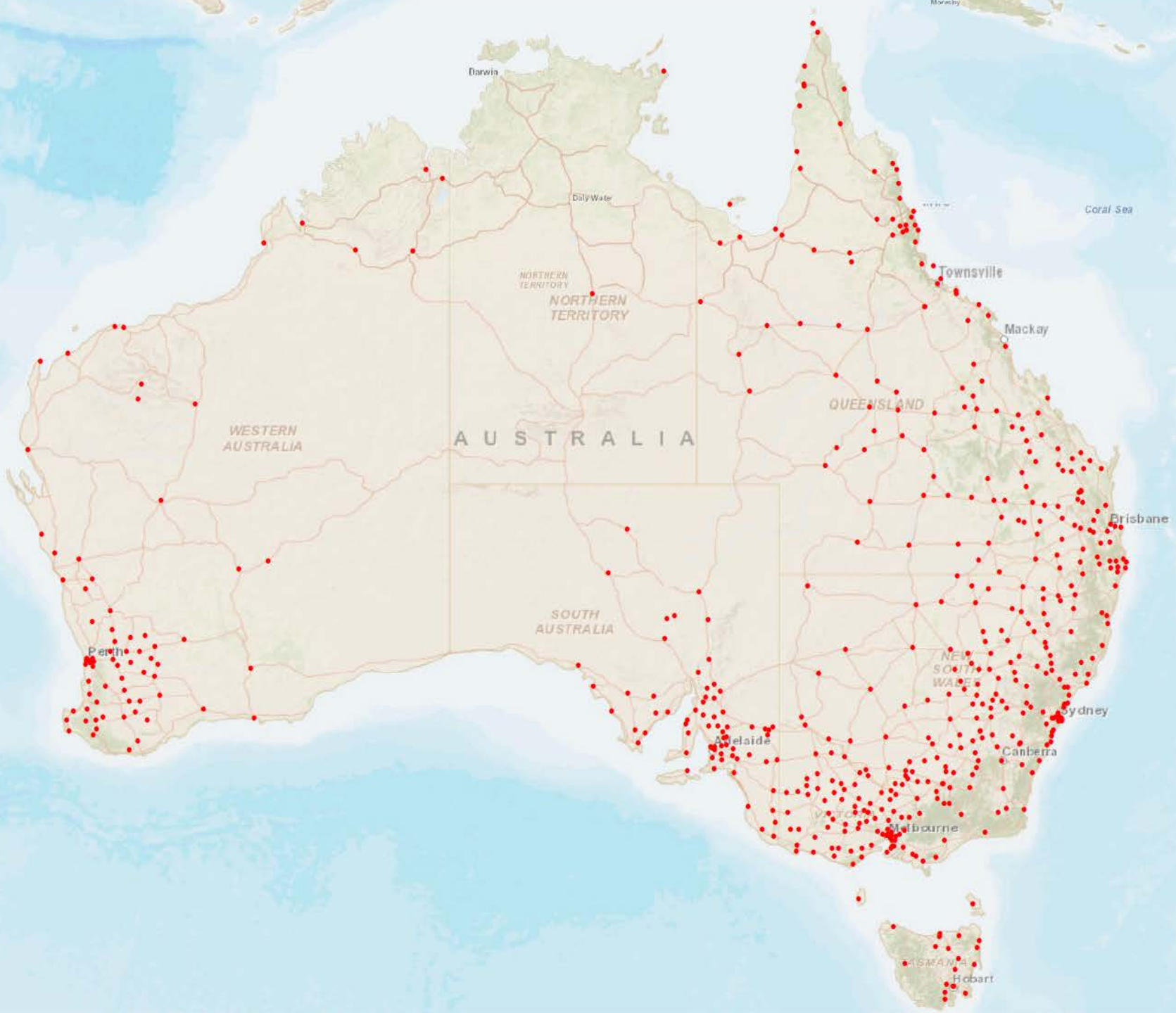
- NHRA reached by COAG in August 2011.
- Established IHPA.
- IHPA governed by a board – Pricing Authority.
- Activity Based Funding used “wherever practicable.”
- Some hospital services “better funded through block grants, including relevant services in rural and regional communities”.
- IHPA develops ABF and block grant funding models (among many other things).

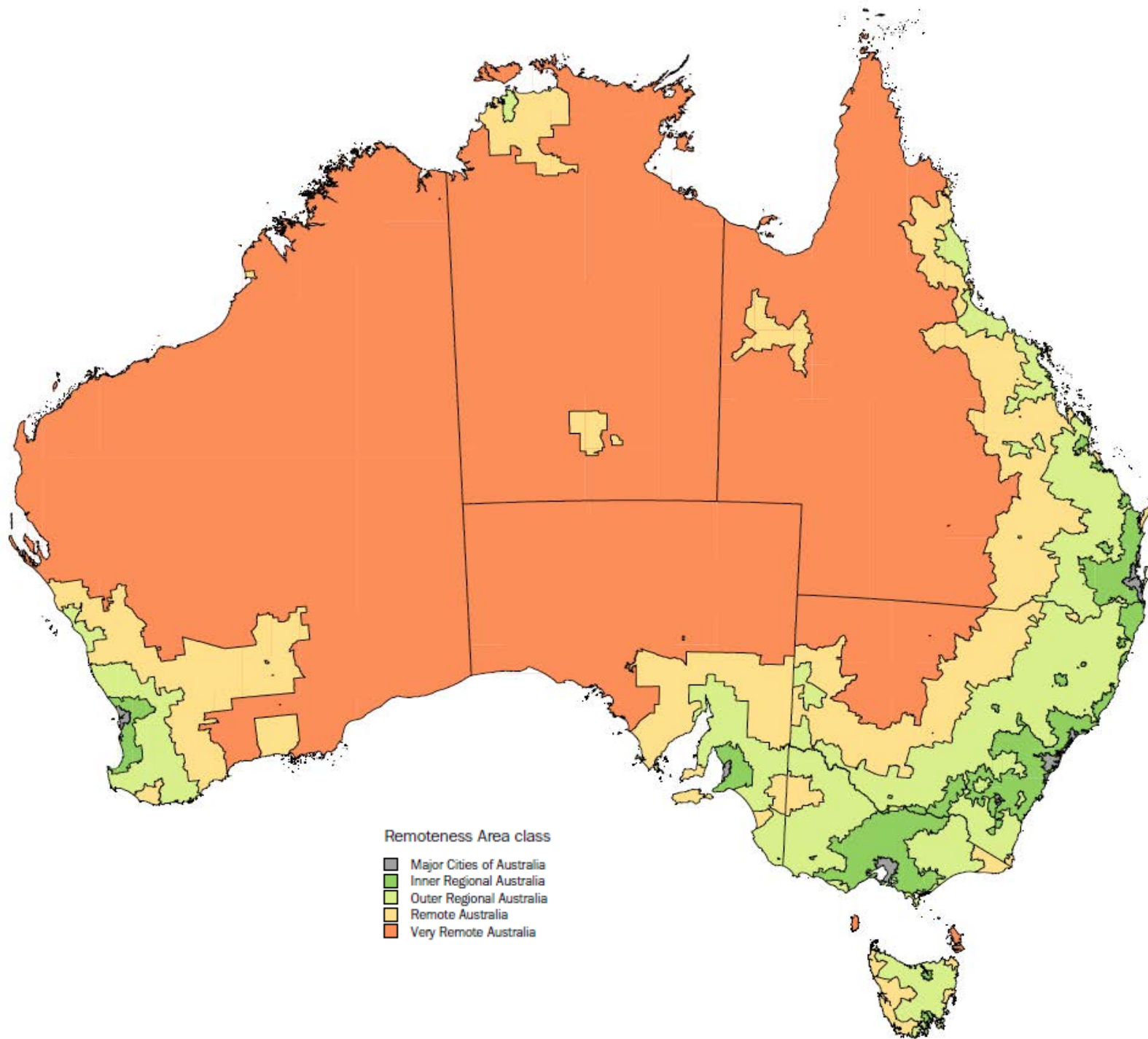


Block funded hospitals

- More than 400 hospitals are considered unsuitable for ABF due to absence of economies of scale.
 - 285 ABF Hospitals
- These hospitals are eligible for block funding.
- Mostly outside metropolitan and regional hubs.
- Represent just over \$2b in expenditure (2012-13).







Remoteness Area class

- Major Cities of Australia
- Inner Regional Australia
- Outer Regional Australia
- Remote Australia
- Very Remote Australia

National Weighted Activity Unit

- Standardised unit.
- Based on an average cost of acute admitted episode.
- Single measure of cost across all streams:
 - uncomplicated hip replacement 4.1855 NWAU;
 - non-admitted triage 1 ED presentation 0.3084 NWAU;
 - general medical outpatient service 0.0422 NWAU;
 - palliative care, terminal phase 0.5613 NWAU/episode, plus 0.1367 NWAU/day.



National Efficient Cost Model

2014-15

- Estimate total in scope expenditure using:
 - Total service volume (average over 3 years), and
 - Australian Statistical Geography Standard Remoteness Area (ASGS-RA).
- Specialist psychiatric treated separately.
- Similar for 2013-14.



National Efficient Cost Model

2014-15

- NEC Modelled cost is the **average expenditure** of hospitals in the same remoteness class and service volume group.

ASGS Remoteness Classification	Volume Group						
	Group A	Group B	Group C	Group D	Group E	Group F	Group G
Major Cities			\$3.229m			\$4.996m	\$20.661m
Inner Regional	\$1.049m	\$1.815m	\$2.592m	\$4.146m	\$4.981m	\$6.855m	\$14.243m
Outer Regional	\$1.151m	\$1.602m	\$2.910m	\$3.799m	\$4.346m	\$7.272m	\$13.803m
Remote	\$0.970m	\$1.044m	\$2.512m	\$3.108m	\$5.963m	\$7.833m	\$22.069m
Very Remote	\$1.069m	\$2.456m	\$2.380m	\$4.119m	\$6.515m	\$10.720m	\$20.208m

- Large hospitals (Groups F and G) get an extra loading based on their activity.
- Limited deviation of modelled from actual.



Developing 2015-16 NEC Model

- Three major determinants identified:
 - activity volume,
 - remoteness,
 - activity type (hospital role).
- In 2013-14 and 2014-15 modelled cost is determined by remoteness and 3 years of NWAU.
- In 2015-16, efficient cost also accounts for hospital role.



Developing 2015-16 NEC Model

- Role delineation based on reported activity.
 - Type A report surgical or obstetric delivery activity.
 - Type B do not qualify as Type A, but have a high proportion of acute admitted activity.
 - Type C do not fit either of the above categories.
- Smaller hospitals with limited or no inpatient care are separated (Group 0).
- Specialist facilities are treated differently.
- Volume group thresholds adjusted to spread out smaller hospitals in the model.



National Efficient Cost Model

2015-16

- NEC Modelled cost is based on a log-linear regression.
 - This results in a smoother model, with predictable change between groups.

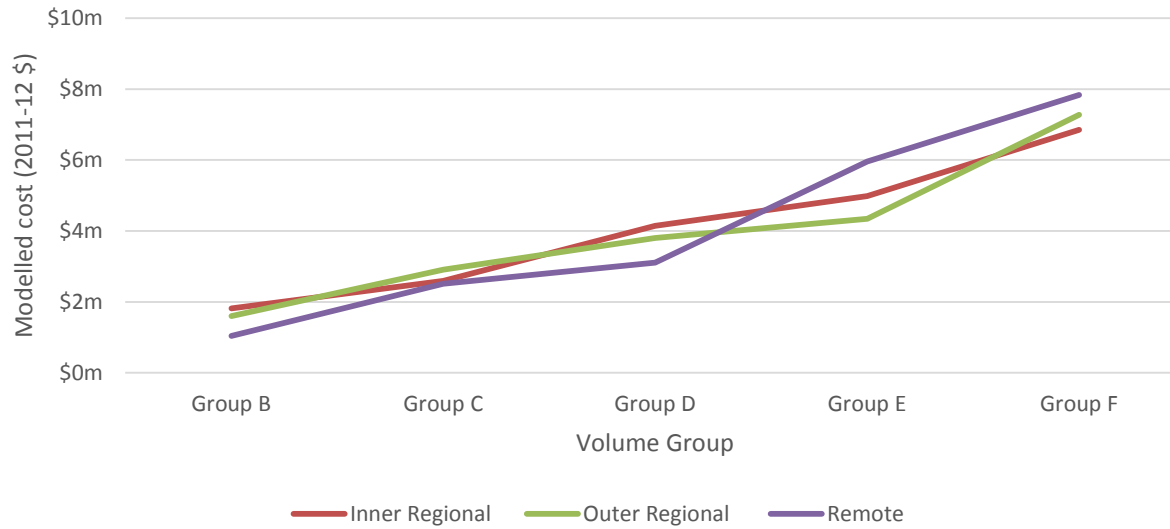
Region	Type	Volume Group							
		Group 0	Group A	Group B	Group C	Group D	Group E	Group F	Group G
Inner/Outer Regional and Remote	Type A				\$3.742m	\$4.762m	\$6.649m	\$9.266m	\$14.874m
	Type B			\$2.255m	\$3.189m	\$4.058m	\$5.665m	\$7.896m	\$12.674m
	Type C	\$0.164m	\$1.440m	\$1.962m	\$2.775m	\$3.531m	\$4.930m	\$6.871m	
Very Remote		\$0.354m	\$1.030m	\$2.220m	\$3.314m	\$4.425m	\$7.324m	\$11.664m	\$27.235m

- Limited deviation of modelled from actual.

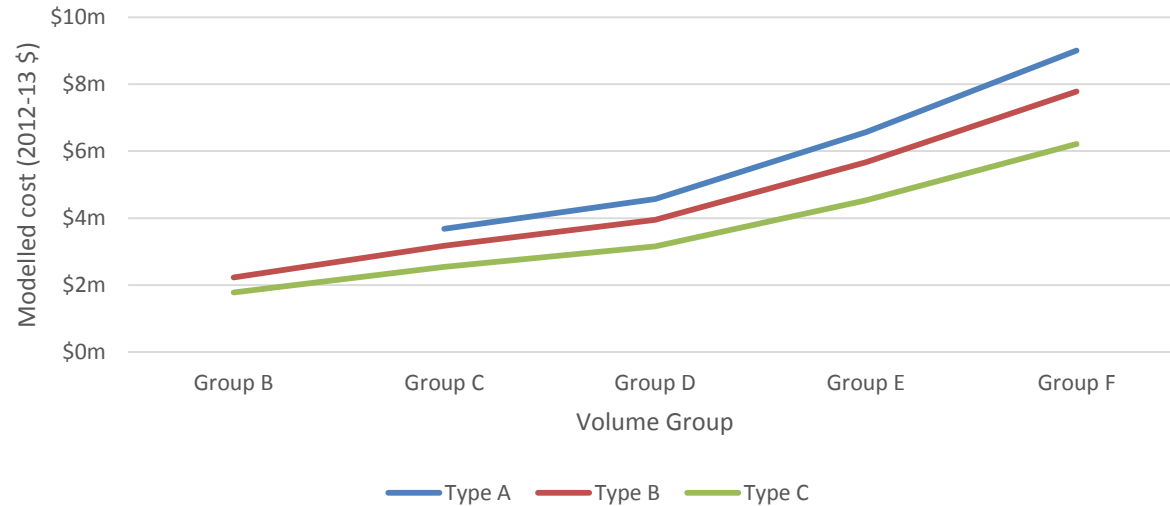


Model Comparison

National Efficient Cost Model 2014-15



National Efficient Cost Model 2015-16



What about Efficiency?

Region	Type	Volume Group							
		Group 0	Group A	Group B	Group C	Group D	Group E	Group F	Group G
Inner/Outer Regional and Remote	Type A				\$6,957	\$5,021	\$4,961	\$4,542	\$4,991
	Type B			\$6,396	\$5,993	\$5,153	\$4,216	\$4,229	\$3,939
	Type C	\$5,090	\$8,735	\$6,405	\$5,722	\$4,844	\$4,665		
Very Remote		\$3,768	\$6,032	\$7,605	\$6,699	\$5,677	\$5,741	\$5,877	\$8,680

- In 2012-13 the average cost per NWAU of a block funded hospital was \$5325.
- The average cost per NWAU for ABF services was \$4549.



Challenges

- Block funded hospitals reporting requirements less arduous than ABF hospitals
- Rely heavily on aggregate data collections (NPHEd and IHPA).
- Admitted and Emergency activity data OK, non-admitted data improving
- Expenditure based on PHE – hospitals provide total ledger split into admitted and not-admitted.
- ASGS-RA classification perhaps not fine enough in some regional and remote areas.





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