

Activity Based Funding

The 2011 National Health Reform Agreement (NHRA) aimed to deliver “better access to services, improved local accountability and transparency, greater responsiveness to local communities and provide a stronger financial basis for our health system into the future through increased Commonwealth funding”.

The National Health Reform Act 2011 established the Independent Hospital Pricing Authority (IHPA) to develop a Pricing Framework and National Efficient Price (NEP) to support the implementation of Activity Based Funding (ABF) as the basis for the Commonwealth’s contribution to the funding of hospital-based activity from July 2014.

Under the NHRA, from 2014-15 to 2016-17 the Commonwealth was to pay 45% of the NEP for ‘growth’ in the volume of services relative to the previous year. From 2017-18 onwards, this contribution was to increase to 50%.

In the 2014-15 Budget it was announced that from 2017-18 the Commonwealth would revert to a block funding arrangement based on population and CPI movements.

The 2016-17 Budget subsequently returned to ABF and re committed the Commonwealth to fund 45% of efficient growth in hospital funding subject to a cap of 6.5% from 2017-18 to 2019-20. It has also been agreed that the ABF framework will be modified to integrate quality and safety considerations, and to reduce avoidable readmissions. These changes are to be implemented by July 2017.

The NEP is based on the current average cost of providing hospital services and does not incorporate components of effectiveness or quality.

While the NEP determines Commonwealth funding for public hospital services, it does not require the states and territories to fund at the NEP. Under the NHRA, states and territories have autonomy as to the level of funding they choose to invest in public hospital services. States and territories may choose to provide hospitals with a higher or lower share of the NEP funds.

AHHA POSITION:

- ✧ The Commonwealth, states and territories have a shared responsibility for the provision of health services.
- ✧ The allocation of health service funding should be structured, transparent and evidence-based.
- ✧ While activity based funding can be an effective mechanism to achieve consistency and transparency in health service funding, through-put based funding models can create inappropriate incentives to provide treatment and favour volume at the expense of the effectiveness and quality of care.
- ✧ The current activity based funding model is a cost reduction model which values technical efficiency (cost reduction) above improved allocative efficiency (equity and clinical outcomes).
- ✧ Hospital centred activity based funding models can create perverse incentives to provide inpatient care instead of more effective community based options.
- ✧ Funding models should be patient based and support the provision of care by the most appropriate provider in the most appropriate environment.
- ✧ Activity based funding models must accommodate unavoidable cost variations relating to the location of service, availability of services and the clinical and social characteristics of client groups.
- ✧ An activity based funding model that incorporates quality metrics and an outcomes focus provides a more accountable framework compared to block funding.
- ✧ The Commonwealth should not unilaterally rescind agreements on the funding of public hospitals, but instead should negotiate with state and territory governments in recognition of their mutual funding obligations.

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Released May 2016