



Public Hospital Funding

The Australian, state and territory governments have a shared responsibility for the provision of public hospitals. Public hospital funding occurs within a context of agreed strategic priorities for health system reform, defined in the 2020-25 Addendum to the National Health Reform Agreement to include:

- Improving efficiency and ensuring financial sustainability
- Delivering safe, high quality care in the right place at the right time
- Prioritising prevention and helping people manage health across their lifetime
- Driving best practice and performance using data and research

Public hospital services are jointly funded by the federal and state and territory governments. Activity-based funding (ABF) is the primary method of funding for public hospitals that have a large activity. Smaller and remote hospitals are often funded through block funding or a mix of both.

The Independent Hospital Pricing Authority (IHPA) provides independent advice for implementing ABF, primarily through determining the National Efficient Price and National Efficient Cost each year. This determines the funding contribution from the Australian Government, while incentivising efficiency and increasing transparency in the delivery and funding of services.

In 2016–17 the ABF framework was modified to integrate quality and safety considerations, including avoidable readmissions.

The National Health Reform Agreement between the Australian Government and States and Territories on public hospital funding and health reform currently establishes Australian Government funding at 45% of efficient growth of activity based services, subject to the growth in funding capped at 6.5% per year. Bilateral agreements with each State and Territory articulate specific health care reforms.

The Council of Australian Governments (COAG) has recently been replaced by the Council on Federal Financial Relations (reporting to the National Cabinet), who henceforth have responsibility for all National Partnership Agreements.

AHHA POSITION:

- ✧ 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, throughput based funding models should be balanced with incentives that prevent volume being favoured at the expense of equity, effectiveness and quality of care.
- ✧ 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.
- ✧ When implementing activity-based funding models, Governments should focus on outcomes and incorporate equity and quality metrics to provide a more accountable framework.
- ✧ Governments must prioritise and incentivise value-based models of care. Additionally, Governments must move away from activity-based funding cost reduction models which value technical efficiency (cost reduction) above improved allocative efficiency (equity and clinical outcomes).
- ✧ Governments and health providers must prioritise a whole of system integrated care approach with a focus on prevention and funding that is tied to patient outcomes at an efficient cost.
- ✧ Hospital funding models should prioritise the provision of the right care in the right place at the right time. Incentives should be aligned across care pathways and providers to maximise value for money in public investments and achieve better outcomes for patients, funders, and the healthcare system.
- ✧ Funding should incentivise the development of patient-reported measures (PRMs) to support outcome-based payments which incentivise gains in equity, quality, safety and patient-centredness.
- ✧ Governments should support innovative models of care and trial new funding arrangements that prioritise paying for value and outcomes.
- ✧ The Australian Government 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.