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# title Options for Finance in Primary Care in Australia: Summary

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This issues brief identifies ways to consider primary health care finance policy with a focus on health outcomes. The brief proposes a mechanism for including impact investing into primary care financing. This summary paper should be read in conjunction with the issues brief for full details.

## Context

The following policy considerations inform this issues brief:

- New meso-level primary health organisations (PHNs) introduced in 2015
- Increased interest in developing models of integrated care to better manage complex chronic conditions
- Questions about the sustainability of smaller primary health care providers
- Exploration of outcome-based rather than activity-based funding
- Increased interest in incentives and innovations in primary care funding

## Finance versus payment approaches

Current activity-based funding only covers a proportion of the cost of financing primary health care in Australia. The Commonwealth Government pays for the activity in the system through the Medicare Benefits Schedule (MBS) and individuals pay out-of-pocket expenses. The additional costs of financing primary health care risk are borne by the private sector. Although government pays for the activity of the system, primary health care is predominantly a private sector activity where the financial risks are mostly borne by private interests.

## Outcomes and performance

MBS activity-based funding is insensitive to local primary health demands. There is a need for financing models that allow for local flexibility to meet a specific community's requirements and the need for inter-sectoral collaboration.

An example of a solution to this constraint of the MBS was the use of outcome-based funding (using both facilitation and reward payments) in the now terminated National

Partnership Agreement on Preventive Health. The principles underpinning this funding strategy remain salient: (1) a focus on outcomes; and (2) allow those most proximal to the delivery of services to be financed in a manner that assists in the effective delivery of services.

## Impact investing

Social impact bonds (SIBs) are a particular type of impact investing that involve the issuing of a bond by a bond issuer and a commitment by government to private investors to provide a return on investment related to the issuing of the bond.

In SIBs, private investors fund interventions through a contractor and the government pays the investors (through a combination of principal repayment and return on investment), only if the program meets its goals. Investors provide financing for programs with the potential to achieve savings for government and to produce a broader social benefit. The attractiveness of SIBs lies in risk mitigation to government, cash flow management for government departments, and the potential of SIBS to encourage private investment in evidence-based preventive services, promote innovation and increase accountability.

SIBs are being trialled in a range of sectors using a wide range of interventions. In the United States, SIBs are predominantly being used in social health. There are examples of impact investing being used in asthma prevention, diabetes and primary health.

Impact investing is less concerned with the origin of harm and more concerned with the production of outcomes. In these more complex financing models where both private and public finance is used, the focus is not on the attribution of the source of failure, but rather on the mitigation of harm regardless of its origin.

In a subtle way, impact investing requires a change in mindset away from discussions of which interests (private or public) are responsible for ill-health. The focus shifts to the mitigation of ill-health by adjusting the tastes and behaviours of its citizenry. This is a more utilitarian approach to financing, and stands as an alternative to public financing based on market failure. Ultimately, the citizen ends up paying, either through taxation or through private payment.

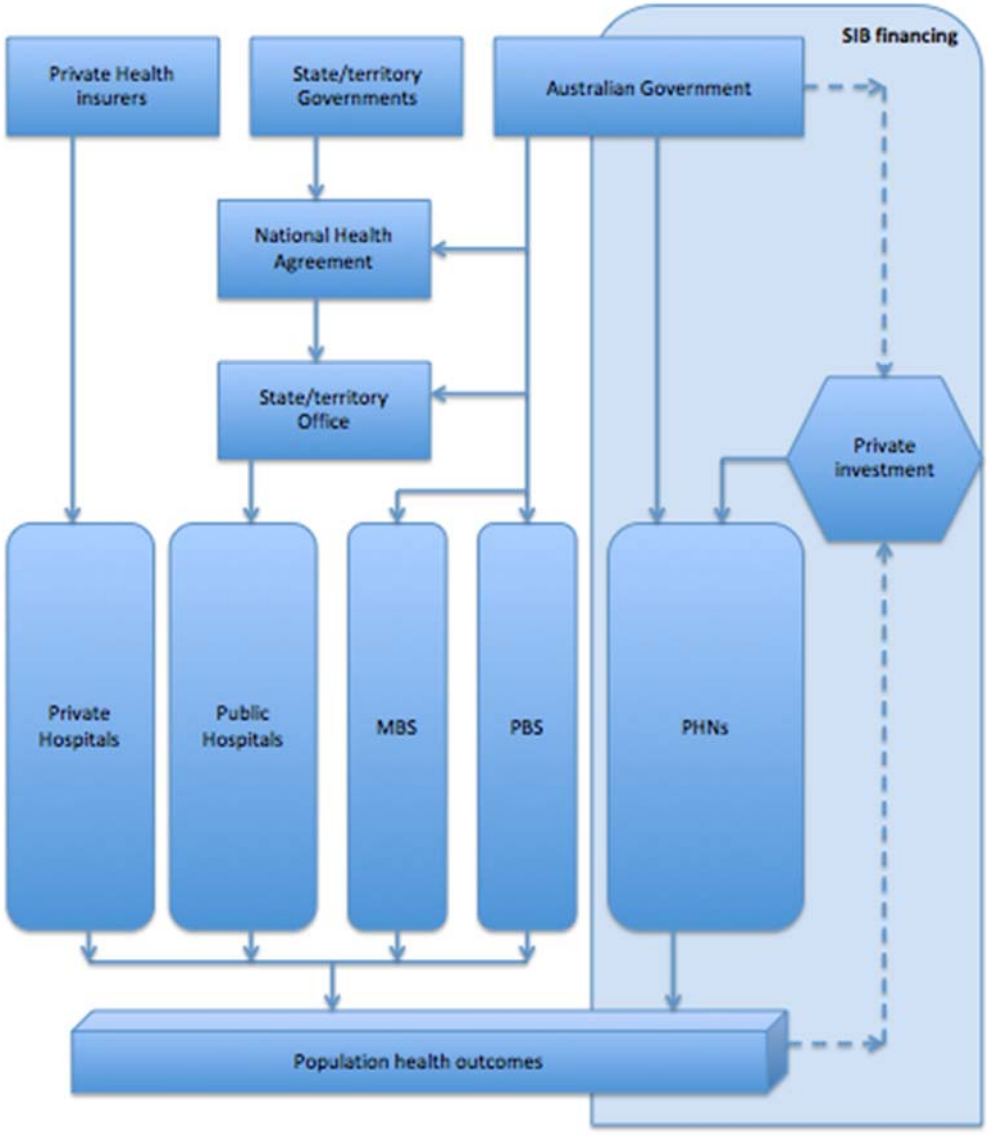
Impact financing has a focus on outcomes. Measuring outcomes however is not a simple activity in primary health care. Some outcomes have long temporal lags, and some outcomes are logically distal to the intervention or initiating activity.

There are two dominant applications of SIB interventions. The first application is usually a highly specific client-based intervention for an isolated behaviour usually in a controlled setting with a captive population. It is unclear how this kind of application will be applied in the primary care setting. The second, less common application is a scaled-up intervention in a multi-causal environment where the outcome is measured at a population level.

## Financing options for primary health

New meso-level primary health organisations (PHNs) were introduced in 2015, and offer potential to explore new financing models. PHNs could be more heavily involved in the business of primary care and reduce financial risk for primary care providers. Of particular interest will be the extent to which providers are interested in alternative financing focused on asset and risk management, shared services, pooled staff management, regionalised purchasing, provider training and service planning (Figure 1).

**Figure 1:** A Financing option for primary health in Australia.




One way to do this is to offer robust and substantial reductions in the financial liabilities of providers through shared services models. This would relieve service duplication at the level of the provider, reduce financial risk and allow GPs to do what they are meant to do - engage with their patients in flexible ways that are focused on outcomes. It is also possible

that by reducing the financial risks to GPs, the tide of corporatisation of primary health care that has been creeping through the sector may be stemmed.

The centralisation of these core services and operating liabilities into a regionalised entity would radically alter the work and risk profile of primary care services. This may provide new ground upon which to debate the mix of payment approaches that are used to best meet the population health needs at a local level.

Expanding and enhancing the role and accountability of PHNs to directly resource providers with a core set of corporate services may also provide a robust framework amenable to impact investments. Allowing PHNs to engage in impact investing may (1) provide a necessary incentive to mobilise social finance into the primary care sector, (2) lead to the design of primary care strategies that deal with local needs, and (3) place a focus on outcomes, rather than the activity of GPs. This has the advantage of freeing up GPs to do what they do best; produce better health outcomes, rather than focus on running their business.

Compared with previous attempts to use meso-level governance to advise and support, there is an opportunity to design these organisations to provide local services to providers and be a vehicle for SIB or other forms of impact investment. These changes are already happening in the UK. Whilst we will need to come up with our own solutions, we also need to learn from changes that are occurring in other parts of the world.

## Discussion

The current primary care system is dominated by private providers, with the majority of activity-based funding coming from the Commonwealth Government. In partnership with the states and territories, it is well placed to deliver a financing system that goes beyond payment strategies. Consistent with the role of government to adjust the tastes of its citizenry, it may choose to design a system of financing that is not a one-size fits all system, but a system founded on principles of equity, a focus on quality outcomes, transparency and financial subsidiarity.

These principles would enable a new system of health financing for primary care and prevention to emerge. This would be a move away from a universal pay-for-service system, and demand-reduction strategies using centrally-managed price signals. Instead the focus would be on empowering service providers at regional and catchment levels to share services and facilitate outcome-based funding strategies.