Health reform and activity-based funding

Independent evidence-based evaluation will determine the success of activity-based funding in Australia

In August 2011 the National Health Reform Agreement (NHRA) was signed by the Council of Australian Governments. New financial arrangements to enable the federal, state and territory governments to work in partnership were a key component of the NHRA,[1] with one aim being to "improve patient access to services and public hospital efficiency through the use of activity based funding (ABF) based on a national efficient price".[2]

The NHRA established the Independent Hospital Pricing Authority (IHPA) to determine a national efficient price (NEP) for public hospital services that are able to be funded on an activity basis (see http://www.ihpa.gov.au). The NEP underpins activity-based funding and is used by the states and territories as an independent benchmarking tool to measure the efficiency of their public hospital services.

Activity-based funding is payment for the number and mix of patients treated, reflecting the workload and giving hospitals an incentive to provide services more efficiently. Most countries that have introduced activity-based funding systems have done so with two broad aims: to increase the transparency of how funds are allocated to services; and to give hospitals incentives to more efficiently use those funds.[3]

The need for empirical evidence to assess whether activity-based funding is successful in meeting key objectives is recognised by the IHPA. Commencing in 2015, an independent evaluation of national implementation of activity-based funding will provide an evidence-based framework for measuring its effect. The evaluation is due for completion in 2018.

Already, 3 years on from the NHRA, significant progress has been made towards establishing national activity-based funding. The IHPA has consulted widely with the federal, state and territory governments and other stakeholders to implement a nationally consistent approach to activity-based funding. Primarily, this has been done through a program of work that results in the annual publication of the *Pricing framework for Australian public hospital services*.[4] This framework provides the principles and policies adopted by the IHPA to determine the NEP as well as the national efficient cost (NEC) for services that cannot be funded by activity-based funding, such as small rural hospitals.

The NEP and NEC are based on the National Hospital Cost Data Collection and the National Public Hospital Establishments database. The IHPA examines the average cost of providing each hospital service across the country. Based on costing data and submissions to the pricing framework, loadings are made for services for which there is an "unavoidable cost", such as rural location of a patient's residence, and Indigenous status. The Authority receives high-level technical advice from a Clinical Advisory Committee, established by the NHRA in recognition of the critical role of clinicians in developing activity-based funding. Committee members are appointed based on their individual expertise and are drawn from a range of clinical backgrounds Australia-wide. They advise on activity-based funding and classification development to guide policy development and to inform the NEP and NEC determinations.

The IHPA has just released its third NEP and second NEC for Australian public hospital services. For the first time, from 1 July 2014, federal funding for most public hospital services will be directly determined by activity-based funding methods. Work has commenced to refine and add to the classification systems to allow for more accurate costing and to include more hospital services in the activity-based funding mix. In consultation with the National Mental Health Commission, health departments, clinicians, professional organisations, mental health carers and consumers, a classification system and pricing approach that will support contemporary models of mental health care is being developed, as well as a classification for teaching, training and research.

While data consistency has improved considerably over recent years, activity-based funding is only as good as the activity and costing data available. To set an NEP and NEC that accurately reflect the reality faced by public hospitals, the IHPA is committed to obtaining accurate activity, cost and expenditure data from jurisdictions on a timely basis. Ongoing consultation, collaboration and evidence-based evaluation will improve the pricing process and create a more accurate, transparent and sustainable funding system that in turn will drive efficiency and quality and provide better value for public money.

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