

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

HEALTH AND AGEING PORTFOLIO

Additional Estimates 2011-2012, 15 February 2012

Question: E12-266

OUTCOME 0: Whole of Portfolio

Topic: ACTIVITY BASED FUNDING AND HOSPITAL PRICING

Written Question on Notice

Senator Fierravanti-Wells asked:

In relation to the adoption of Activity Based Funding (ABF):

- a) What evidence did the government review prior to announcing its commitment to the ABF model?
- b) Which reference groups, committees, advisory bodies and/or other organisations did the government consult with prior to announcing its commitment to the ABF?
- c) What steps were taken to undertake consultations with the public, including consumers, regarding the adoption of ABF prior to the announcement?
- d) On what basis did the government rule out alternatives to ABF, such as 'best practice' or 'normative pricing' (when price is set to achieve certain goals, such as reducing waiting times or improving the quality of care)?
- e) Are alternative funding models under consideration for the long-term?

Answer:

- a) Adoption of activity based funding was a recommendation of the National Health and Hospitals Reform Commission (NHHRC) established by the government, in both its interim and its final reports. The NHHRC undertook extensive consultations including public consultations in each state and territory, and received more than 400 submissions in response to a public call for submissions, which it drew on in formulating its report. Details of the consultations undertaken and the submissions received can be found in its final report.
- b) Commonwealth support for developments that enable activity based funding commenced with funding for the casemix development program in 1988. The development of national classifications of hospital activity and, from the mid nineties, the national study of activity based costs in hospitals, has been supported by all Commonwealth governments since that time. These developments have been a collaborative effort involving clinicians, researchers, hospital administrators and state and territory officials over that period. More recently following its initial response to the recommendations of the NHHRC, the government undertook further consultations across the country, and published several papers on health reform each of which canvassed the use of activity

based funding. These included:

- *A National Health and Hospitals Network for Australia's Future – Delivering better health and better hospitals*
- *A National Health And Hospitals Network For Australia's Future* (March 2010);
- *A National Health and Hospitals Network: further investments in Australia's health* (April 2010)

Activity based funding is also the norm in private hospital insurance arrangements and is the basis of public hospital funding in several states, in some instances for nearly two decades.

- c) As noted in a) and b) above, both the NHHRC and the government undertook extensive public consultation on proposed health reforms, including activity based funding for public hospitals. This included release of draft recommendations, calls for submissions, consultation forums, and release of papers detailing proposed health reforms.
- d) The government continues to provide funding that is tied to the achievement of targets such as reduced waiting times for hospital treatment – for example through the current National Partnership Agreement for Improving Hospital Performance.
- e) The current focus is on implementing the major reforms agreed with states and territories in August last year.