NO. 91

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION - RESPONSE

Mr Conlan to Minister for Health

Activity Based Funding Formula for Northern Territory Hospitals

1. **What is defined activity-based funding cost model for Australia?**

   The current National Partnership Agreements include the development of a national activity based funding strategy. This work is ongoing.

2. **What has the Northern Territory Government done to develop an activity based funding model, definitions and projections for each activity in the Territory?**

   The Territory is a signatory to the National Partnership Agreement (NPA) incorporating the Activity Based Funding (ABF) initiatives. To meet the Territory obligations in relation to this activity the Territory has prepared and is delivering an ABF project plan. The key ongoing tasks include:

   - prepare and deliver a patient level costing method for all five public Hospitals in the Territory;
   - update and support the centralised hospital data warehouse;
   - update and support the monthly hospital management reports; and
   - embody the ABF model in a Price Volume (PV) schedule for "shadow" measurement of the effect of an ABF.

   This project is on track to ensure the Territory meets its obligations.

3. **How does the Department of Health demonstrate ABF using case mix classifications explicitly linking funding to the actual service provided?**

   Within the local implementation plan of the national ABF project there is the specific development of a "Price Volume" (PV) Schedule which will link the casemix of the hospital (the "volume" of activity) with the cost of the service delivery (the "price", or cost of activity).

4. **How does the activity based funding formula work in the Northern Territory?**

The Price Volume schedule will be implemented as a pilot for two years (2010/11, 2011/12) before the negotiations on national pricing policy and so forth are determined. Currently there is no Activity Based Funding Model in place for the Northern Territory.

5. **How is the Northern Territory currently determining funding for the Hospitals?**

   The current budgetary cycle adjusts the budget based upon the known inputs into the hospital system with adjustments made for new initiatives and planned cost adjustments (salary growth etc).

6. **Is the Northern Territory now using activity-based funding for all costing rather than the previous block funding model?**

   The Northern Territory is participating in a National Activity Based funding project and will have an output based Price Volume schedule piloted in 2010/11.

   The Northern Territory has been activity based costing for several years, undertaking a costing on the basis of outputs in the form of Australian Refined Diagnosis Related Groups (ARDRG), National Outpatients Tier 2 NHCDC classification and Triage and disposition for Emergency Department attendances.

   For the pilot funding model the activity based costing model will form the basis of the activity-based funding model.

7. **Define where each activity starts and ends and what exactly is encompassed.**

   The concept of activity "boundaries" form a component work-stream of the national Activity Based Funding Model. These issues are still being defined, and the decisions enshrined in the activity based cost model.

   In theory a boundary issue needs to be defined for every potential consecutive join of work-streams. This national work is not yet complete.

8. **What has changed for the Northern Territory as it was previously noted that the casemix model is actually more appropriate for larger jurisdictions with significantly larger hospitals and populations.**

   There is no generic "casemix" model which the question implies. It is true that a "competitive" casemix model would not be an optimal solution for the Territory, however a "Service Level Agreement" embodied in a Price-Volume type casemix model is now accepted contemporary practice in large and small jurisdictions, both in Australia and internationally.

9. **How will the Northern Territory's high number of patients requiring complex care and chronic disease management and the unique indigenous percentage of patients with multiple illnesses be recognised under activity-based funding?**

   The classification system of ARDRGs encompasses the majority of patient complexity variability across Australia. The average cost of the "normalised" costs in the Territory have been recognised as being a significant percentage greater than the national average. This differential will partly be explained by the "classification failure" to recognise the Territory's peculiar casemix. To prove this case the Territory has invested in a clinical costing system to measure this variability.

10. **How will the negative and positive results of the activity-based funding in the Territory be measured?**

   Within the casemix of the hospitals there will be specialties/activities for which the Territory does better and worse than the national price. However "casemix" is not designed to interrogate the micro management decisions undertaken within a hospital, but rather ensure that the available funding is allocated with appropriate consideration for:

   - throughput requirements;
   - equality of access;
   - future service provision requirements
   - demands of population; and
   - cost effectiveness of service delivery.

   All of these issues have been considered in the NPA ABF project and separate work-streams considered for each item.

11. **How will the Northern Territory's Government ensure that activity based funding does not result in greater output emphasised ahead of better outcomes.**

   The Territory's output Price-Volume schedule, specifies a level of output, effectively putting a desirable target on supply. To ensure quality is maintained a series of "Balanced Scorecards" have been developed for each site. So the process balances throughput with quality.

12. **Does the Department of Health have suitable activity-based funding data tracking technology in place?**

   The activity and cost data for several years is maintained in the data warehouse. Looking back into historical data needs to be undertaken with caution however because some of the definitions of care, and the boundaries have changed as a result of national definitional changes.

13. Is the necessary modelling work on activity-based funding in the Northern Territory driven by the Health Gains Planning Unit?

The NPA ABF provides a framework to measure the reimbursement of care. The critical work undertaken by Health Gains Planning Unit will continue under an ABF.

14. Exactly how much does each activity cost in the Northern Territory compare with the current cost?

In Question 9 it was identified that there are complexity issues in the classification making direct comparison nationally impractical. There is work being undertaken to unbundle these complexity issues, making an exact answer impossible and misleading.

15. Give Examples for: straight forward maternity hospital delivery, hip replacement, dialysis in each of the 5 NT Hospitals.

The results published for the National Hospital Cost Data Collection are the most appropriate measure of these costs. This is available at

http://www.health.gov.au/internet/main/publishing.nsf/Content/health-casemix-data-collections-nhcdc-hrms

16. What is the basis of future activity-based funding, infrastructure investment and investment in primary health care allocations?

The existing planning arrangements will continue regardless of the funding arrangements. Future planning, demand analysis and infrastructure requirements continue to occur and will inform future funding models as it always has.

17. How are future costs estimated?

The planning of health care services is a complex interaction between:

- Health Gains Planning Unit (health economics);
- Treasury (Financial economics);
- Population estimates;
- Future Age Gender Mix
- Affordability;
- Costs; and
- Casemix expectations.

18. What did the Hardison and Associates Report on the modelling of current usage of services in the Northern Territory and the comparison to interstate usage show in detail?

The Hardes and Associates Report is a projection of activity, utilising activity trends for a number of years adjusted for the age weighted population projections into the future. The demands on the Territory health care are going to grow faster than the population growth as the Territory's age profile is forecast to get older. There were attempts to benchmark the Territory's relative utilisation of some "Service Related Groups" (SRG), a type of pseudo specialty grouping, but unfortunately our unique population mix has made valid comparisons difficult.

19. What updated demographics for the Northern Territory are currently being used?

The population projections that were used for the forecasting are in the public domain at the Territory Government website.
http://www.nt.gov.au/ntt/economics/nt_population.shtml

20. How will activity-based funding impact on the Northern Territory's waiting lists and occupancy levels?

No ABF has yet been established for the Northern Territory. However it is possible that the PV schedules could be used to incentivate these management initiatives.

21. Will there be the opportunity for Northern Territory patients to be transferred interstate for procedures?

Currently Northern Territory patients travel to receive care in other jurisdictions, and there are no initiatives in the NPA for ABF to modify this.

22. Will activity-based funding include 24 hour mental health care for the Northern Territory?

The final version of the ABF has not yet been completed, but it is likely that acute inpatient mental health will be funded by a National ABF.

23. How much is the remote service delivery component of activity-based funding?

The NPA ABF work-streams relating to this question are "Community Service Obligation" and "Hospital Auspiced Community Care". Neither of these work-streams has been finalised.

24. Is the Hospital Services Planning Project produced by Ernst and Young available?

The report on this project is not yet finalised.

25. **What is the annual growth in hospital costs in percentage terms and dollar terms, in the Northern Territory?**
This is reported in DHF Annual reports with total costs and are referred to as "Acute Care". The figures represent the hospital cost component of "Acute Care" in the dollars of the relevant financial year.

26. **What is the annual growth of costs, in percentage terms and dollar terms, per hospital in the Northern Territory?**

    See Question 25.

27. **What are the projections for growth in the annual costs of hospitals in the Northern Territory, in percentage terms and dollar terms, for each of the next 15 years?**

    There has been some considerable effort to calculate the growth of hospital services in the Territory, based upon Health Gains Planning Unit, Department of Treasury population projections, service supply trend analysis and affordability. With each of the projections undertaken a number of assumptions are made, and then tested with a sensitivity analysis then used to measure the likelihood of each projection and their associated assumption. Hence it is dangerous to publish one projection as the likely outcome, because all projections come with an often subjective measure of probability. Indeed even the simplest of assumptions (population projections) can be misleading with the benefit of hindsight.

    However in the spirit of the question it is most likely that the occupied bed day requirement will approximately double in line with an ageing population, but an estimate of costs and so forth can not be provided in this format.

28. **What are the projections of the growth in annual costs for each Northern Territory hospital, in percentage terms and dollar terms for the next 15 years?**

    See Question 27

29. **What is the projected growth in GST revenue in the Northern Territory, in percentage terms and dollar terms, for each of the next 15 years?**

    This question should be referred to the Treasurer.

30. **How will a new Palmerston hospital be funded – will the federal government fund 60% of its construction and set up costs?**

    Funding arrangements have not been finalised nationally.

31. **Will the bottom line for activity-based funding be additional funding for Health in the Northern Territory?**

The NPA ABF, funding methods have not been finalised.

32. What will the cost to the Northern Territory of activity-based funding regarding the loss of GST Income?

The NPA ABF, funding methods have not been finalised.

33. The Northern Territory's real cost of funding is higher than anywhere else in Australia. (2006-07 $1,700 per person in the NT; the average figure for the rest of Australia is $1,260). – How is this difference accounted for in activity based funding?

Activity-based funding is based upon outputs and therefore there is no direct relationship between the statistics quoted in the question and activity-based funding.

34. The Northern Territory's "highest hospital separation rate of 486.4 per 1,000 population, compared to 217 per 1,000 population for the rest of Australia" (sic) – How is this difference accommodated for in activity-based funding.

Activity-based funding is based upon outputs and therefore there is no direct relationship between the statistics quoted in the question and activity-based funding.

35. Does activity-based funding completely encompass the diversity of services which are provided through Northern Territory Hospitals?

The NPA ABF has eight work-streams designed to encompass the entire spectrum of hospital care nationally. It is expected that all aspects of the Territory's diverse population and casemix will be considered appropriately under this model.

36. For Gove, Katherine, Tennant Creek and Alice Springs hospitals, would moving to casemix based weightings be disadvantageous.

The NPA ABF has eight work-streams designed to encompass the entire spectrum of hospital care nationally including community service obligations. It is expected that all aspects of the Territory's diverse population and casemix will be considered appropriately under this model.

37. Does the risk of activity-based funding include classification insensitivity, lack of consistency and a focus only on hospital based activity?

The NPA ABF has eight work-streams designed to encompass the entire spectrum of hospital care nationally. The assumptions made in the question do not appropriately reflect the complexity of analysis undertaken for a whole of service ABF model.

38. Does the Northern Territory have the ability to benchmark and compare?

The benchmarking of hospital services occurs at many levels financial, clinical and throughput, using either subjective or objective measures.

39. What is the cost to the Northern Territory of consolidating and entering data?

Data collection is an integral part of managing healthcare. There are always ongoing efforts to improve data quality and completeness, but to cost this transaction would be counter productive.

40. Will activity-based funding include community home care?

There is one work-stream of the NPA ABF called “Hospital Auspiced Community Care”, which may encompass a proportion of this service provision.

41. Will activity based funding include nursing homes?

As the NPA ABF currently stands, no.

42. Will activity based funding include screening, immunisation and promotional programs?

As the NPA ABF currently stands, no.

43. Will activity-based funding include inpatient mental health and oral health?

The final version of the ABF has not yet been completed, but it is likely that inpatient mental health and oral health will be funded by a National ABF.