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## Developing an alternative funding model for small and regional hospitals

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## Developing an alternative funding model for small and regional hospitals

### Abstract

Small and regional hospitals have so far not been subject to activity based funding (ABF) in Australia. These hospitals are deemed unable to meet the technical requirements for ABF. In most cases they also experience diseconomies of scale due to the need to provide a broad range of low volume services to geographically large but sparsely populated areas. Block allocation remains the main system of funding for these hospitals. The disadvantage of block funding is that it lacks transparency and accountability regarding volume and type of services being funded. Furthermore it does not provide tools to measure and improve efficiency.

### Keywords

hospitals, developing, small, alternative, regional, funding, model

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## Developing an alternative funding model for small and regional hospitals

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### Introduction

Small and regional hospitals have so far not been subject to activity based funding (ABF) in Australia. These hospitals are deemed unable to meet the technical requirements for ABF. In most cases they also experience diseconomies of scale due to the need to provide a broad range of low volume services to geographically large but sparsely populated areas. Block allocation remains the main system of funding for these hospitals. The disadvantage of block funding is that it lacks transparency and accountability regarding volume and type of services being funded. Furthermore it does not provide tools to measure and improve efficiency.

### Methods

Patient-level activity and cost data were reviewed to identify the structural (fixed) and patient activity related (variable) components of total hospital costs. The data were further analysed to determine the key drivers of the different fixed and variable costs.

### Results

The review confirmed that for small and regional hospitals a high proportion of costs are fixed. Costs that were driven by patient activity could also be identified. However, some costs remained unexplained, due mainly to particular local factors and data quality issues. The developed funding model includes fixed and activity based components. A funding safety net was integrated to support minimum staffing levels for hospitals with very low activity but extended opening hours. Additionally, the funding model allows for provision of services across different care settings by specifying equivalency rates.

### Conclusions

A simple and transparent funding model was developed that provides funding for structurally based (fixed) costs and activity based (variable) costs. It also includes measures of efficiency for activity based costs and provides clear price signals for agreed (or anticipated) volumes of patient activity. This model could support efforts in improving the efficiency of patient care in small and regional hospitals and could provide transparency and certainty in the allocation of funding.

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