Rapid implementation of activity based funding for outpatient services in NSW

Introduction: The NSW Government through NSW Health planned to exercise stronger, more centralised control over the budget performance (costs and outputs) of individual hospitals by negotiating annual performance agreements with each Area Health Service (AHS) Chief Executive. As part of this process, the strengths of the existing NSW Episode Funding Policy were reinforced, and the Policy was further enhanced by adopting some aspects from the Victorian public hospital funding policy. Specifically, NSW Health set out to adopt and adapt the Victorian Ambulatory Classification System (VACS) and associated funding model as part of the revised Policy. Accordingly, NSW Health commissioned a project, in late May 2009, to modify the VACS system for use in funding outpatient services in NSW from 1st July 2009.

Methods: The methodology consisted of four major processes. First, reviewing and comparing the existing NSW and Victorian approaches to funding outpatient services. Second, by using the available Department of Health Reporting System (DoHRS) data on outpatient services in NSW, the key components (scope, clinic categories, cost weights, activity targets, and constituent grants) of the adapted VACS system were defined and developed. Third, the decisions made about the adapted VACS system were reflected in an EXCEL model that was used to assess its impact on the outpatient service funding allocated to in-scope hospitals. Fourth, based on the impact analysis, a refined adapted VACS system for use in 2009/10 was recommended, along with supporting funding guidelines and governance processes.

Results: Review of the DoHRS data showed that about 75% of the outpatient services provided in NSW would be captured by including the largest 19 hospitals in the scope of activity based funding (about 13% of hospitals). Given the limited timeframe, it was decided to focus on these 19 hospitals for 2009/10 (the Victorian system only covers the 19 largest hospitals). The next challenge was to address the fact that the VACS system bundles pathology, imaging and pharmacy services provided within 30 days of the outpatient encounter into the funded episode. There was not the data to take the same approach within the DOHRS system; hence pathology, imaging and diagnostic services were excluded from the initial funding model scope.

This decision meant that the VACS cost weights had to be adjusted to remove diagnostic and pharmacy services. Component costs data for outpatient services in Victoria were used for this purpose (equivalent NSW data were not available). These adjustments resulted in services that had a high diagnostic or pharmaceutical cost component decreasing their relative weights by as much as 55% whereas services that were highly consultative increased their relative weights by as much as 38%. Similarly, the historical data on funds provided for outpatient services (DoHRS Program 3) had to be adjusted to exclude the amounts provided for diagnostic and pharmacy services.

For classification purposes, NSW Tier 2 Clinic categories as reported in DoHRS were chosen as the base unit for funding. There was no mapping available of these categories to the 35 general and 12 allied health VACS categories. To develop a mapping, the Tier 2 clinic categories were fitted to the VACS classification using the clinic label. This

approach proved problematic given the considerable variation in labels used. This mapping was supplemented by using the high level categories used for national reporting and ensuring that at this level the NSW Tier 2 clinics were in the same category as the VACS classification to which they were mapped.

After making all these adjustments, the activity targets and national funding levels were set. Analysis of historical outpatient activity levels revealed considerable annual variation so for some hospitals rolling three year averages were used. Where historical activity levels were more stable last years outpatient service numbers were used as the base for the activity target. This information was then consolidated into the funding guidelines that were used to roll-out the system for 2009/10. Finally, a series of recommendations were made for further refinements to the NSW activity based funding model for outpatient services.

Conclusions: The project demonstrated that it was possible to modify rapidly the VACS system for application to funding outpatient services in NSW. Many compromises needed to be made, due to limitations in the available data and the restricted timeframe. Nonetheless, the project has established a basis for activity based funding of outpatient services. Through further development of the DoHRS data set and refinement of the initial model it should be possible to move towards the better practice of basing funding on patient characteristics rather than relying exclusively on service characteristics.