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An Australian example of a non-admitted funding model - the VACS funding system

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Overview of VACS

- The Victorian Ambulatory Classification and Funding System (VACS) is a non-admitted classification, monitoring and funding system in operation within Victoria;

Scope

- The VACS system only applies to 18 hospitals in Victoria (VACS hospitals), which are typically major acute hospitals;
- The balance are mostly smaller hospitals, which are funded through non-admitted (block) grants.

Operation

- VACS hospitals are funded up to annual throughput targets, which are agreed with the state government. Variation above / below target can result in funding adjustments;
- Non-admitted patient activity data is submitted monthly using an online entry and reporting system;
- The **number** and **type** of public patient encounters determine variable funding received by VACS funded hospitals.

History and development of VACS

Timeline

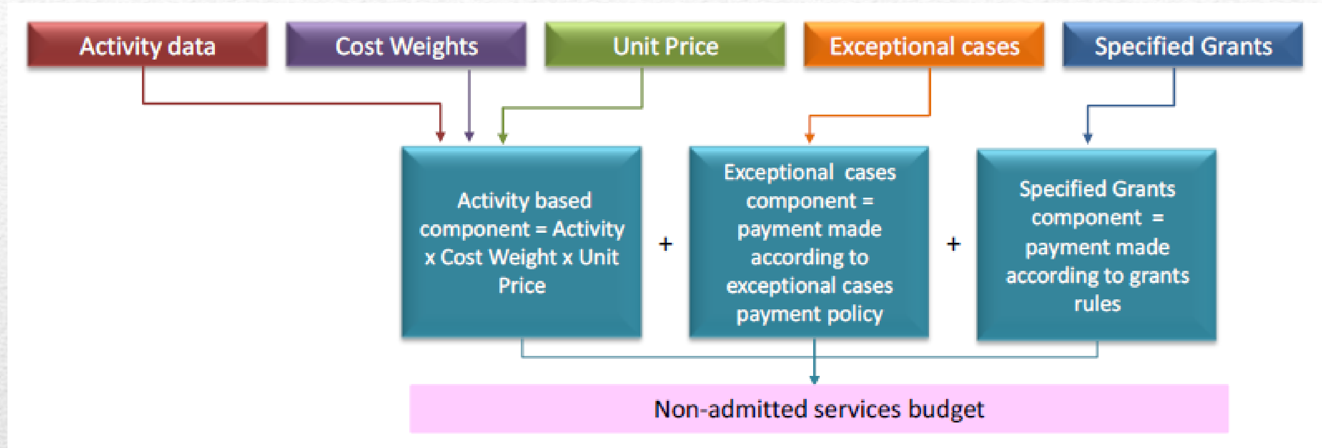
- **1995**: VACS Advisory Committee established to develop and implement the new system;
- **1997:** New VACS system begins operation in metropolitan hospitals only;
- **1998:** VACS extended for use in two major regional hospitals;
- **1998-2001:** Compensation grants provided to VACS hospitals during initial phase-in;
- **2002:** New non-admitted patient emergency services grant introduced
- **2006:** New clinic approval and funding submission processes introduced

Development

- The VACS system has been reviewed periodically to ensure its ongoing relevance and applicability as a non-admitted patient funding system;
- These reviews have resulted in incremental improvements and changes to the VACS system over time.

MODEL OF VACS

- Mix of pure activity-based component and fixed component;



- Variable funding includes :
  - Activity data – define the volume of services to be funded;
  - Classification system and unit of count are important considerations;
  - Cost weights – define the relative costs of producing one unit of activity;
  - Unit price – the price paid for an activity where the cost weight equals 1.
- Fixed funding components in the VACS model include:
  - Exceptional case payments; and
  - Specified grants.

VACS MODEL – ACTIVITY DATA

Counting rules in VACS

- Only public patients are counted in the funding model:
  - ➢ Department of Veteran's Affairs and private-referred patients are excluded from the funding model (but reported);
- Two different types of service events are counted:
  1. **Encounters** – where a patient receives services from one of the medical or surgical clinic categories within the VACS classification; and
  2. **Occasions of service** – where a patient receives services from one of the (un-weighted) allied health clinics within the VACS classification.
- **Ancillary services (pharmacy, pathology, imaging) are bundled** with the clinic visit (if provided within 30 days either side of the service rendered at the clinic). The 30 day window was chosen to:
  - ➢ encompass the majority of services associated with a particular visit;
  - ➢ allow a reasonable time for reporting / funding; and
  - ➢ provide better resource utilization than an unbundled service system.

VACS model – Activity data contd

Classification in VACS

- Classification should be clinically meaningful and resource homogeneous;
- The VACS classification schema comprises 46 clinics, based on service characteristics rather than patient characteristics:
  - 35 medical / surgical clinics (eg. cardiology, oncology, paediatrics etc); and
  - 11 allied health clinics (eg. physiotherapy, podiatry, audiology, social work etc).

Ensuring ongoing clinical relevance of the classification system

- Hospitals are required to maintain a VACS clinic schedule to ensure mapping consistency of hospital-level clinics to the state-level VACS clinic list;
- The VACS clinic schedule is reviewed annually;
  - Hospitals can submit new and revised clinics to the state health department ;
  - Revision applications are subject to review by a VACS Clinical Panel, comprising leading clinicians.

VACS MODEL – ACTIVITY DATA CONTD…….

VACS classification examples

- Medical / surgical clinics

101 General Medicine

Assessment, management, diagnosis and/or research of general medical conditions.

Includes complex hypertension, cardiovascular risk factors, angina, respiratory disorders, chronic pain, obesity, gastrointestinal and post natal complications (where patients are not required to attend a more specialist clinic).

Patients seen by Medical Staff or endorsed Nurse Practitioner

- Allied health clinics

601 Audiology

Diagnosis and assessment of hearing conditions.

Includes inner ear function, hearing tests, general auditory screening tests and specific screening tests for people with related disorders.

VACS MODEL – ACTIVITY DATA CONTD….

Example: Bundling in VACS

Patient A

- 04–06–2010: Imaging examination conducted in preparation for clinic visit.
- 20-06-2010: Initial visit to the Oncology clinic (VACS 110-Oncology)
- 25–06-2010: Follow up visit (VACS 110-Oncology).
- 03-07-2010: As a result of the subsequent clinic visit, pharmacy and pathology services were ordered and a repeat pharmacy prescription given.
- 08–07–2010: Visit to the Nephrology clinic (VACS 108 - Nephrology)

Bundling Process

All components of encounter are linked by 1) UR Number and 2) Clinic Code. If code is missing from patient record, UR number is sufficient to identify ancillary services.

For this patient the imaging will be linked to the initial Oncology visit. The subsequent pharmacy and pathology services will be linked to the follow up Oncology visit.

AIMS Reporting

June 2010 – Two encounter under VACS 110 Oncology (includes clinic visit and imaging, pathology)

June 2010 – One encounter under VACS 110 Oncology (clinic visit, pharmacy and pathology)

July 2010 – One encounter under VACS 108 Nephrology

VACS model – Cost weights

- Derived annually via Victorian cost weight study;
- This process has changed some cost weights substantially since they were first introduced;
  - up to ±30% difference in some clinic cost weights between 1998 and 2010;
- The method for deriving cost weights has varied over the years;
  - mid-points of weights derived for previous year, three / four year rolling average, most recent completed year's cost data;
- Currently, most cost weights are set using the most recent completed year's cost data (as submitted by hospitals to the state health department);
  - there are some exceptions, where weights for some clinics are derived using three year rolling averages (eg. general medicine, pre-admission, reproductive medicine).
- The 35 VACS **medical / surgical clinics are assigned cost weights**; and
- The 11 VACS **allied health clinics are not assigned cost weights**.

VACS MODEL – UNIT PRICE

- VACS variable grant – unit price was $179 per public weighted encounter in 2010-11;
- Therefore, total variable grant funding (per clinic) under VACS:
  - = Unit price x Cost weight x Number of encounters
  - For example, hematology (cost weight = 2.223) * $179 = $397.92 x Number of encounters
- VACS Allied Health grant – unit price is $63 per allied health occasion of service (un-weighted);
- Therefore, total allied health grant funding (per clinic) under VACS:
  - = $63 x Occasions of service
  - For example, a podiatry clinic with 1,000 occasions of service would be funded for $63 x 1,000 = $63,000
- **TOTAL VARIABLE FUNDING = Total Variable Grants + Total Allied Health Grants**

Fixed Funding component of VACS

Fixed funding arrangements

- In addition to the variable (activity-based) funding component, the VACS model includes payments for certain hospital services that are cannot be funded adequately on an activity basis.
- These payments include:
  - The VACS Base Grant (for non-variable costs provided outside of clinical categories);
  - The VACS Teaching Grant;
  - Specified grants / exceptional case payments (for rare and/or high-cost, specialised services);
  - Non-admitted patient emergency services grant (recognising availability costs of operating a 24 hour emergency department).

VACS base and teaching grant

VACS Base Grant

- Paid as a block grant for fixed or non-variable activities / services provided to patients outside of clinical categories;
- Includes cost of phone consultations, preadmission questionnaires and patient administration (among others);
- Grant amount is determined with reference to historical funding levels; and
- Represents about 6% of the total non-admitted grant budget.

VACS Teaching Grant

- Recognises additional costs (arising from additional casemix complexity) associated with teaching, training and research;
- Comprised of five streams (complexity, research, clinical placements, early graduate funding and postgraduate funding); and
- Represents about 6% of the total non-admitted grant budget.

Specified grants component of VACS

Specified Grants (which include Exceptional Case Payments)

- Paid for specialised or rare services / procedures, or those that cannot be easily funded using an activity-based approach;
- Examples include liver transplants, cochlear implants and genetic clinics; and
- Represents about 1.2% of the total non-admitted grants budget.

Non-admitted Patient Emergency Services Grant

- Recognises the ‘availability costs’ associated with operating a 24 hour emergency department, irrespective of patient attendance;
- Comprised of two components:
    1. Availability component: allocated according to the proportion of non same-day emergency department weighted equivalent inlier separations (WIES); and
    2. Activity component: proportion of weighted non-admitted ED presentations;
- Provided to 39 Victorian hospitals;
    - Other health services receive non-admitted patient grants to cover both outpatient and emergency services.

Monitoring and review arrangements

- VACS cost weights and clinic schedules are reviewed annually;
- Since the inception of VACS, whole-of-system reviews and audits have also been carried out periodically;

The VACS clinical panel

- Hospitals can submit proposed new clinics to the VACS Clinical Panel, which:
  - meets once a year (usually prior to the state budget process); and
  - is responsible for assessing and approving changes to VACS clinics (but not funding);
  - can also consider policy changes to the VACS model.

Cost weight review

- The State health department regularly calculates the weights for the 35 medical / surgical VACS clinics using costing data provided by the 18 VACS-funded hospitals;
- Hospitals submit the total cost of each encounter plus the total cost broken down into 13 cost categories.

Monitoring and review arrangements

Review arrangements

- VACS has been reviewed three times since its inception in 1997;
  - Two system-wide audits (1999 and 2005), and one VACS system review (2007-08);
  - These reviews have been used to identify important reforms to the system, to ensure it remains relevant and responsive to current health service demands.

Audits

- First audit undertaken in 1999 to verify clinics, assess reliability and accuracy of data system and adherence to counting rules;
- Second audit undertaken in 2005 to investigate outpatient clinic services;
  - Audit identified data accuracy issues, compliance with counting rules and definitions for reporting, which have all since been addressed; and
  - Department also now distributes VACS clinic schedules quarterly (rather than annually, in response to audit recommendations).

MONITORING AND REVIEW ARRANGEMENTS

Accountability and transparency

- VACS activity targets and cost weights are published on the Victorian Department of Health website. Refer to http://www.health.vic.gov.au/pfg/

Victorian Ambulatory Classification System (VACS) targets 2011-12

Metropolitan Health Service/Hospital Campus	Non DVA: VACS Weighted Encounters	Non DVA: Allied Health Occasions of Service	DVA: VACS Weighted Encounters	DVA: Allied Health Occasions of Service	Elective Surgery: VACS Weighted Encounters	Elective Surgery: Allied Health Occasions of Service
Alfred Health	125,100	49,139	1,151	212	0	0
Austin Health	94,303	58,150	1,283	21,457	3,031	634
Eastern Health	108,337	15,246	104	56	1,166	238
Melbourne Health	134,297	29,381	39	1	407	81
Mercy Public Hospitals Inc	80,150	26,693	0	0	0	0
Northern Health	72,980	37,440	11	0	204	42
Peninsula Health	39,179	19,194	151	4	297	63
Peter MacCallum Cancer Institute	22,521	32,145	578	501	0	0
Royal Children's Hospital	77,108	70,901	0	0	74	42
Royal Vic Eye and Ear Hospital	77,373	67,477	379	479	0	0
Royal Women's Hospital	126,491	16,303	3	0	0	0
Southern Health	194,801	73,859	146	23	2,332	476
St. Vincent's Health	90,221	24,490	188	82	1,782	315
Western Health	131,445	39,391	107	0	880	175
Ballarat Health Services	40,709	12,705	33	0	0	0
Barwon Health	80,182	36,208	247	113	0	0
Bendigo Health Care Group	41,882	19,246	3	0	0	0
Djerriwarrh Health Service	13,540	16,758	0	0	0	0
Grand total	**1,550,619**	**644,726**	**4,423**	**22,928**	**10,173**	**2,066**

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QUESTIONS

Questions?