

Circular No: 54/1993

Contact:

Regional Office

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Distribution:

Public Hospitals

Purpose: 1994/95 BUDGET FRAMEWORK

Purpose

1. The purpose of this Circular is to advise hospitals of a number of variations to casemix funding formula currently under consideration by the Department for implementation during 1994/95 and future years. Overall budget implications of these casemix changes are also indicated.

Total Acute Health Budget

2. The total budget picture will remain unclear for some time. The overall allocation for the Acute Health program in 1994/95 will ultimately be determined by the levels of revenue received by Victoria under the Bonus Pools arrangements of the Medicare Agreement. Because we have no reliable estimates yet for 1994/95 hospital activity levels in Victoria and the other States, we cannot yet estimate this significant component of the budget.
3. As part of the Economic Strategy announced in May 1993, further savings of \$105M will be required in the Acute Health Program in 1994/95.

Reviews of Existing Fixed Grant Arrangements

4. The Department has initiated a series of reviews of aspects of the current funding arrangements.

Specified Payments

5. As foreshadowed in paragraph 24 of Circular 35/93, each of the major specified grants are currently under review. Results of the reviews will be discussed with affected hospitals as they are completed.

Training & Development

6. The funding arrangements for the Training and Development grant (including research grant) are currently being reviewed. This review may result in some redistribution of total available funds among hospitals. Factors to be considered include increased numbers of Victorian medical graduates, the desirability of encouraging training in particular medical/nursing specialties, and the desirability of a more informed approach to funding for hospital based research.

Benchmark Overhead Grants

7. It was hoped to undertake a major review of the benchmark overhead grant in 1993/94 to include consideration of methods of funding all capital components of hospital costs. Unfortunately, consideration of capital requires collection of additional information from hospitals, including valuation of assets. This task will not be completed until late in the financial year. For that reason, and also to provide further certainty to hospitals, costs of capital other than medical equipment will not be included in 1994/95.
8. The Department has made it clear that the benchmark overhead grant should not be seen as a lagged variable payment. Consistent with that policy, the 1994/95 grant will not be reviewed as a result of increases in activity in hospitals in 1993/94. In some specific cases where the level of the fixed grant was derived from planned performance levels which are not achieved, consideration will be given to reducing the grant.
9. As was foreshadowed when releasing the casemix policy paper, it is the Department's intention to increase the proportion of funding which is allocated on a variable basis. This reflects the reality that over the longer term, most (but not all) hospitals costs are indeed, variable. The final balance of fixed and variable costs will not be able to be determined until completion of further analysis of hospital cost structures.
10. As an interim step, it is proposed to reduce all hospital benchmark overhead payments by say 10% and increase the variable payment from \$800 to approximately \$870 per weighted inlier equivalent separation. This change would be cost neutral to the system as a whole (taking into account increases in activity levels since the base year). The actual variation will be determined once the overall pattern of changes to throughput in 1993/94 is known.
11. The additional payment per weighted inlier equivalent separation incorporated into the benchmark payment of group E hospitals will be continued in 1994/95. Further analysis of the cost of provision of services from isolated locations will also be undertaken.

Non Admitted Patients

12. A separate discussion paper on payment arrangements for non-admitted patients (outpatients) is currently being prepared. The paper outlines the first steps in moving the outpatient grant to a casemix basis. Hospitals/Regional offices will be requested to review the allocation of costs for non-admitted patients to programs, to ensure that Acute Health (Program 306) primarily funds emergency medical treatment and outpatients and that other non admitted services are appropriately classified.

13. The total of outpatient grants will be reduced by 5% in 1994/95 yielding savings of \$17M. These savings may not be evenly distributed across hospitals but rather may be allocated in accordance with the approach adopted after consideration of responses to the Discussion Paper.

Compensation Grant

14. As has been previously advised, compensation grants will not be paid in 1994/95.

Variable Payments

15. The Variable payments per weighted inlier equivalent separation will increase as indicated in paragraph 8. There will, however, be a further increase in variable payments to take account of medical equipment depreciation. (Equipment depreciation policy is the subject of a separate Circular)
16. DRG relativities to be used in 1994/95 will be based on the outcome of a study of hospitals with patient level costing systems. The results of the study, which is being conducted by Health Solutions, will be available in April 1994. The AN-DRG version 1.0 grouper will continue to be used in 1994/95. Consideration will also be given to basing the weights for the public patient supplement (the public medical payment) on medical costs identified during the study.
17. Further analytical work undertaken by the Department has confirmed anecdotal evidence that the Department's formula for folding outlier payments into weighted inlier equivalent separations may result in overpayments for a number of DRGs. It is therefore proposed to reduce the incremental payment rate for outlier days resulting in savings initially estimated in excess of \$10M. A paper on the proposed new approach will be released shortly. The paper will include projected impacts on each hospital.

Nursing Home Type

18. Hospitals with long stay Nursing Home Type patients will be required to commence assigning RCI categories to these patients from 1 March 1994. System modifications are being introduced to collect the information in the Victorian Inpatient Minimum Database. Consideration is being given to linking beddays rates for Nursing Home Type beddays in 1994/95 to the RCI category. Because hospitals must meet the pharmacy and medical costs for public nursing home type patients, it is reasonable for hospitals to be funded at a higher level for these patients than public sector nursing homes. The precise level of the supplement over nursing home rates will be reviewed as part of the Health Solutions study.

Additional Throughput Pool

19. It is again proposed to set aside funds into an Additional Throughput Pool to pay for increases in hospital activity levels. Some \$38M will be allocated for this purpose in 1994/95 allowing for payments for increased throughput in the final quarter of 1993/94, and for further increases to throughput of up to 5% at the new marginal rate of say \$870 per WIES. Hospital base amounts, for Additional Throughput Pool purposes, will be reset having regard to the actual throughput levels achieved in 1993/94.
20. It is expected that there will be continued restrictions on access to the Additional Throughput Pool relating to category 1 & 2 waiting lists. Consideration will also be given to introducing restrictions relating to category 3 patients waiting more than 12 months and/or maintenance of an adequate standard of emergency services.

Rehabilitation

21. A working party, involving clinical representation, is currently reviewing arrangements for designation of rehabilitation programs. The working party is likely to finalise criteria for designation by mid November and hospitals will be invited to submit proposals, before Christmas, for designation of appropriate rehabilitation or geriatric medical programs. Submissions will be reviewed early in 1994 with designation taking effect as soon as possible. (The issue of rehabilitation is canvassed in Circular 22/1993).

Workcover

22. As advised in Circular 35/93, introduction of new Workcover arrangements has resulted in savings to hospitals. The funds withdrawn from hospital budgets in 1993/94, and totalling \$21M recurrent, will be used to offset 1994/95 savings requirements.

Indexation

23. Negotiations have commenced, at National level, to develop an index which will measure movements in hospital costs. This work will not be completed by the start of the 1994/95 financial year. Any allowance for indexation provided by the Government for 1994/95 will be incorporated in payments to hospitals.

Superannuation

24. The Department acknowledges that the current method of specifying superannuation 'base amounts' in Health Service Agreements is inequitable, and will review alternatives for cushioning individual hospitals exposure to increased employer costs of superannuation.

Revenue

25. The Government decision to allocate to the Portfolio all variations in medicare bonus pool payments was accompanied by a requirement that the Portfolio also absorb the effect of any reduction in patient fee revenue. Accordingly, any reduction in hospital revenue has the same effect for the Acute Health Program as a reduction in the program budget.

Summary

26. The savings requirement of \$105M, together with the cost of the Additional Throughput Pool (of \$38M), require a gross budget reduction of \$143M. The Acute Health program will also be expected to meet any shortfalls in hospitals private patient revenue, provisionally estimated at \$5M.
27. The Conditions of Funding to apply in 1994/95 will be reviewed, where necessary, to take account of the policy changes outlined in the Circular.
28. The information in this Circular has been designed to foreshadow to hospitals the shape of the 1994/95 hospital funding arrangements. Hospitals should use this information to anticipate the shape of their own budgets and introduce necessary operational changes and efficiency improvements as soon as possible.
29. Its expected that the Department will be able to provide definitive advice on 1994/95 funding arrangements in June 1994 (after release and consideration of the new DRG weights and when estimates of expected Commonwealth revenue are available).



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