# Funding policy options

Different funding policy approaches have strengths and weaknesses in their ability to influence actions to deliver greater equity, effectiveness or efficiency.
In making funding policy decisions the department weighs up and matches the clinical or system objectives of the change and the funding approach.

Pricing and funding policy decision

| Pricing and funding policy goal to align with program objective | | Current Victorian pricing and funding approach used to achieve the goals | | Examples |
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| Program goals: To deliver equitable access for patients. This includes ensuring:<br>• Patients with equal needs receive equal opportunities (horizontal equity) and<br>• Patients with unequal needs receive unequal opportunities (vertical equity) | Improve equity | **Supplementary block grant**<br>Extra funding for a specific service when inequity can be shown with an ABF approach. Recipients have outlier levels of costs over a threshold and there are undisputed reasons why managers cannot control the costs. Block grants are not designed to achieve full costs recovery above the threshold level. | **Loadings in Activity Based Funding**<br>Funding is allocated outside the price weight mechanism when there are cost differences for specific patient cohorts that have uneven distribution across organisations and/or across classes. | **Interpreter funding**<br>Providers with catchments in linguistically diverse areas have received funding to meet their significantly higher costs.<br>**Indigenous loading**<br>Admitted acute and subacute activity has a 30 per cent loading to recognise overall higher costs. |
| Program goals: To ensure care is effective. This means aligning the desired patient outcomes with appropriate funding incentives. | Improve effectiveness | **Payment incentives**<br>Positive (bonus) or negative (penalty) grant when outcomes (not outputs) reach predetermined levels. Only used where there is evidence management action can control the outcomes. | **Capitation payment**<br>Used for defined patient populations when there is evidence that outcomes could be improved if funding was more flexible but tied to specific outcomes. The goal is to provide greater flexibility for managers to design comprehensive models of care that cross traditional setting and payer boundaries. Flexibility is achieved by unshackling funding and the output requirements for each setting. Providers are typically accountable for outcomes not outputs | **CLABSI**<br>Bonus for health services with no central line infection in the ICU.<br>**HealthLinks – Chronic Care**<br>ABF payments converted to capitation so health services can pilot new models of care for people with chronic disease to improve outcomes.<br>**Statewide paediatric palliative care consultancy**<br>Stable and low incidence of cases which receive expert specialist support regardless of their location in Victoria |
| Program goals: To ensure the right combination and number of services are being achieved. | Improve allocative efficiency | **Statewide or specified grant**<br>Grants are provided to ensure efficiency of scope and scale for services that are small volume and high cost or state-wide providers for rare conditions. Used to mitigate risks of lack of service or multiple inefficient service with an ABF approach. | | |
| Program goals: To deliver the best value from the available resources. Technical efficiency is encouraged with patient outcomes, system design and equity goals are not at risk.<br>Improved technical efficiency is the default goal of pricing and funding policy. | Improve technical efficiency | **Activity Based Funding**<br>Funding is aligned with a clinically meaningful output that captures all activities within an episode.<br>**Bundled payments**<br>Funding provided for the delivery of a bundle of activities that may span multiple clinical settings. | **Price weight setting**<br>The price is usually set at the average level of resource use across all providers. Where there is evidence to suggest waste and unnecessary activity occurring, setting the price weight at the level that includes only necessary activity and costs further drives technical efficiency. | **AN-SNAP v4**<br>Shift from paying for a bedday to an episode of care. Encourages providers to shorten the length of stay and not undertake activities that have no benefit.<br>**Admitted ED episodes**<br>The funding for patients that present to the emergency department and are admitted is provided as one bundle to not prevent timely clinical care. |