health

Fact Sheet: Acute Admitted Care Funding under National Reform

• Costing • Counting • Classification • Transparency

What is Activity Based Funding?

The overarching goal of Activity Based Funding (ABF) is to provide a national platform for accurate and visible allocation of funding to Health Services based upon activity performed. This funding approach will be across several of the health system service streams (emergency department, subacute, non-admitted, mental health etc) including acute admitted care. The building blocks of ABF include three key elements:

ABF Building Blocks

1. **Counting:** Applying the same rules and units to measure the amount of activity that occurs.
   - For example you could count activity via length of stay, episodes of care or hours. With nationally consistent ABF one common unit of measure is introduced.
2. **Classification:** A method of grouping activity that uses a similar amount of resources into classes that are clinically meaningful.
   - Classification brings activities with similar resource usage and clinical conditions together under one grouping.
   - Classification can be related to patient characteristics (sex, age etc), approach to care (in the hospital or in the home), diagnosis (broken arm, asthma, heart attack) and/or condition (highly functioning, suffers co-morbidities).
3. **Costing**: Measuring in dollars the amount of resources used to provide each output in the classified group.
   - Costing is undertaken for each patient, measuring the amount of resources used by each patient. The average cost of all patients is then placed into one class combining cost information with patient activity.

What is Acute Admitted Care?

Acute admitted care is that provided to patients who undergo a facility's formal admission processes, where the clinical intent or treatment goal is the provision of acute care, or if the patient is a baby born in hospital, or is nine days old or less at the time of admission[1] and has been qualified for one or more days[2].

What does ABF mean for funding of Acute Admitted Care?

The National Health Reform Agreement (NHRA) required that ABF be introduced for acute admitted care from 1 July 2012. This means that the Commonwealth government component of funding for acute admitted care commenced under a nationally consistent ABF system from 1 July 2012.

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[1] See data element *Care type* [METeOR Identifier: 270174], values: 1 Acute care; 7 Newborn care.
[2] See data element *Number of qualified days for newborns* [METeOR identifier: 270033]

There are a number of differences between the Victorian and national acute admitted funding models, these are outlined in the following table:

Comparison of Victorian and national acute admitted funding models.

Victorian Model	National ABF model
• ICU co-payment based on mechanical ventilation hours • HITH adjustment • Renal capitation • ED component included • Inpatient radiotherapy modification • Outlier policy mix of L3-H3 & L2/3-H3/2 • Weights based on WIES	• ICU copayment based on ICU hours • No HITH adjustment • No renal capitation payment • Separate private weight for each DRG • ED component removed • Outlier policy L3-H3 & L2.3-H3/2 for mental health Major Diagnostic Categories only. • Weights based on NWAU[3]

Counting

In Victoria, a condition of funding is that public hospitals collect and report electronic records for every patient treated. All acute admitted care data are collected at the patient level. Acute admitted patient level data are reported through the Victorian Admitted Episodes Dataset (VAED).

The unit of count for ABF acute admitted care is an 'inpatient separation'. It includes stays for patients who are treated and go home, and patients that are subsequently admitted to hospital or transferred to another facility for further care.

Classification System

Australian Refined Diagnosis Related Groups (AR-DRG) are used to classify acute admitted care. The version used for funding in 2013-14 is AR-DRG 6.x. This is a modified version from Version 6.0, with some adjacent DRGs rolled back to Version 5.2.

Costing

All Victorian Health Services are required to submit annual patient level cost data to the Victorian Cost Data Collection (VCDC). VCDC data are then submitted to the National Health Cost Data Collection (NHCDC) via the Independent Hospital Pricing Authority (IHPA).

Costing data is used to:

- inform the setting of Victorian and national cost weights.
- inform development of funding models and budget proposals.
- analyse the cost of health care.
- Benchmark.
- inform best practice and quality improvement initiative.

Costing data for ABF acute admitted care are collected at the patient level.

Scope

Eligible facilities in scope for ABF in the acute admitted care stream are all current Health Services that report to the VAED.

[3] The NWAU is the 'currency' that is used to express the price weights for all services that are funded on an activity basis. It does not replace the classifications that are used to describe activity (such as URGs, UDGs or AR-DRGs).

Public and private patients are in scope for ABF, and compensable patients are out of scope (for example, funding for eligible veterans will continue to be subject to funding arrangements by the Department of Veterans Affairs (DVA)).

Funding Methodology for Acute Admitted Care

ABF is a method of allocating funds – based on the activity or outputs of an organisation or service; in this case separations for acute admitted care. Essential elements are:

- Targets to specify the volume of activity to be undertaken by a facility/service. This is expressed nationally as National Weighted Activity Unit (NWAU).
- A classification system to group activity into classes with similar clinical profiles and resource use.
- Costs to give indicative resource use of forecast activity targets (weighted activity units).
- A price at which the weighted activity will be paid.

Simply stated: Budget = Price X weighted activity volume.

Note that the National Efficient Price (NEP) is the average benchmark price across the country. Therefore, by definition, some jurisdictions and Health Services will operate below the NEP, and others above it. As system managers, Victoria retains the ability to fund Health Services according to State budget outcomes.

NEP for 2013-14

The 2013-14 NEP has been set at $4,993 per NWAU(13).

Adjustments

The IHPA has developed the following adjustments to be applied to relevant acute admitted care episodes:

- ICU adjustment.
- Indigenous adjustment.
- Remoteness adjustments for outer regional, remote areas and very remote areas.
- Acute admitted paediatric adjustment.
- Admitted subacute paediatric adjustment.
- Private patient service adjustment.
- Private patient accommodation adjustment.
- Specialist psychiatric age adjustments.

Details on the above adjustments can be found in Table 1 of the IHPA's 2013–14 NEP Determination.

Victoria's Acute Admitted Care Funding Model in 2013–14

Victoria will continue to use Weighted Inlier Equivalent Separation (WIES) as the unit of measure for funding acute admitted services in 2013–14.

Health Services will continue to report acute admitted activity in WIES, and the department will continue to assist Health Services with 'shadowing' their activity in NWAU.

Further Information

The IHPA's final NEP Determination and Pricing Framework for Australian Public Hospitals 2013–14 provide further details about the national approach to funding.

Updated on 23 April 2013.