

# A proposed typology of policy-driven payment rates for hospital care

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## Introduction

With the increased use of quasi-market mechanisms in health care, with activity-based funding the best example, there is an increased use of payment rates or 'prices' to send signals to providers about a range of issues of interest to policy makers, beyond simply improving system (technical) efficiency. In particular, payment rates, which were originally simply based on the pre-existing average, or perhaps adjusted downwards to achieve expenditure reductions, now often have an additional normative element about a range of other issues, most often safety of care. This paper is primarily theoretical, that is, it advances a framework for thinking about policy-driven adjustment of payment rates.

## Approach

It is proposed that policy driven payment rates could be classified both by their *objective* that is whether it's primarily about technical efficiency or allocative efficiency, and their target – whether it is primarily about changing the behaviour of a single institution such as a hospital, or whether it is also about changing behaviour across institutions.

## Conclusion

The paper concludes with some of the considerations to be taken your account in setting policy-driven payment rates