

Balancing funding stability and incentivising activity reporting in the transition of Australian community mental health services from block funding to activity based funding

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### **Introduction**

Australia's Independent Health and Aged Care Pricing Authority (IHACPA) is working towards implementation of activity-based funding (ABF) for community mental health services delivered in Australian public hospitals. Currently these services are block funded and the transition to ABF will improve the transparency of over \$3.5 billion in funding.

A key policy challenge arising during this transition has been funding risk. Some health services were at risk of funding disruption upon implementation of ABF due to activity reporting shortfalls. This is partially due to Australian states and territories having limited success in achieving high quality data collection for all the community mental health care activities subject to block funding. Alongside strategies to improve reporting, IHACPA developed an innovative pricing approach to provide funding stability. The approach sought to mitigate risk while still incentivising productivity and improved reporting practices.

### **Methods**

IHACPA undertook data analysis and consultation with stakeholders to understand local challenges and factors influencing the different funding outcomes under block funding and ABF. IHACPA then analysed the legislative and policy context to identify feasible approaches and establish policy principles to underpin the design of the pricing model. This focused on clearly defining the objectives and desired outcomes of the model while balancing the risks and incentives such models create. After policy principles were agreed with stakeholders, the pricing model was designed in compliance with the principles. Working versions of the model were provided to stakeholders to facilitate understanding and enable modelling of local impacts.

### **Results**

IHACPA designed a composite block funding and ABF pricing model to achieve the key policy principles of establishing a safety net while simultaneously incentivising activity reporting. Under this model, health services receive ABF for all reported community mental health care activity. To support funding stability, states and territories also receive block funding for residual funding gaps based on a prospectively determined amount. Critically, this block funding reduces, but at a lower rate than total funding increases through a dampening factor. This builds in an incentive to maximise activity reporting.

This model is also designed for funding of community mental health services to be efficient and sustainable. The dampening factor will ensure health services do not receive more funding under the composite model than under the existing block funding approach, except where justified through activity reporting.

### **Discussion/Conclusions**

This project has demonstrated the value in policy-led pricing design. Establishing clear policy principles and objectives provided a structured approach to technical design. Gaining stakeholder agreement of principles also facilitated improved acceptance of the resulting model.

More broadly, the transition to ABF has highlighted important considerations for health systems when implementing a new funding system. Where resource limitations exist, it remains challenging to drive accurate data reporting when it is not yet used for funding purposes. Innovative approaches blending funding model structures may facilitate steps towards transparency, while mitigating risks to funding flows and associated service delivery for health services.

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