

Designing block funding arrangements within an activity-based system for community mental health: lessons from Australia to reduce financial risk for rural and specialised services.

**Authors:** Mireille Regan Gomm (a), Julia Conway (a)

## **Introduction**

Australia's National Health Reform Agreement requires public hospitals to be funded on an activity basis except where it is neither practicable nor appropriate. In transitioning community mental health care services from block funding to activity based funding (ABF), it was recognised that some services may face high financial risks under the new funding model. Such risks may occur for services that face high volatility in activity and where local costs deviate significantly from the national average. The Independent Health and Aged Care Pricing Authority (IHACPA) identified a need to support equity and access and address such risks by sustaining block funding for some service types and populations. This paper outlines steps taken to develop criteria for services to retain block-funding that are nationally consistent and do not create undue incentives to change care delivery or reporting practices.

## **Methods**

IHACPA undertook analysis of activity reporting to understand service delivery patterns and structures, finding these varied significantly across states and territories. To facilitate development of nationally applicable and consistent criteria, IHACPA established policy principles to guide decision-making and short-listed block funding options by assessing feasibility and simplicity of implementation alongside ABF. In this context, IHACPA identified trends in community mental health care activity and expenditure data. To assess appropriateness for ABF, the ABF pricing model performance in predicting the cost of community mental health care was tested. Related analysis included investigating the variations in service delivery structures across Australia and economies of scale in an ABF environment.

## **Results**

Key policy principles developed by IHACPA to underpin block funding of community mental health services focused on equity of access across Australia and the ability of services to achieve economies of scale. Analysis of community mental health care expenditure and activity data determined two block funding categories as currently inappropriate for ABF based on those policy principles: rural local hospital networks delivering a low volume of community mental health services; and standalone establishments delivering specialised forensic services. For both categories, the community mental health pricing model for ABF performs comparatively worse than for other community mental health services.

Analysis showed that the activity profile and service delivery model of community mental health was different to other types of care delivered in rural health areas. This indicated that IHACPA's existing block funding criteria for low volume rural hospitals and standalone facilities was inappropriate. A new set of criteria was developed for community mental health care in a nationally consistent, transparent way with thresholds that account for population and service distribution.

## **Discussion/Conclusions**

The transition of community mental health care to ABF presents the largest funding mechanism change to public hospitals in Australia since ABF was introduced in 2012. While ABF is appropriate and practicable for most services, it may not be appropriate for universal application. When designing block funding arrangements, it is important to consider the service delivery patterns, risks and policy objectives specific to the service types, so that block funding can be implemented in an effective, fair, evidence-based and consistent manner.