



Introduction to ABF

In August 2011, the Commonwealth and each state and territory signed the *National Health Reform Agreement* (NHRA) (COAG 2011). As part of the NHRA, a nationally consistent activity based funding system was established to determine Commonwealth funding levels for public hospital services and was commenced on 1 July 2012. Through the *National Health Reform Act 2011*(Cth), the Independent Hospital Pricing Authority (IHPA) was established as a Commonwealth statutory authority on 15 December 2011. Its role includes determining the national activity-based funding model & efficient price for public hospital services.

Allied Health costs are included in the determination of the efficient price (NEP) and NWAU. The collection and provision of data to reflect the actual costs of Allied Health service delivery is a key requirement to measure the adequacy of funds¹. The following overview provides an introduction to the concepts and terminology used in Activity Based Funding.

Activity Based Funding - What is it?²

In order to understand the workings of Activity Based Funding we need to understand some basic terminology (and acronyms!) and how they work:

- *ABF – Activity Based Funding*
- *NWAU 14 – National Weighted Activity Unit (2014/15)*
- *NEP – National Efficient Price*
- *AR-DRG – Australian Refined Diagnosis Related groups*
- *URG/UDG – Urgency Related/Disposition groups*
- *AN-SNAP- Australian National sub-acute and non-acute patient classification system*

Activity Based Funding - eligibility?

What activity in Hospitals will be eligible for Commonwealth funding under ABF?

- *All admitted programs including Hospital in the Home programs – includes emergency, acute, mental health and sub-acute inpatient programs*
- *All emergency department services*
- *All Non admitted services (that meet the criteria for inclusion)*

Classification Systems

- *Admitted patient services – Australian Refined Diagnosis Related groups Version 7 from 1 July 2014*
- *Specialist mental health patient services – AR-DRG Version 7 with modifications from 1 July 2014*
- *Sub-acute service – Australian National Sub-acute and Nonacute Patient Classification (AN-SNAP) Version 3, and CareType where SNAP unavailable*
- *Emergency department services – Urgency Related Groups (URGs) & Urgency Disposition Groups (UDGs)*
- *Non-admitted services – Tier 2 Outpatient Clinic Definitions*

Counting System

- *National Weighted Activity Unit (NWAU) is the counting unit for the national pricing model.*
- *NWAU14 is the version in 2014-15.*
- *All episodes of care that qualify for Commonwealth funding need to be classified and translated to NWAUs for funding purposes*

National Efficient Price (NEP)

- *The price that the Commonwealth sets for each Weighted Activity Unit (NWAU).*
- *NEP is a benchmark for efficiency, not the price at which public hospital services can be provided most cheaply or the lowest price.*
- *NEP is the price that allows for services at a quality level consistent with national standards.*
- *NEP will move in responses to changes in care delivery.*
- *For 2013/14 the price paid for 1 NWAU = \$4,993*
- *For 2014/15 the price paid for 1 NWAU = \$5,007*

National Weighted Activity Unit (NWAU)

- *Reference price for 1 NWAU is based on inpatient costs*
- *The same price is paid by the Commonwealth for emergency, sub-acute and non-admitted services but the NWAU calculation is scaled relative to inpatients.*
- *Each of Inpatients, Emergency, Sub-acute and Non admitted uses its own relativity scales for NWAU calculations that express the relative cost weights of each of the services.*

A Patient Journey – NWAU

Clinical Treatment	Classification System	NWAU Calculation	Payment @ \$4,993 per NWAU
1 ED attendance for a triage presentation – Injury	Urgency Related Groups (URG)	0.3978 NWAUs	\$1,986
1 Inpatient episode for a Hip Replacement – DRG I03B	ARDRG6.X	4.1742 NWAUs	\$20,842
1 Overnight Rehabilitation, Orthopaedic Fracture, 3–227 (14 day stay)	AN–SNAP v3.0	2.2437 NWAUs <i>(Episode + inlier per diem)</i>	\$11,203
1 Outpatient attendance at an Orthopaedic Clinic – 20.29	Authorised Tier 2 Clinic Code	0.0461 NWAUs	\$230

National Efficient Price : ? Purpose

- *One of the major determinants of the level of Commonwealth funding for hospital services - the other being volume.*
- *Provides a price signal benchmark about the efficient cost of providing public hospital services. Price is an important driver of change:*
 - *Allows states & territories to determine their funding contribution;*
 - *Encourages LHNs to benchmark their costs against the NEP*
 - *Promotes transparency*

How is the National Efficient Price (NEP) set?

- *National Hospital Cost Data Collection Round 16 (2011/12) has been used to establish the 2014/15 NEP.*
- *This annual data collection draws information from Clinical Costing systems in public Hospitals across Australia.*
- *Australian Hospital Patient Costing Standards provide the cost allocation rules to be adopted by hospitals within their Clinical Costing systems.*
- *The NEP is based on the projected average cost per episode (after deducting specified Commonwealth funded programs).*

NWAU Price Weight Adjustments

- *Specialist paediatric service adjustment*
- *Specialist psychiatric age adjustment*
- *Patient remoteness area adjustment*
- *Indigenous patients adjustment*
- *Radiotherapy adjustment (new for 2014/15)*
- *ICU adjustment*
- *Private patient service adjustment*
- *Private patient accommodation adjustment*

**These adjustments will be applied in the order listed and will affect the NWAU value for specific episodes*

1. Mills, E 2014, *Demonstrating the Value of Allied Health Care*, CALHN, SA Health.
2. O’Gorman C 2014, *Using Activity Based Funding Data– Health Consultant and Costing/ABF consultant to the Health Roundtable*, ABF Conference 2014