

DHB Funding Population Based Funding

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Objective

To give the participants:

- **An overview of population based funding *and***
- **An overview of how DHB funding works in the 2004/05 year**

Contents

- **Defining the scope**
- **PBFF**
- **The 2004/05 funding model**
- **IDFs and pricing**

District Health Boards

- **21 DHBs with resident populations ranging from 30,000 (West Coast) to 430,000 (Waitemata)**
- **monitor the health status and needs of their populations**
- **ensure the provision of services to their populations**

Limiting the scope

- **There are many funding flows in the system**
- **This talk is limited to discussion of how the DHB are funded for devolved services *ie Personal Health, Mental Health, Health of Older people***

Population-based funding

- **Fixed budget set based on a capitation formula, ie funding per head of population**
- **Funding for the population – where the provision happens is less important**
- **Implies arrangements for inter district flows**
- **Contrasts with funding providers - where patients live is less important**

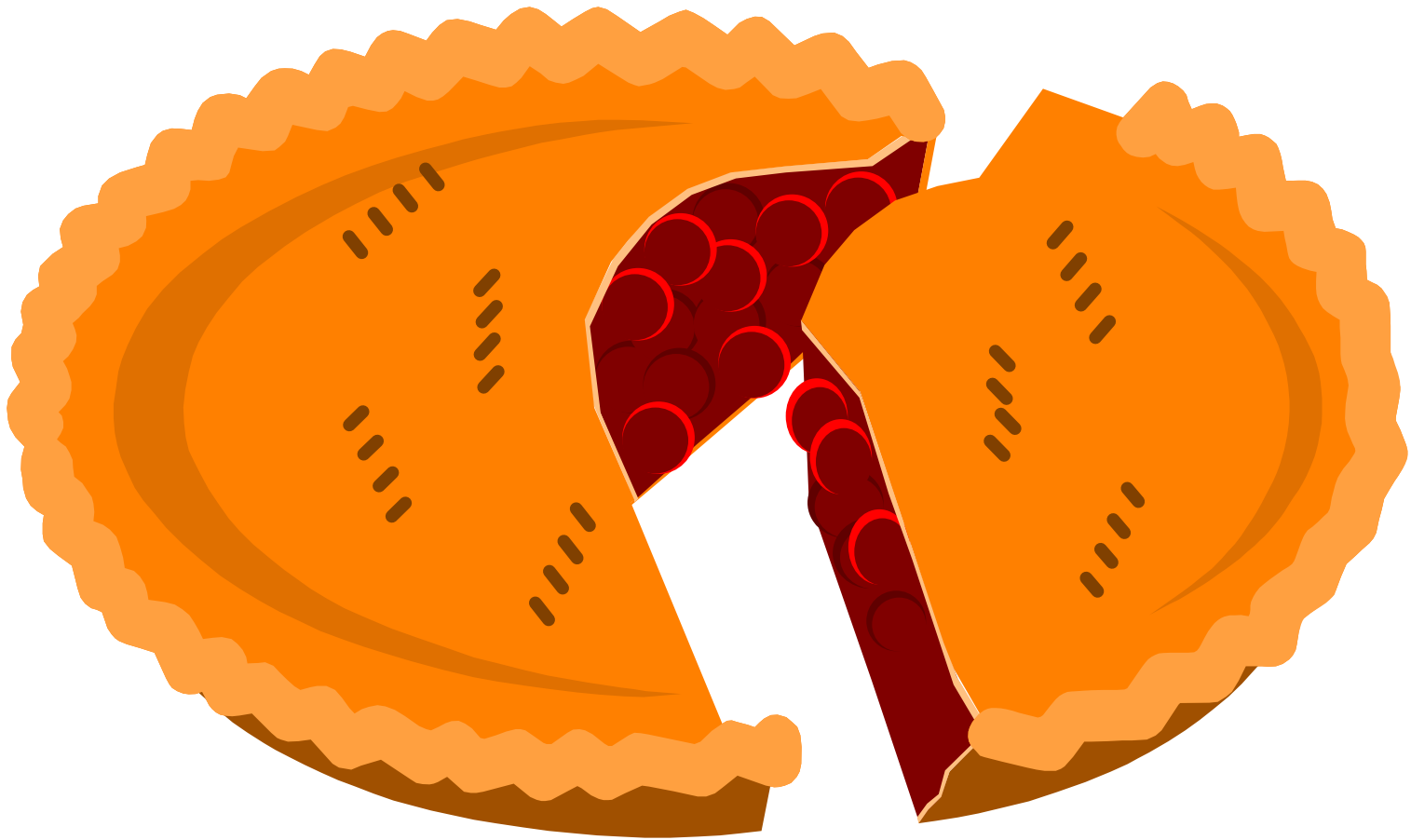
Introduction of population-based funding

- Introduced in 1983 during Hospital Board era
- Funding allocations had been based on prior allocation and expenditure
- Hospital boards with stable or declining populations were gaining a financial advantage over those with population growth
- Revised in 1990 for Area Health Board system

The RHA – HFA periods

- From 1993-1997 4 Regional Health Authorities funded 23 CHEs (providers) on a contractual price-volume basis
- Population based funding occurred only at regional level among the 4 RHAs
- The Health Funding Authority maintained this approach 1998-2000

PBFF Purpose



PBFF Purpose

To distribute available health and disability support funding fairly between DHBs –

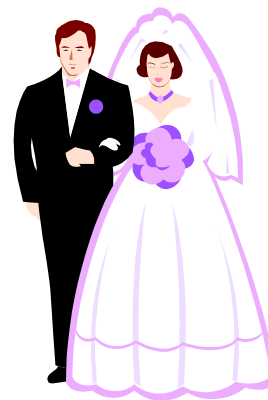
according to the relative needs of their populations and the relative costs of meeting those needs.

Process

- **Government decided components**
- **Officials developed interim formula**
- **Consultation with DHBs**
- **Review by overseas expert**
- **Final formula presented to Cabinet**
- **Implemented 2003/04**

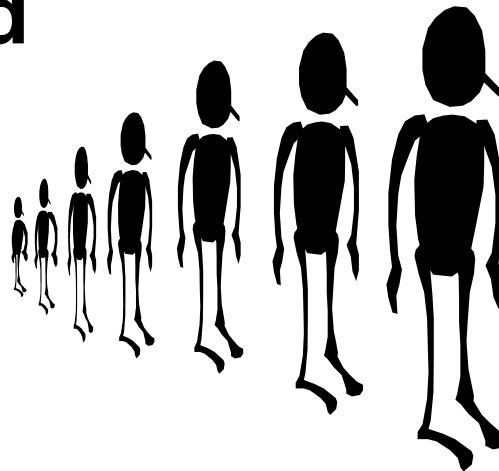
PBFF - Outline

Each DHB's share of health and disability funding is determined by –
that DHB's population-weighted share of public expenditure on health and disability services



Plus

**a policy-based weighting for
unmet need**



Plus

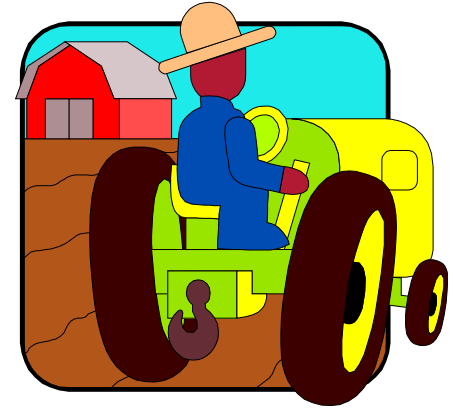
an adjustment for rurality,

and

**an adjustment for treatment of overseas
visitors and**

a policy-based weighting for

unmet need



PBFF-Current expenditure

**How much do we spend on a
Female Maori aged 45 years in
Deprivation Quintile 5 (lowest
Socio-Economic status) ?**

PBFF – Determinants

- **4 Demographic variables:**
- **Age / Gender / Deprivation / Ethnicity**
- **To obtain an average cost per demographic group and to multiply that cost by the population of the group within each DHB**

Figure 1
PBFF cost weights for personal health (hospital & community)
For females, by age and NZDep2001 quintile

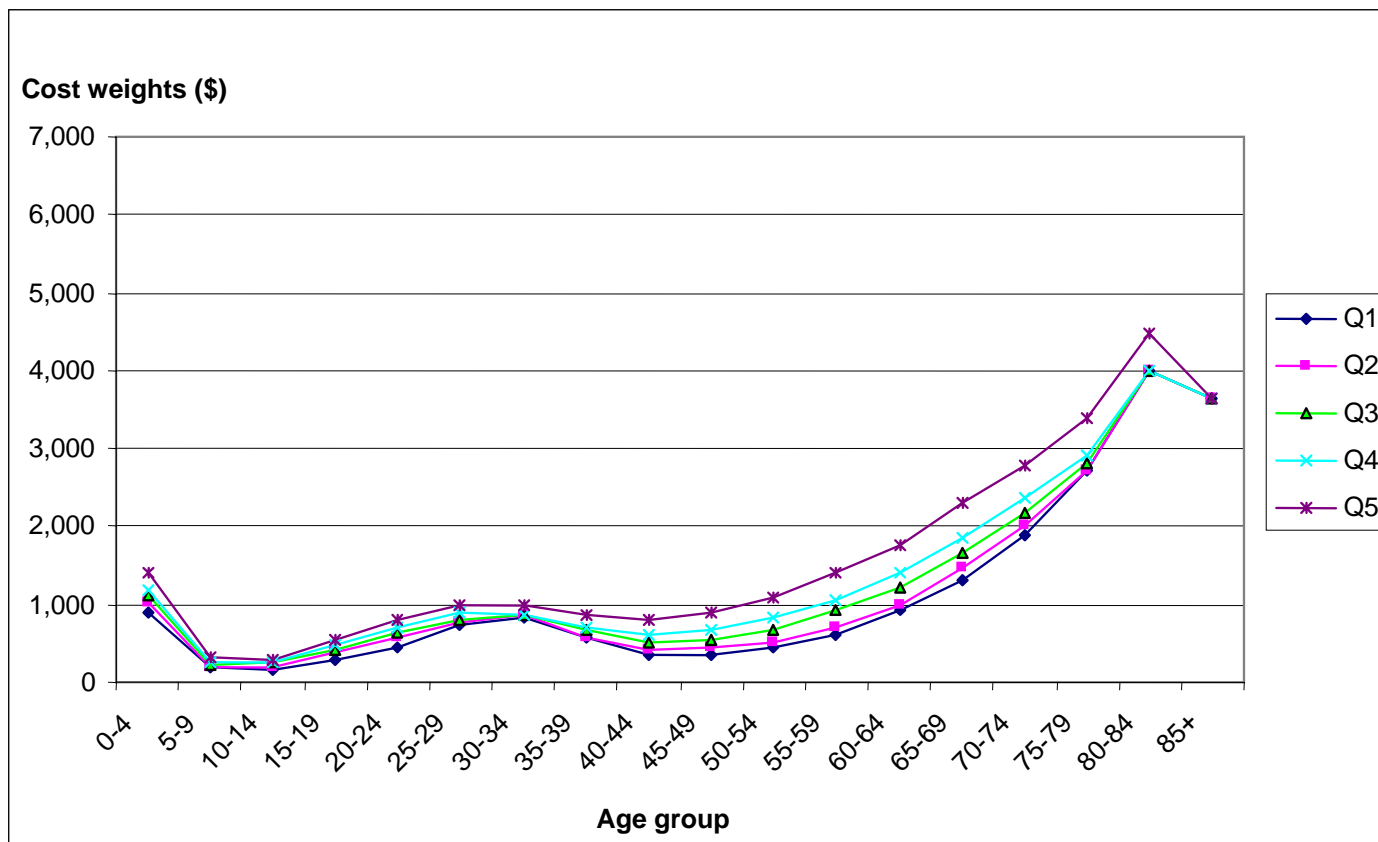


Figure 3
Comparison of personal health (primary) cost weight models
For males, by age and NZDep2001 quintile

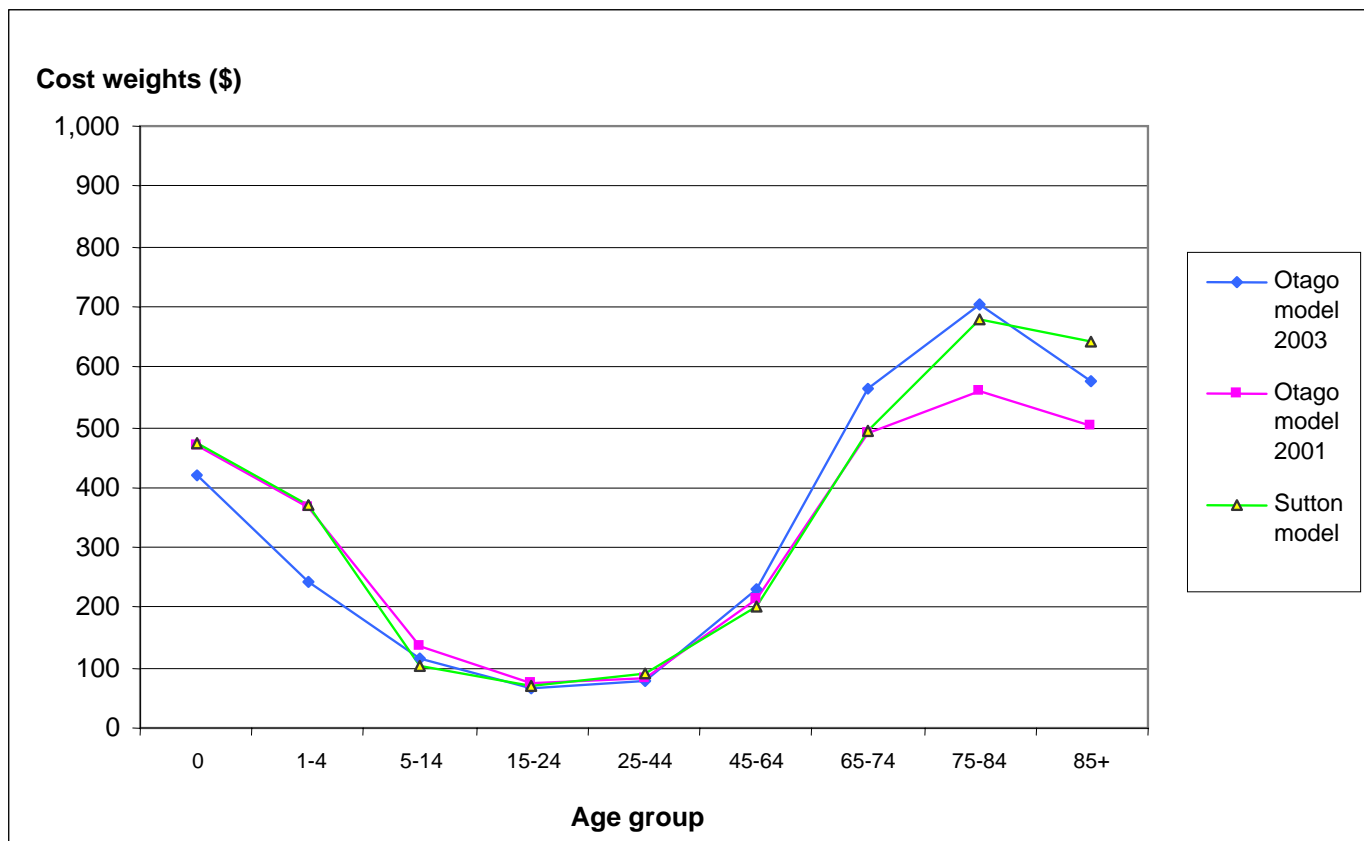


Figure 4
PBFF cost weights for age-related DSS
By age and sex

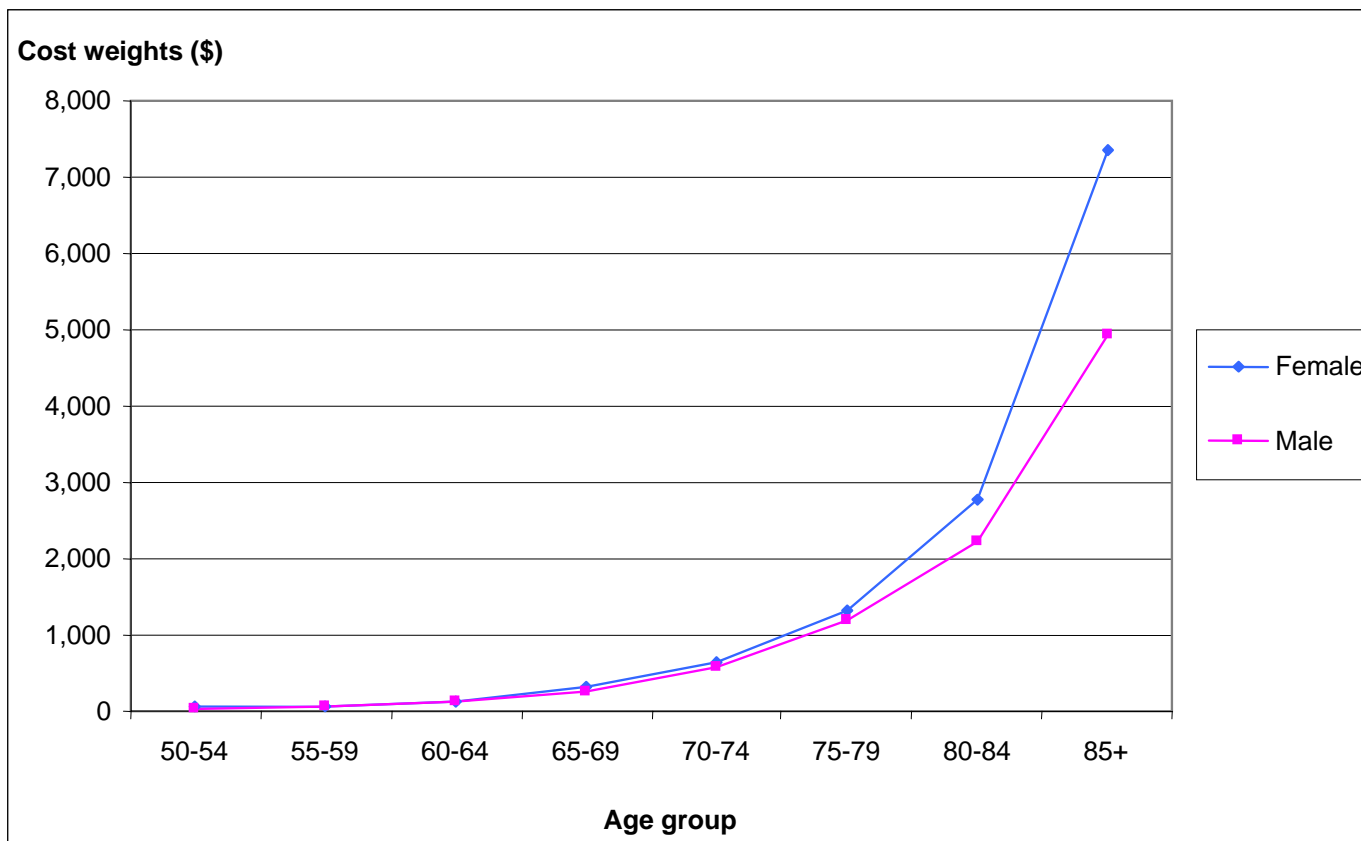
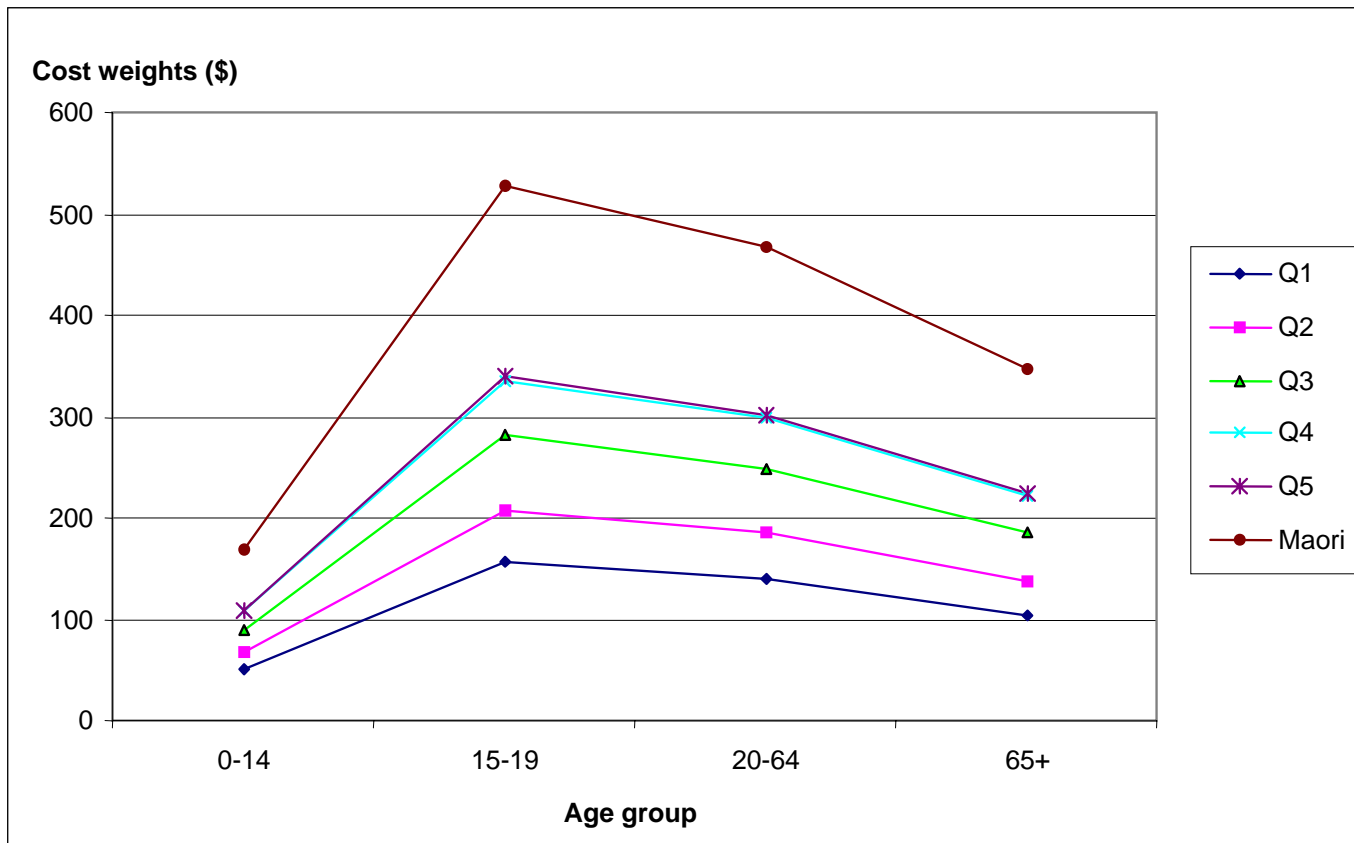


Figure 5
PBFF cost weights for mental health services
By age, NZDep2001 quintile, and Māori



PBFF- Unmet Need

Suppose that a Female Maori aged 45 years in Deprivation Quintile 5 (lowest Socio-Economic status) is estimated to have a national average cost of services used of \$2000 per year.

How to adjust for Unmet Need?

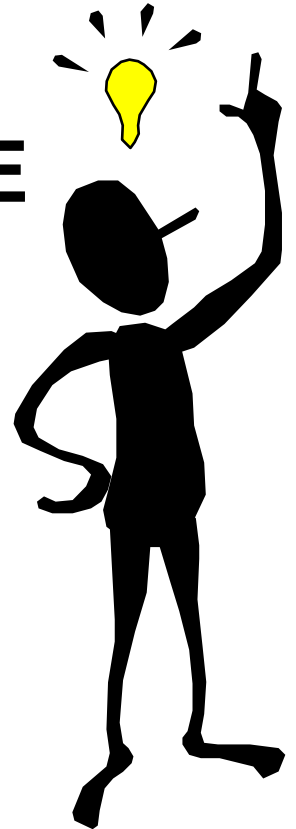
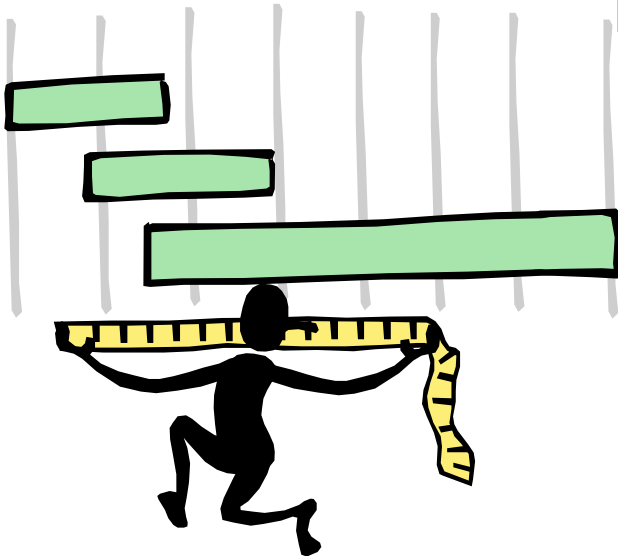
NEED WHICH MEETS OUR CRITERIA FOR FUNDING

=

CURRENT EXPENDITURE
PER GROUP

+

UNMET NEED



Unmet need

- **Linked to New Zealand Health Strategy**
- **Target groups Maori, Pacific peoples, high deprivation**
- **Set at \$120m as a matter of policy**

Overseas visitors adjuster

- **Adjusts for unavoidable costs of providing services to eligible overseas visitors**
- **NZ citizens domiciled overseas, reciprocity arrangements with UK and Australia, all accident cases**
- **Derived from recent costs**



Rural Adjuster

- Existing adjuster based on price premia for rurality and diseconomies
- Project reviewed existing work and identified concerns
- Insufficient time to complete the review in 2003
- Review is being carried during 2004

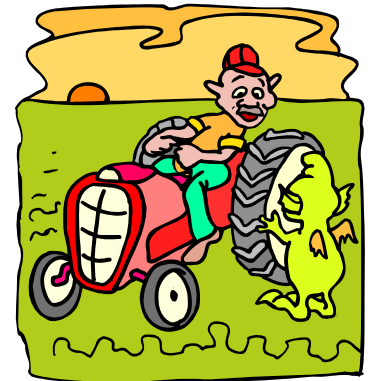


Figure 9
PBFF aggregate cost weights for males of Other ethnicity
By age and NZDep2001

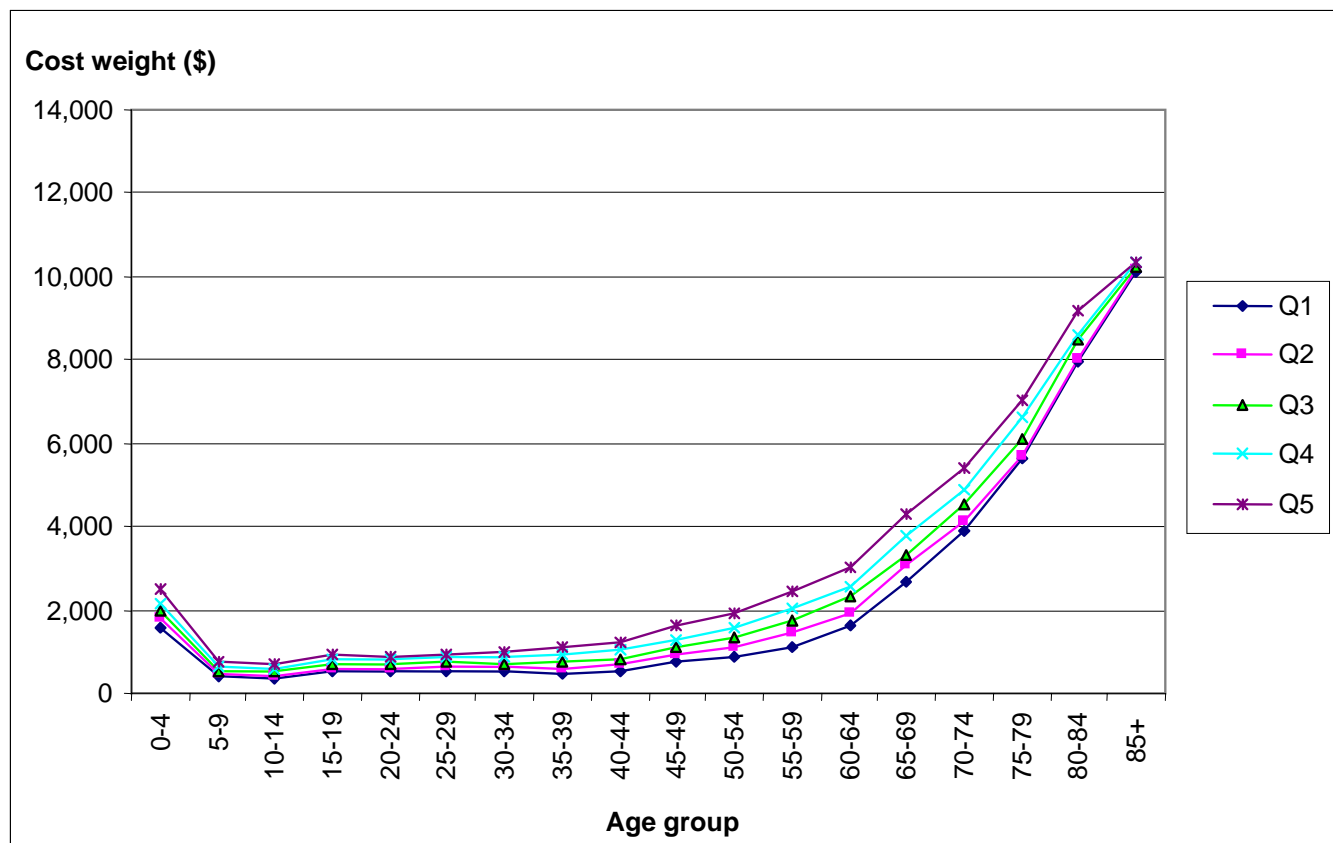
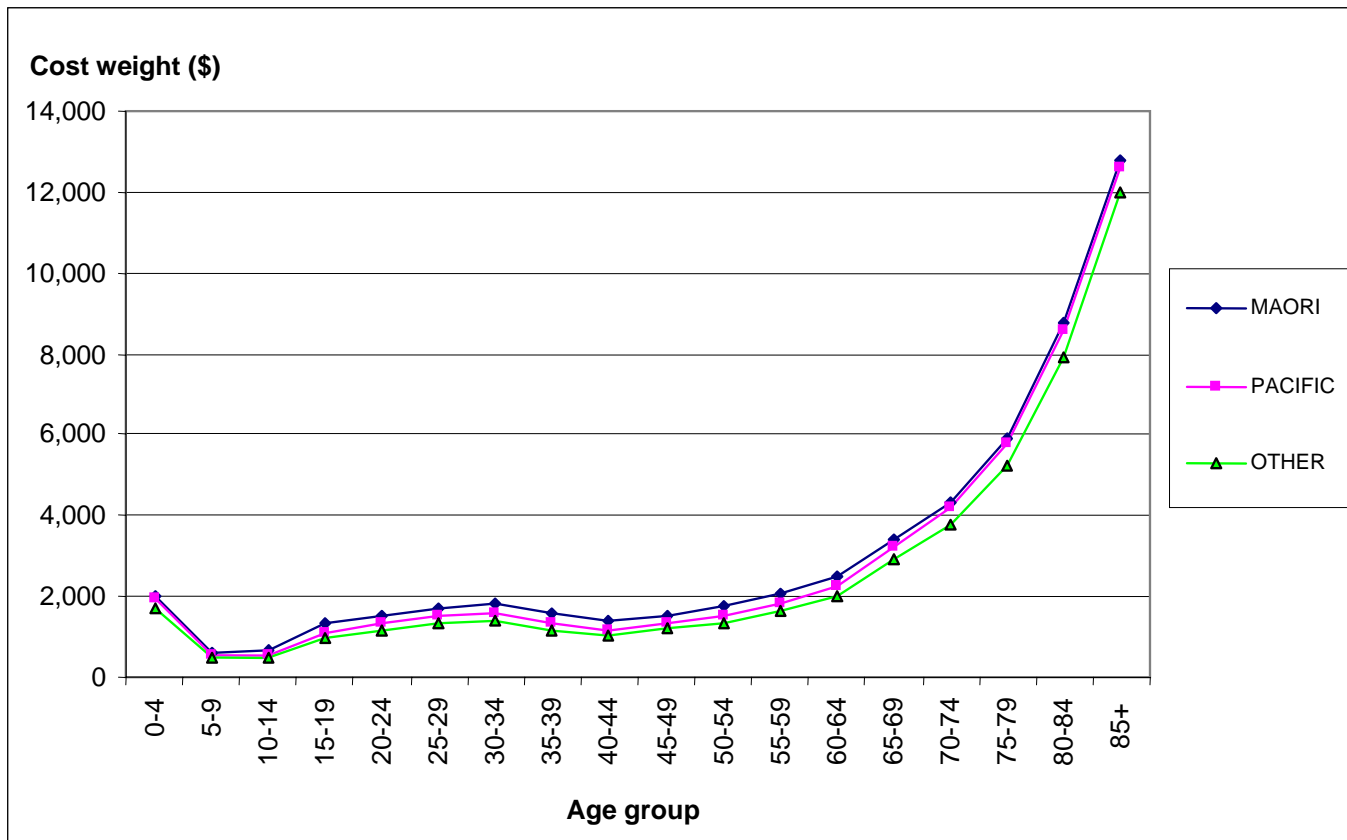
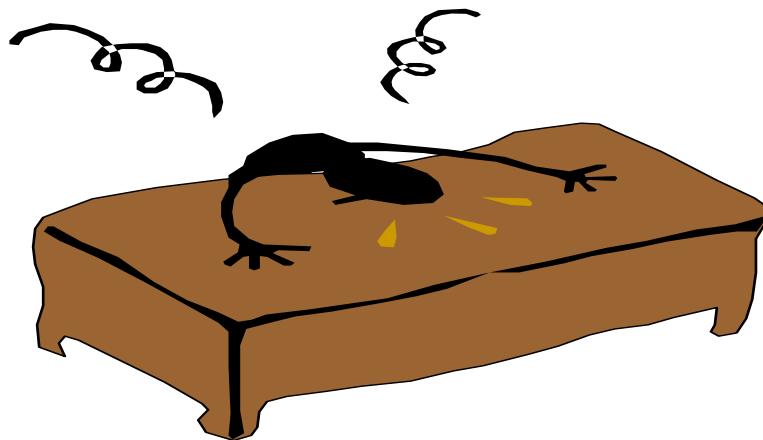


Figure 10
PBFF aggregate cost weights for NZDep2001
quintile 3
By age and ethnicity



Reviews

- **Formal reviews**
- **Linked to census**
- **Five yearly, but first one was sooner in 2003 when new population data available**



Calculating shares

STEP ONE

- **Multiply estimated cost per person in each demographic group by the number of people in that demographic group in the individual DHB**

Eg. F, Other 40-44 cost \$2000

400 in the group

Estimated cost of group \$800,000

Step two

- **Add all the demographic groups costs together to get the total population component of the model**
- **Then add the individual DHBs share of the overseas and rural adjuster**
- **This gives the total cost but it is not scaled to budget.**

Step three

- **Take individual DHB cost as a percentage of total DHB costs to get DHB share**
- **Multiply DHB share by available budget to get DHB target funding level**

PBFF implementation

- **Implemented in 2003/04**
- **Each DHB got a minimum of previously advised funding increase**
- **Extra funding to move DHBs towards PBFF shares**

DHB NDOC 2004/05

- **DHBs at PBFF Share *except***
- ***For 4 DHBs who required growth above 8% to reach their share , share capped at 2003/04 level plus 8%***

DHB NDOC 2004/05 cont.

PLUS

- **If a DHBs historical funding share was greater than their PBFF share they receive additional funding called “transitional funding pool”**
- **The transitional funding pool amount in 2004/05 was set to ensure DHB received their 2003/04 funding plus allowance for cost growth.**

DHB NDOC 2004/05 cont.

PLUS

- **Auckland receives funding for National services**
- **Some DHBs get an allowance for the cost of bad debts arising from the treatment of patients who are ineligible for subsidised care**
- **New funding for the additional cost of Primary health organisations.**

- Transitional pool decreases by 1 percent of '2004/05 base funding' per annum for larger DHBs
- Transitional pool decreases by $\frac{1}{2}$ percent of '2004/05 base funding' per annum for smaller DHBs
- New initiatives can be spread in proportion to PBFF to all DHBs

What is an inter-district flow?

- **DHBs are funded for their populations**
- **People will still access health services outside of the boundaries of their DHB**
- **DHBs reimburse each other for services they provide to each other's populations**

Pricing in a PBF Environment

- **IDFs are paid at a standard national price**
- **Previously they were adjustments to national prices for diseconomies, cost of capital and tertiary.**
- **Diseconomies is included in PBFF as rural adjuster**
- **Cost of Capital adjuster no longer exists.**
- **Tertiary adjuster paid as part of inter district flows**