



IMPLEMENTATION OF ACTIVITY-BASED FUNDING IN THE HEALTH AND SOCIAL SERVICES SECTOR

Mandate, principles and workplan

July 2012

Expert Panel
on Activity-Based
Funding

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MESSAGE FROM THE EXPERT PANEL ON ACTIVITY-BASED FUNDING

Last March 20, in the budget speech, the government took a significant step towards the implementation of activity-based funding in Québec's health and social services sector. Its goal is to improve the organization of services and allocate resources more fairly and more optimally.¹

As members of the expert panel charged with piloting this initiative, we are aware of the responsibility the government has entrusted to us.

Purpose of the information document

At the outset of this mandate, it seems important to us to recall the context of the initiative the government has taken and to specify the approach and the workplan that have been adopted.

That is why this information document is being published. It is intended for anyone who feels concerned by the implementation of activity-based funding.

- *The mandate our panel has been given concerns and involves a large number of citizens and organizations.*
- *We are convinced that our deliberations can only benefit from the advice and comments received from the public.*

An opportunity to contribute to the exercise

Everyone, whether an individual or an organization, interested in the implementation of activity-based funding, will have an opportunity to contribute to the exercise. The information document specifies how one may submit a contribution.

Over the coming months, we will be inviting individuals and groups to speak to us on the issues surrounding activity-based funding as well as on certain specific aspects of its implementation in Québec.

We will also be holding specific meetings, where we will deal more directly with the questions of concrete initiatives and general application of activity-based funding.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Budget Speech*, March 20, 2012, p. 7.

A new step

By giving us a mandate to work on the implementation of activity-based funding, the government has initiated a new step in the improvement of the health system.

This mandate is important for Québec's health system.

In undertaking it, we are counting on everyone's support to successfully carry out the work entrusted to us.

Wendy Thomson
Chair of the Expert Panel on Activity-Based Funding

Roger Paquet
Member of the Expert Panel on Activity-Based Funding

Pierre Shedleur
Member of the Expert Panel on Activity-Based Funding

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INTRODUCTION

In the budget speech of March 20, 2012, the Minister of Finance of Québec, Raymond Bachand, announced the formation of an expert panel mandated to prepare the gradual implementation of activity-based funding in the health and social services sector.

The panel is chaired by Wendy Thomson, supported by Roger Paquet and Pierre Shedleur. The expert panel began its work on April 30, 2012.

In the interests of transparency, the expert panel is releasing this information document to explain its mandate and announce the main characteristics of the approach it has adopted.

The information document thus discusses:

- in **section 1**, the content of the **expert panel's mandate from the government**;
- in **section 2**, the **principles guiding the expert panel** to carry out its work;
- in **section 3**, the **workplan** the expert panel has defined to give concrete effect to this approach.

1. THE EXPERT PANEL'S MANDATE

Activity-based funding is a method of allocating budgetary resources used in the health sector.

To fully understand the content of its mandate, the expert panel wishes to briefly mention:

- the actual statement of the mandate it was given;
- the approaches currently used in Québec to allocate resources within the health and social services network;
- what is meant by “activity-based funding”;
- the objectives to be achieved by allocating resources in this way.

1.1 Statement of the mandate

□ A three-part mandate

As mentioned in the budget documents, the mandate of the expert panel on activity-based funding² has three parts.

The expert panel is mandated to:

- “formulate recommendations to implement activity-based funding, in particular to improve health care quality, accessibility and efficiency. The expert panel will have to identify the terms for the introduction of the approach and the conditions of its implementation;
- identify practical initiatives from the health and social services network where this funding approach will be applied, based on well-established criteria, for gradual introduction as of the spring of 2013;
- financially support implementation and assist the selected institutions to ensure objectives are achieved.”³

² The work of the expert panel is supported by the Ministère des Finances and the Ministère de la Santé et des Services sociaux.

³ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Budget Plan*, March 2012, p. G.130.

In accordance with this mandate, the expert panel must therefore:

- define an overall approach to the implementation of activity-based funding, applicable in the medium term;
- propose initiatives in the near future enabling the initial practical applications – the mandate specifies that implementation must begin by the spring of 2013;
- from the budget allocated by the government, financially support the implementation of these two initiatives.

□ A new step in efforts to improve the health system

Implementation of activity-based funding marks a new step in the Québec government's efforts to improve the health and social services network.⁴

In particular, these efforts include:

- consolidating the network and bolstering the primary care, with the creation of family medicine groups and health and social services centres. This consolidation has improved coordination between community and specialized services;
- improving youth protection services;
- investing of some \$200 million annually to reduce surgery wait times;
- implementing funding dedicated to health and social services as well as a five-year financial framework;
- setting up the Institut national d'excellence en santé et services sociaux (INESSS).

⁴ A summary of these efforts can be found in the Report of the Task Force on the Funding of the Health System, *Getting Our Money's Worth*, Gouvernement du Québec, February 2008, p. 20 and following.

1.2 Allocation of resources in Québec's health system

The initiative the government has taken with the implementation of activity-based funding concerns the allocation of resources, i.e. how public resources are allocated within Québec's health and social services system.

In Québec, resources are allocated in two steps.

□ Allocation among regions

Resources are allocated among regions using a blended approach, by means of both historical data⁵ and a "population-based" method.⁶

To sustain the rise in the volume of surgeries, the Ministère de la Santé et des Services sociaux allocates funding to regional agencies according to an activity-based funding method. These funds are determined on the basis of an agreed unit cost and depend on the level of output achieved.

□ Allocation to institutions

The regional agencies then allocate these resources to the institutions and organizations within their territory. This allocation is carried out chiefly on a historical basis.⁷

□ A new step

The new step the government has initiated consists in defining how the scope of the activity-based funding method can be broadened.

⁵ The approach based on historical data consists in renewing and indexing the regional envelope of the previous year.

⁶ The population-based approach refers to the allocation of the regional envelope on the basis of the needs of the population and regional characteristics. The goal of this approach is to divide the available envelope fairly among the regions.

⁷ On this subject, see the Task Force on the Funding of the Health System, *op. cit.*, p. 174.

1.3 Definition of activity-based funding

The expert panel believes it is important to properly explain what activity-based funding is.

❑ A definition

Activity-based funding is a method of allocating budgets to institutions under which budgets are allocated on the basis of cases treated.

In simple terms, activity-based funding can be said to directly link care and its funding.

- More specifically, activity-based funding is a mechanism for resource allocation based on the type and volume of services provided, with resources being adjusted to reflect the complexity of patient care.
- Under activity-based funding, the service delivered to patients enables institutions to obtain adequate funding for the production of this service.

❑ A classification system

Activity-based funding involves a patient classification system for defining health operations and services.⁸

⁸ Patients are classified into homogeneous groups called diagnosis related groups.

❑ A more or less broad application in a given health system

Activity-based funding can apply to some services offered by the health system or to almost all the system.

- In Ontario, activity-based funding is applied to hip and knee joint replacement, dialysis and other chronic nephropathy treatments and cataract surgery. Other medical procedures will be included in the next few years.
- In Alberta, activity-based funding is used to define the resources allocated to long-term care.
- In England, activity-based funding covers most acute care.

❑ Ideally: continuum of care

Ideally, the activity-based funding system incorporates all costs relating to an integrated care set – what is called the continuum of care – from the pre-operative phase (external consultations) to the post-operative phase (rehabilitation).

Definition of Activity-Based Funding, According to the Canadian Institute for Health Information

In a discussion paper released in October 2010, the Canadian Institute for Health Information (CIHI) proposed a definition of activity-based funding.¹

The CIHI has two characteristics to define activity-based funding:

- This funding model involves the use of a case-mix system to describe the activities of a hospital and define its products or outputs.
- The amount of payment attributed to each case-mix group is determined before the funding period begins and payments are made to hospitals on the basis of cases treated.

Under the activity-based funding model, patient care episodes are no longer considered as expenses incurred by the hospital, but rather as a revenue source.

¹ CANADIAN INSTITUTE FOR HEALTH INFORMATION, *A Primer on Activity-Based Funding*, Activity-Based Funding Unit, [discussion paper], October 2010.

1.4 Objectives

The expert panel believes that the results obtained where activity-based funding is used explain the interest in the method: activity-based funding may makes it possible to:

- improve patient services;
- make better use of the funds allocated to health;
- improve management.

These are the three objectives are consistent with those of the government for the introduction of this resource allocation method.

Improve patient services

The primary objective of implementing activity-based funding is to improve patient services.

Activity-based funding establishes a budgetary link between the service provided by the institution and the care required for the patient. Accordingly, patient services are better taken into account.

On the basis of results obtained elsewhere, activity-based funding helps improve access to health care: it encourages institutions to increase the volume of care provided, giving more people the opportunity to receive the services required.

The notion of appropriateness of care

However, specific strategies must be defined to ensure that the increase in the volume of care does indeed produce an improvement in results for patients, i.e. in the quality of care offered. The notion of appropriateness of care comes into play here, which the expert panel will emphasize in the course of its work.

□ **Make better use of the funds allocated to health**

Second, the purpose of activity-based funding is to make better use of the funds allocated to health.

By establishing a direct link between care and its funding, the activity-based funding method seeks to make better use of the money allocated to health, starting from the budgetary envelope set by the government.

It should be recalled that activity-based funding is a method of allocating resources that are themselves determined by the government.

■ **That does not mean that the overall cost of health is reduced**

It must be emphasized that better use of the funds allocated to health does not mean that the overall cost of health is reduced.

- Activity-based funding may result in reducing costs per patient, because it encouraged institution to compare and adopted best practices and better allocation of resources.
- However, the reduction in per patient costs, when it occurs, can be more than offset by the increase in the volume of care provided.

□ Improve management

Third, activity-based funding seeks to improve management.

The activity-based funding method relies on taking the activities undertaken to meet patient needs into account.

Simply establishing a link between the resource allocated and the care provided to the patient improves knowledge of the system, at the management level: activity-based funding makes it possible to be aware of the budgetary implications of the care the patient requires.

■ An induced effect: transparency

Activity-based funding has an induced effect, at the management level: ultimately, it requires that complete and reliable data be available on the costs of care provided and the results obtained, such costs and such results having to be updated regularly and quickly.

Activity-based funding thus helps to substantially improve the transparency of the economic analysis of the health care system.

Wherever activity-based funding has been introduced, such an improvement has been noted, thanks to which management of institutions can be improved.

- Institutions report their activity in much greater detail, providing care funders with valuable information.
- Information on diagnosis and procedures is also improved, since the payment institutions receive depends on the stringency of the coding.
- Institutions are encouraged to improve their cost accounting system to meet the demands of care funders.

■ Establishment of standards

Activity-based funding leads to the establishment of standards making it possible to compare care delivery processes.

- Introduction of the method facilitates performance comparisons regarding costs, efficiency and quality.
- Such comparisons can be made within an institution or between institutions.

Application of Activity-Based Funding in the World

Since the beginning of the 1990s, the activity-based funding method has been gradually applied in a large number of developed countries. Québec, in the exercise it is undertaking, can therefore refer to almost a quarter century's experience.

- The principles that led to the definition of the activity-based funding method are longstanding. Two specialists in the matter, R. Busse and W. Quentin, cite a text by Dr. Eugene Codman, dating back to 1913, which includes a statement of the characteristics of the method.
- In 1967, in the United States, work was undertaken at Yale University to study “measuring hospital production as a means of evaluating what takes place in the hospital”. In 1983, this work led to the implementation of an activity-based funding system consisting of 23 major diagnostic categories and 470 diagnosis related groups.
- Beginning in the 1990s, the system was applied in a growing number of European countries. Activity-based funding was thus introduced in Portugal (1988), Ireland (1993), Switzerland, Finland and France (1995-1996), Austria (1997), Spain (2000), England and Estonia (2003-2004), the Netherlands and Germany (2005), as well as in Poland (2008).

In Canada, outside Québec, three provinces have decided to implement activity-based funding more or less broadly.

- British Columbia created the B.C. Health Services Purchasing Organization, whose mandate is to improve quality, access, and efficiency of the health system through a patient-centred funding program.
- Alberta adopted activity-based funding in 2010 for long-term care institutions.
- Ontario introduced a patient-centred funding system as part of the Excellent Care for All Act, 2010.

2. THE PRINCIPLES GUIDING THE EXPERT PANEL

To frame its work, the expert panel has identified a number of principles to guide its deliberations.

These principles are as follows.

Work in partnership with the health network

The best way to achieve a positive and lasting implementation of activity-based funding is to involve the various players in the network in the initiative as a whole.

Base recommendations on convincing data, validated in the field

Convincing data form the basis of any enlightened decision. The expert panel wants to go beyond theory and compile concrete observations and initiatives.

Proceed with rigor throughout the process

Guide decisions towards action

The expert panel will ensure that its recommendations are backed by:

- objectives that are clearly formulated;
- explicit planning of changes;
- precise identification of those responsible and of deliverables.

Assess the results

The implementation of activity-based funding must be accompanied by a rigorous and systematic assessment of the results obtained in order to eventually make any needed adjustments.

❑ **Concern for fairness, for a fair and equitable system**

Throughout the process, the expert panel considers that fairness must be kept in mind, since concern for fairness is intrinsic to a fair and equitable health and social services system.

This concern means that as part of this exercise, specific situations, such as the characteristics of populations, the missions of institutions, volumes of care at issue, etc., will have to be taken into account.

The expert panel believes that activity-based funding must help to establish and maintain a fair and equitable health and social services system.

3. THE WORKPLAN

3.1 Four phases

The expert panel has initiated a four-phase approach.

□ Understanding the existing situation

During the first phase, the expert panel will:

- gather information on how resources are allocated among Québec's regions;
- examine the activity-based funding method;
- determine the results of recent experience with activity-based funding in Québec (surgery funding) and assess them;
- specify the objectives to be achieved through implementation of the method;
- consider the impact the method may have on the overall approach to health in Québec.

During this phase, the expert panel will take its first public step with the release of this information document.

□ Assessment of the options

The second phase will enable the expert panel to establish the method and its application in Québec on a solid foundation.

During the second phase, the expert panel will:

- initiate the concerted action process with interested individuals and groups;
- identify the conditions for implementation of the method in light of the experience in other jurisdictions, including the constraints accompanying the implementation of the method and how they can be overcome;
- identify the concrete applications it will propose;
- prepare the interim report to be tabled in January 2013.

❑ **Practical initiatives**

The third phase will focus on developing and implementing practical initiatives for the implementation of the method.

These practical initiatives will come with an accountability process through which it will be possible to learn lessons from the test thus carried out.

❑ **Formulation of recommendations**

During the fourth phase, the expert panel will consider the general application of the method.

This phase will lead to the formulation of a number of recommendations regarding the terms and conditions of implementation and conditions for applying activity-based funding in Québec's health and social services system, in accordance with the expert panel's mandate from the government.

3.2 Time frame, meetings, options to be analyzed

The workplan adopted by the expert panel follows directly from the mandate defined by the government.

□ Time frame and “deliverables”

As specified in the mandate set out by the government,⁹ the expert panel’s work will cover a period of not more than 18 months.

An interim report will be filed with the Ministers of Health and Social Services and of Finance in January 2013.

The final report will be tabled with the two ministers no later than December 2013.

□ Meetings

During its deliberations, the expert panel will:

- hold meetings with experts;
- meet with the main players in the sector;
- study the experience in foreign jurisdictions.

□ Options to be analyzed

The expert panel’s deliberations will deal in particular with the possibility of applying activity-based funding:

- to one or more types of care (surgery, cancer treatment, etc.);
- to one or more groups of patients (patients treated for chronic diseases, etc.);
- to one or more regions;
- to integrated services networks (networks of services to the elderly, etc.).

⁹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget Plan*, *op. cit.*, p. G.130.

To Reach the Expert Panel on Activity-Based Funding

The mandate the expert panel on activity-based funding has been given concerns and involves a large number of citizens and organizations.

The panel is convinced that its deliberations can only benefit from the advice and comments received from the public.

You can reach the members of the expert panel at the following e-mail address: experts@santefinancementactivite.gouv.qc.ca

