For information on
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Legislative Council Panel on Health Services

Allocation of resources among hospital clusters by the Hospital Authority

Purpose

This paper briefs Members on a new "Pay for Performance" internal resource allocation system for funding hospital clusters by the Hospital Authority (HA).

Background

2. The Administration and HA briefed Members on the principles and mechanism of resource allocation among hospital clusters by HA in January 2008 vide LC Paper No. CB(2)774/07-08(03). In gist, HA integrates its service planning and resource allocation through a structured framework. Each year, HA draws up annual plans at hospital and cluster levels, which set out the strategies, major initiatives and service targets to meet the demands of the communities covered by their respective catchment area. The annual plan forms the basis on which resources are allocated among the clusters.

3. When allocating its resources to the hospital clusters, HA takes into consideration the population of the region as well as HA's priority service areas, service needs of the community, provision of primary and specialist services, new service programmes and initiatives, and resources required in updating facilities, purchasing drugs and staff training.

Review of the resource allocation system of HA

4. Under the prevailing system, the allocation of resources to each cluster is largely based on the annual plan and allocation in previous years. While it is based on service and operational needs, there is no direct and objective linkage between hospitals' output (i.e. the types and numbers of patients treated) and its budget allocation. This means that the funding growth for some clusters may not necessarily be commensurate with the population growth, and increase in service demand and workload. Those clusters with higher population growth and heavier workload may therefore be seen as disadvantaged in resource allocation. At the same time, as the hospitals are not directly rewarded for better performance and heavier workload, there may not be strong incentive to improve efficiency.

5. In view of the above, HA has conducted a review and proposed to modernize its resource allocation system by adopting a new "Pay for Performance" system. HA has made reference to overseas experience in designing its own "Pay for Performance" internal resource allocation system which suits local circumstances and needs.

Pay for Performance and Casemix approach

6. Under the new "Pay for Performance" system, resources will be allocated on the basis of the output and workload of hospitals. This is achieved through the adoption of a casemix approach, which refers to a way of classifying the acute inpatients with similar healthcare needs into different groups, namely, Diagnosis Related Groups (DRGs) according to clinical diagnosis. The DRG system is an internationally-adopted patient classification system which enables the generation of information on the volume as well as the mix of patients requiring treatment with different level of complexity in a hospital. In other words, in classifying patients into different DRGs, we could properly measure hospitals' workload with the number of cases treated by the hospitals, adjusted by the complexity of the cases. By understanding the resource implication for each of the DRG, resources could then be fairly allocated to the hospitals on the basis of their number of patients and complexity of the cases. In addition, resources could be directed to specific service areas effectively by targeting funds to patients in specific DRG. Starting from 2009-10, the casemix approach will be applied to HA's acute inpatient services, which accounts for about 53% of HA's total expenditure.

7. With the casemix approach, the "Pay for Performance" internal resource allocation system will enhance not only the fairness but also the transparency of resource allocation within HA. Benchmarking will also be built in to allow hospitals and departments to learn from each other, analyse the differences in performance and drive better efficiency and performance. In addition, incentives will be given for hospitals to improve the health of patients by secondary prevention and chronic disease management.

8. Under the "Pay for Performance" system, specific funding will be allocated to specific programmes and target areas. There are three key elements, namely, funding for growth in targeted activities; funding for quality improvement programmes; and funding for technology advancement, service improvement, and workforce supply. Details are set out below -

(a) *Service growth in targeted activities*

In view of the growing ageing population, as well as increasing expectation and demand from the community, HA shall target its service growth in specific pressure areas covering acute inpatient, non-acute inpatient and ambulatory/community care. These include service

enhancement and opening of additional beds in areas like the New Territories West and Kowloon East region; enhancement of service for treatment of life threatening diseases; addressing waiting time for priority diseases groups; and launching of programmes for management of chronic diseases, secondary prevention to reduce hospitalizations, etc.

(b) *Quality improvement*

To improve the quality of clinical care, funding will be provided for implementation of a number of programmes which will focus on improving patient safety by reducing avoidable medical incidents in high risk areas. Examples of these include expansion of 2-D bar-coding system for all blood, histo-pathological and microbiological tests by phases in selected hospitals to ensure proper identification of patients and the specimens obtained; enhancement of medication safety, enhancing data security and patient privacy protection measures, piloting hospital accreditation scheme with an international accreditation agent and conducting patients' satisfaction survey.

(c) *Service improvement as a result of technology advancement, training and retention of workforce and service re-configuration/rationalization to improve the efficiency of existing services*

Professional and dedicated staff, equipped with necessary and appropriate equipment and medication, is an essential component of the modern healthcare system. Priority and funding will be given to programmes for modernization and technology change; and employment of modern diagnostic and therapeutic modalities. Examples include the conduct of cytogenetic studies for diagnosis of blood malignancies; use of deep-brain stimulation equipment for treating patients with advanced Parkinson's diseases; further expansion of the coverage of the HA Drug Formulary; implementation of an Intensive Care Unit database system to enhance care for the critically-ill; and introduction of other initiatives that promote training and retention of staff.

Communication and Consultation

9. The proposed new "Pay for Performance" resource allocation system has been widely discussed within HA. HA staff at various levels: Cluster Chief Executives; Hospital Chief Executives; middle management; chiefs of clinical services and heads of departments; clinician leaders and representatives of various specialties; and frontline staff, have the opportunity to communicate directly with the Chief Executive of HA to exchange views with him openly about the new system. Representatives of patient groups have also been consulted.

10. The feedback from these consultations shows that the "Pay for Performance" model is generally considered to be fairer and more transparent and is accepted for adoption as the new internal funding allocation system in HA. On the other hand, HA also take note of the concerns expressed by staff in areas like incentives for better performance and efficiency, behavior in resources utilization and quality of care.

The Next Steps

11. The application of the "Pay for Performance" system for internal resource allocation will dovetail the HA's 3-year plan and the clusters' service planning. A stepwise incremental approach will be adopted starting from 2009-10 to ensure smooth transition to the new system. HA will further develop the technical aspects and work out further implementation details upon finalization of the Government's funding for 2009-10. At the same time, HA will further refine the monitoring and reporting systems for monitoring the performance of clusters under the new "Pay for Performance" system.

12. Meanwhile, international experience shows that the casemix approach is an evolving system. HA will establish a review process to ensure that the development of its casemix system will be appropriate for local circumstances. HA will also further refine and improve the casemix approach through consultation with key stakeholders and clinical leaders to ensure that it would provide a fair and objective means to measure the output and workload of hospitals.

Advice Sought

13. Members are invited to note the content of this paper.

Food and Health Bureau
Hospital Authority
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