

October 11, 2012

## PATIENT-BASED FUNDING

### Part 2: How hospital Patient-Based Funding works

In part 1 of this series we looked at how Patient-Based Funding is essential for executing the province of Ontario’s commitment to ensuring that patients get the right care, at the right place, at the right time. In this article we’ll examine the components of the new funding model, how they work, and how they impact care.

Under the old system, hospitals received a lump-sum payment called Global Funding. This was based on a hospital’s historical budget rather than on a hospitals performance, and while it did work, it also provided numerous challenges including:

- Differences in the quality of care
- Non-standardized procedure costs
- Inability to quickly adapt to changing community needs
- Inconsistent patient outcomes

	April 2011	Phase 1 April 2012	Phase 2 April 2013	Phase 3 April 2014
Quality-Based Procedures	0%	6%	15%	30%
Health-based	1.5%	40%	40%	40%
Global	98.5%	54%	45%	30%

While Global Funding will always be a component of a hospital’s budget, Patient-Based Funding introduces two new components that directly address the challenges mentioned above and creates the right financial environment to deliver high quality, evidence-based care.

#### 1 – Health-Based Allocation Model

The first of the two components is called Health-Based Allocation Model (HBAM). HBAM is a sophisticated tool that evaluates a community’s health care needs based on years of demographic and clinical information:

**Demographic Information:** This includes age, gender and growth projections, as well as socio-economic status and geography.

*Patient-Based Funding requires not only a shift in process, but a shift in how people think about service delivery.*



Ontario

Erie St. Clair Local Health  
Integration Network  
Réseau local d’intégration  
des services de santé  
d’Érie St. Clair

**Clinical Information:** This includes understanding what health care services are available in the community, who is accessing the services, and the complexity of care needed.

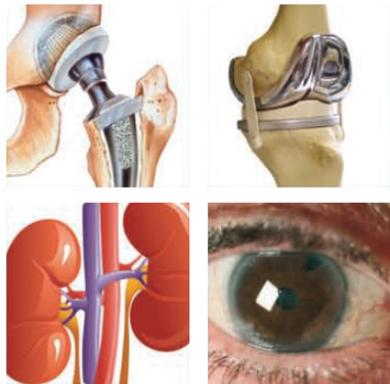
HBAM ensures that growing areas of the province receive an appropriate share of funding to meet their needs. However, it also means that areas which are seeing population decline may have their budgets corrected to match demand.

## 2 – Quality-Based Procedures

The second component is called Quality-Based Procedures and as the name indicates, funding is provided for specific hospital procedures performed. Ontario is establishing a standard rate for four hospital services based on efficiency and best practices:

- Hip replacement
- Knee replacement
- Dialysis and other treatments for chronic kidney diseases
- Cataract surgery

Funding for Quality-Based Procedures is allocated on a “price x volume” basis. This creates an incentive for providers to adopt best-practices in order to deliver care in a high quality and a cost-effective way.



**Funding = Price x Volume**  
(adjusted for complexity and quality of health care delivered)

In short, Quality-Based Procedures will standardize care, improve quality, and lower costs.

## Next Steps

While Patient-Based Funding provides a more transparency between funding and care delivered to Ontarians, it will take time to implement. This change requires not only a shift in process, but a shift in how people think about service delivery. By 2014, Patient-Based Funding will account for 70% of a hospital’s funding.





# Erie St. Clair LHIN HEALTH CARE UPDATE

[www.eriestclairhin.on.ca](http://www.eriestclairhin.on.ca)

Currently, our local hospitals have submitted their HAPS (Hospital Annual Planning Submission) documents – a yearly plan that discusses operations and accountability to ensure that services and budgets are maintained. Three of our five hospitals have indicated in their HAPS that they anticipate a deficit. These hospitals, and their boards, are taking steps to address their financial situations and communicate those steps to the public.

Through Patient-Based Funding, hospitals are examining core services and divesting secondary services to the community. The role of the ESC LHIN is to ensure that hospitals follow a process before any service changes are made. The process involves three options:

**Option 1:** Find and implement opportunities for efficiencies within the hospital and continue offering the services in the hospital

**Option 2:** Partner with community agencies and relocate services into the community

**Option 3:** If there are no other opportunities to continue the service, then look at reducing services

The ESC LHIN follows this process to better ensure that service providers are held accountable to standardized metrics; metrics that are able to indicate if there are positive or negative impacts on patient care.

Patient-Based Funding is a catalyst for change. The ESC LHIN provides the management needed to ensure that the changes move our health care system forward so that patients get the care they need, at the right place, and at the right time.

## LEARN MORE

For LHINfo Minute Part 1: Change that is redefining our health care system, [click here](#)

For more information about the Erie St. Clair LHIN, please visit: [www.eriestclairhin.on.ca](http://www.eriestclairhin.on.ca)

For more information please contact Ron Sheppard, Acting Director, Communications and Community Engagement, Erie St. Clair LHIN, at 1-866-231-5446 ext. 3230 or at [Ron.Sheppard@lhins.on.ca](mailto:Ron.Sheppard@lhins.on.ca)



Ontario

Erie St. Clair Local Health  
Integration Network  
Réseau local d'intégration  
des services de santé  
d'Érie St. Clair



# Erie St. Clair **LHIN** HEALTH CARE UPDATE

[www.eriestclairhin.on.ca](http://www.eriestclairhin.on.ca)

---

## **ABOUT THE ESC LHIN**

---

The Erie St. Clair LHIN is a Ministry of Health and Long-Term Care agency that plans and pays for health care services totaling a billion dollars a year in our region alone – everything from hospitals to Meals on Wheels.

The Erie St. Clair LHIN strives to make the health care system better by understanding and responding to local needs and by getting services to work together more efficiently. That's how we'll all get better health care, while saving money and making the system sustainable for our children and grandchildren.



**Ontario**

Erie St. Clair Local Health  
Integration Network  
Réseau local d'intégration  
des services de santé  
d'Érie St. Clair