

Protecting Access and Quality in our Health Care System: Advice to Government on Funding and Capacity Planning Policy in Ontario

Questions and Answers

Why are funding and planning policies important to the functioning of the health care system?

Ontario's health care system is undergoing tremendous change. The Ontario government has created 14 Local Health Integration Networks (LHINs) whose purpose is to fund, plan and integrate specified health services at the local level. In this environment, new funding policies concerning the health service providers funded through LHINs, are required to encourage the kind of change that is needed. Funding policies and their inherent incentives—the financial “carrots and sticks”—play a large role in leading the system towards goals of quality, access and efficiency. Similarly, capacity planning policies are essential to achieving those goals by ensuring that the right mix of service types will in fact, be available in the future.

Why are policies needed at the provincial-level?

With the creation of LHINs, the Ministry of Health and Long-Term Care has re-defined its role as a *Steward* of the health care system which involves setting provincial policy and strategic direction. Active responsibility for funding, planning and integrating specific services rests with LHINs who are positioned to make decisions more locally.

LHINs are now making critical decisions about the types and volumes of services to be provided within their respective geographic areas, without the benefit of a consistent evidenced-based planning framework for the province. As well, in mid-2009, in preparation for the 2010 and 2011 fiscal years, LHIN-provider negotiations surrounding funding and service levels will begin, in the absence of consistent provincial policy on funding criteria or funding methodologies for health service providers.

There is a substantial risk that with potentially fourteen different approaches to funding and planning, the level of access to health services and the quality of care, will vary across the province. Consistent service-level benchmarks are needed, as are consistent and equitable funding methods for providers both across and within LHINs and within the different health care sectors. In this environment, there is also a good chance that the efficiencies the Ontario system has achieved in recent years, through provincial funding methodologies, particularly for hospitals, will begin to diminish.

A high performing health care system requires that a balance be struck between LHIN-level autonomy and provincial-level policy and standards.

What is Service-Based Funding and why is it the Recommended Approach?

Service-based funding (SBF) is a “price times volume” or “rate times volume” approach in which funding is allocated to health service providers based on the quantity and price of services offered. In straightforward terms, SBF involves a standard “price-list” for health services.

In conjunction with systemic capacity planning, an SBF approach is recommended as the main method to allocate funding from LHINs to health service providers because it supports consistent levels of quality and encourages efficiency. Currently, in the absence of SBF, the Accountability Agreements between LHINs and providers specify the total budget and total service volumes. The price is essentially a “leftover” factor and varies from Agreement to Agreement. With variable prices, the volumes of services and the quality of services offered by providers must also vary.

With SBF however, once prices or rates are established, and appropriately adjusted for necessary technical reasons, the playing field is more level. With a specified budget, a price list, and a service plan, the LHIN-provider Accountability Agreements will reflect conscious choices about service level provision, without facing inadvertent quality and access tradeoffs.

As well, with SBF, providers have incentives to keep unit costs in line with unit prices, thereby encouraging efficiencies, especially when the provider is allowed to retain any surplus. SBF does not encourage over servicing as the Accountability Agreements reflect planned service volumes and budgets that are not unlimited.

SBF is not new in Ontario. It is effectively used in a number of specific areas in Ontario for: Wait Times funding, Provincial Programs funding, hospital Post-Construction Operating Plan funding and in Long-Term Care with its per-diem Ministry funding.

What is Capacity Planning and why is it needed?

Capacity planning involves conducting the necessary forecasting to determine how many and which types of health services are needed at various points in the future, and ensuring that those services will be available. Capacity planning includes:

- forecasting prime drivers of health service utilization and related costs;
- considering evidence-based best practices from other jurisdictions on the appropriate mix of services to optimize quality and costs;
- establishing service-level utilization benchmarks for use by LHINs; and
- forecasting supply-side capacity and related costs.

Lack of planning has contributed to reduced access, increased wait times and bottlenecks throughout the system. Currently almost 5,000 patients are in hospital beds who would be more appropriately cared for in another setting. Capacity planning allows us to be ready for the future. A provincial capacity planning framework is as important to access, quality and efficiency as the choice of funding mechanism.