

Speech by Leo Varadkar T.D., Minister for Health,
Activity – Based Funding (ABF) Conference
At the RCSI on Thursday 28th May, 2015 at 8:45am

Good morning Ladies and Gentlemen,

I'm delighted to speak at the annual conference on Activity Based Funding, which is also known as ABF.

I want to thank Maureen Cronin and her team at the Healthcare Pricing Office for organising this conference and inviting me here, and the RCSI for hosting the conference.

I'm especially delighted to welcome Dr Frank Heimig to Dublin, the CEO of the InEK Institute in Germany. He brings invaluable experience about Activity Based Funding in Germany.

This conference brings together a cross-section of health service personnel including clinicians, nurses, administrators, coders, managers and policy-makers. Your presence reflects the importance of teamwork to the ABF programme. We need teamwork to ensure that the ABF works properly and delivers on its objectives.

I know you will be addressing a wide range of issues, including the impact of ABF on service delivery, and the role of clinical programmes. And I understand that yesterday's technical sessions covered the essentials for delivering on ABF.

I also want to acknowledge the involvement of the RCSI, the RCPI, the HSE, the HPO, and my Department in developing the ABF programme.

One of this Government's commitments on reform is to deliver a single-tier health service, where access is based on need rather than income. The Future Health framework sets out the building blocks required to reach that goal.

One of those building blocks is ABF, which has also been referred to as 'Money Follows the Patient'. The introduction of ABF is a commitment in the Programme for Government. It is also one of the 25 priorities that Minister Lynch and I set out earlier this year.

My predecessor Minister Reilly set out the aims and objectives of ABF in the 2013 'Money Follows the Patient' policy paper. This was followed by an extensive consultation process and a pilot project run in the orthopaedic services, which I know you will be discussing today. Governance structures involving my Department and the HSE have been put in place to oversee the introduction of ABF.

An Implementation Plan has been agreed and copies of that Plan are being made available to you today. The Plan sets out in detail the measures and timelines for achieving the objectives of the ABF programme.

Activity Based Funding is a new model of funding. It's designed to replace the existing block grant system, which is based on historic budgets. The block grant works by paying hospitals for the quantity and quality of the services they actually provide, subject to budgetary limits.

Because it is such a radical departure from the existing funding arrangements, ABF is being introduced on a phased basis. The first phase will apply to inpatient and daycase activity.

Considerable progress has already been made. The Healthcare Pricing Office has been established on an administrative basis and is implementing this programme. My Department is starting work on drafting the legislation to establish the Office as a separate statutory agency.

There has been extensive engagement on ABF with stakeholders, particularly clinicians.

And a lot of work has been done to prepare hospitals for the new system and the technical infrastructure needed to underpin ABF, including a new business intelligence system and upgrading the HIPE coding.

Hospital budgets have not actually been adjusted in 2015 in line with ABF. However, under transition arrangements, hospital groups are being made aware by the HPO of what their budgets would be under ABF.

From 2016, they will have to set out plans to address the difference where their ABF costs are above the national average cost. This will require a robust system of performance monitoring and benchmark reporting. This is in line with the new performance accountability framework set out in the 2015 service plan, intended to create a better performance culture and greater accountability.

The Implementation Plan sets out further ambitious targets for the rest of this year and for 2016 and 2017. It commits to:

- converting each hospital to an ABF allocation,
- commencing the transition adjustments,
- designing a mechanism to apply ABF to outpatient services,
- and linking payments to clinical objectives.

Although it brings its own benefits, ABF is an important part of the Government's plans to reform the health service and tackle ongoing challenges and problems.

However, we need to be very clear about why ABF is so important, given all the other challenges facing the health service.

The importance of ABF

Our health and social care services face an enormous challenge in delivering safe, quality care within highly constrained financial resources.

At the same time, demand for healthcare continues to escalate. Our population is growing, especially the number of older people. In fact the number of people over 65 has increased by 28% in the last ten years.

Life expectancy has increased by 8% for males and 6% for females respectively over the last 20 years. While in the next 20 years there is likely to be a substantial increase in the over 65 age group, both in terms of numbers and as a proportion of the population.

Of course, everyone should be happy about living longer. But it obviously has major implications for planning and delivering health care services. Older people naturally rely on those services to a greater extent than the rest of the population. Even though the economy is improving, the health sector will need to continue operating within very tight fiscal constraints.

In setting the budget for Health this year, the Government acknowledged that a two-year programme is required to address underlying spending pressures. However, the good news is that we no longer have to make savings to meet a falling budget, and any further savings and efficiencies identified by the HSE will be put back into improving services.

However, despite the fact that this year has seen the first increase in health service budgets in seven years, 2015 is proving another challenging year. This means the HSE must continue its unrelenting focus on cost containment and cost avoidance.

The expenditure position to date shows that key financial risks remain in the demand-led areas and in acute hospitals. In particular, acute hospitals will require very close management using the measures specified in the accountability framework.

Under the framework, the HSE has to ensure that cost containment plans are realised, and that additional measures are identified and implemented in a safe manner, to mitigate any projected deficits. ABF is one of the tools that will enable us to deal with these pressures.

We know that the traditional block grant approach to public hospitals lacks transparency, and inevitably leads to budget overruns. ABF funding is designed to introduce a greater level of efficiency to the health service, and create a specific link between spending and activity. It does not seek to reduce overall spending. Instead, it provides a more transparent funding mechanism, and rewards hospitals more fairly for activity.

As I said, ABF is only one of the health reforms being undertaken by the Government to achieve a single-tier health service. The Universal Health Insurance system is another component.

On my appointment as Minister, I indicated that it would not be possible to introduce a full UHI system by 2019, as envisaged in the White Paper. In order to ensure that all of the implications of introducing UHI are fully considered, the Department was asked to fully assess the cost implications of a change to a multi-payer, universal health insurance model.

The Department, the ESRI and the Health Insurance Authority are engaged in a major costing exercise on the White Paper proposals. The analysis will include a review of alternative systems of financing and their effects on healthcare spending, and of changes in financing methods and entitlements. I will then revert to Government with a roadmap.

In terms of overall health reform, I want to push ahead with the building blocks for universal healthcare, including access to GPs without fees for the under sixes, the Healthy Ireland framework, improved management of chronic diseases, financial reforms, and the creation of hospital groups. These are important reforms which will bring benefits in their own right.

Recent reports into the traumatic events in Portlaoise, Swinford and Galway remind us of the importance of placing patients at the centre of everything we do.

The health services should be high quality, safe, and good value. ABF links funding to activity, but there is a clear link between funding and quality. ABF can act as an incentive for providing good evidence-based health care.

As you know, our National Clinical Effectiveness Committee has a process for endorsing national guidelines. A number of these have been approved including national guidelines on *sepsis* and on a *national maternity early warning system*.

ABF can be used to incentivise high quality, safe care in line with evidence-based guidelines by linking quality outcomes with funding. So I'm glad to see that you are devoting a session to the role of the clinical programmes.

I've already mentioned Hospital Groups and my priority for 2015 is to get all the Groups up and running as single cohesive entities. We are starting to make progress. The CEOs and their senior teams are now in place, the remaining boards will be in place by the summer, and my Department is working with the HSE and Group Chairs to ensure that they will be given legal status within the HSE this year.

I expect every hospital in the Group, large and small, to play a vital role within their Group. Any change to services will happen in a planned and orderly manner, and will take account of existing patient flows, demands in other hospitals, and the need to develop services at a hospital, in the context of the overall Group.

The smaller hospitals will be supported by larger ones, and specialist services will be centralised to ensure that patients receive their treatment and care within the most appropriate setting. I am confident that these changes will make all of Ireland's hospitals better and safer, and I look forward to each Group developing a strategic plan to reorganise services and provide optimal care.

On a more immediate note, you will be aware of recent initiatives to improve hospital waiting times, ED overcrowding, delayed discharges and access to long-term care.

However, hospital reform by itself will not be sufficient. This summer will see the first phase of universal primary care, with GP care without fees extended to the 300,000 youngest and oldest citizens in our society, those under six and over 70.

I am delighted that measures focusing on the management of chronic conditions were included, in the form of asthma checks and a diabetes cycle of care. We have also commenced talks on a new overall GP contract and the further inclusion of chronic disease management for patients.

Enhancing and expanding our capacity in the primary care sector is critical to delivering patient-centred care in the community.

By working together, doctors and other health professionals can make a real difference to people's lives. People can stay in their communities for longer, and be in charge of their own health with appropriate supports, rather than becoming prematurely dependent on institutional care.

That's why the creation of Community Healthcare Organisations and their management structures is now underway. Their focus is to provide the maximum amount of care to people in the communities where they live, and to provide integrated services.

Conclusion

This first phase of ABF in public hospitals is just the beginning. It will take a number of years to fully implement ABF across all other hospital activity.

The early indications are that ABF is already making a difference. Your continued effort and commitment to the ABF programme, and the wider reform agenda, will ensure that our health service is sustainable and safely delivers the services that our population needs.

Finally, I want to wish you well with your conference.

Thank you.