

Untangling hospital medicine funding

A complex set of financial arrangements governs the funding of medicines in the Australian health system. **Giselle Gallego** says serious concerns exist about the consequences of fragmentation and lack of cohesion of the system.



Giselle Gallego

CURRENTLY THERE are dual funding arrangements in public and private hospitals that can lead to differences in patient access to medications. Some decision-makers consider inequities exist because of the funding models in place capped in public hospitals and uncapped for the Pharmaceuticals Benefits Scheme (PBS).

Private hospitals

The Australian government, the patient and third party insurers provide funding for medicines in private hospitals. These medicines are dispensed by community pharmacies and there is access to the PBS.

The National Health Strategy

identified the PBS as a critically important source of funding for pharmaceuticals. In 2001, Jackson found that PBS-listed medications represented 31.5 per cent and non-PBS listed medications 68.5 per cent of wholesale cost. This included private scripts and over the counter medications.

Public hospitals

Medicines used for public hospitals inpatients are primarily funded by the hospital under the Australian Health Care Agreements between the states, territories and the Commonwealth Government. There is no direct cost to public hospital inpatients. The state-based public hospital medicines funding is included as part of the financial grants from the Commonwealth to the states. It depends on budgetary allocation decisions made at a number of levels, including the health department, health district or area health service and individual hospital.

As a result this funding is capped. During 2002-2003, five per cent of the nation's total public hospital expenditure was spent on medicines.


The 1998-2003 Australian Health Care Agreement (AHCA) has led to changes in pharmaceutical access in some public hospitals in Victoria, Queensland and Western Australia. One of these reforms included piloting access to the PBS for outpatient, discharged, and day-patient medication costs. Furthermore, PBS-listed cancer chemotherapy medications have been transferred to Section 100 to facilitate access to admitted or non-admitted patients in public hospitals. Section 100 Highly Specialised Drugs (HSD) are medicines used for certain chronic conditions, prescribed by specialists and dispensed through pharmacies associated with hospitals participating in the Section 100 'HSD Program'. These medications are often expensive, including those for the treatment of cancer, HIV and organ transplantation. However, not all states or territories have entered into this reform agreement. Approximately 30 per cent of the 239 public pharmacy serviced hospitals offer medicines subsidised through the PBS for non-admitted and same-day patients.

Victoria was the first state to introduce the PBS to public hospitals in 2001. As of 1 June 2004, 55 hospitals had implemented the reforms in Victoria, Queensland and Western Australia. Inpatient medicine cost still remain the responsibility of the hospital.

What are the issues?

A key issue for public hospitals is the rising cost of pharmaceuticals for inpatients. Public hospitals have to deal with capped budgets, scarce resources, and cost shifting between different funding systems.

There may also be equity of access issues between public hospitals and the private sector. Private hospital patients have

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➤ “A key issue for public hospitals is the rising cost of pharmaceuticals for inpatients.”

access to medication through the PBS and this is an uncapped budget in contrast to the capped budget for state public hospitals. According to the current AHCA, medications listed on the PBS (Section 85) solely for inpatient use – for the example drotrecogin alpha used to treat patients with sepsis in intensive care – cannot subsidise inpatient use in public hospitals. Therefore, PBS subsidised access to these medications can only be obtained through private hospitals.

While there is uniformity across Australia with the PBS, the same cannot be said for the availability of medicines to patients using public hospitals. There are state-based formularies in Queensland and Western Australia, hospital based Drug and Therapeutics Committees (DTCs) in public hospitals or local medical administrators in other states and territories.

In Victoria, it has been estimated that 25 per cent of total expenditure on medicines in public hospitals is due to high cost medicines (as defined by Victorian Therapeutics Advisory Group (VicTAG)). Many of these medicines cannot be accessed through Section 100 or 85 of the PBS, the main reasons being: a) they were not listed, or not listed for all the indications used, or b) not available to inpatients.

Cost shifting is a well-established practice in Australian public hospitals, but is reactive and will

be practised more widely as regulatory requirements or agreements are changed. This leads to administrative inefficiencies, inequitable access, and ultimately, the potential for poorer health outcomes. The decision-making process to access medicines is unclear and there is a confusing mixture of rules and guidelines governing the availability of medicines in public hospitals.

Public hospitals are often exposed via clinical trials to new medicines or new indications before PBS listing, having to cover the gap between registration and subsidy.

The way forward

Ironically, funding for medicines is ultimately from the same source, with the State funding coming indirectly from the Commonwealth. A single funding system is seen by some as a way to overcome the previous problems. Perhaps the way forward is one integrated funding system for all patients treated in all types of hospitals. **H&H**

Gisselle Gallego is a health economics research officer at the Centre for Health Economics Research and Evaluation, University of Technology, Sydney. She holds a PhD in clinical pharmacy, and her main research interest include decision-making and priority setting for health care technologies.

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