

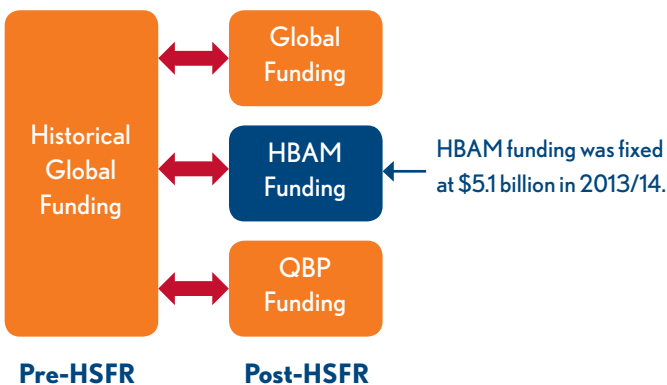
Health-Based Allocation Model (HBAM): Contribution and Reset



Background

The Health-Based Allocation Model (HBAM) is an evidence-based population-health-based funding formula that uses population and clinical information to inform funding allocations. Contrary to previous funding formula efforts that were strictly expense (cost) focused, the intention of HBAM was to relate total provincial expenses to total provincial revenues and then use expense shares to allocate funding. In order to be able to implement this methodology in the absence of any incremental funding investments in the hospital sector, the Ontario government had to establish a fixed pot of HBAM funding from the pre-existing hospital budget. See Figure 1 below.

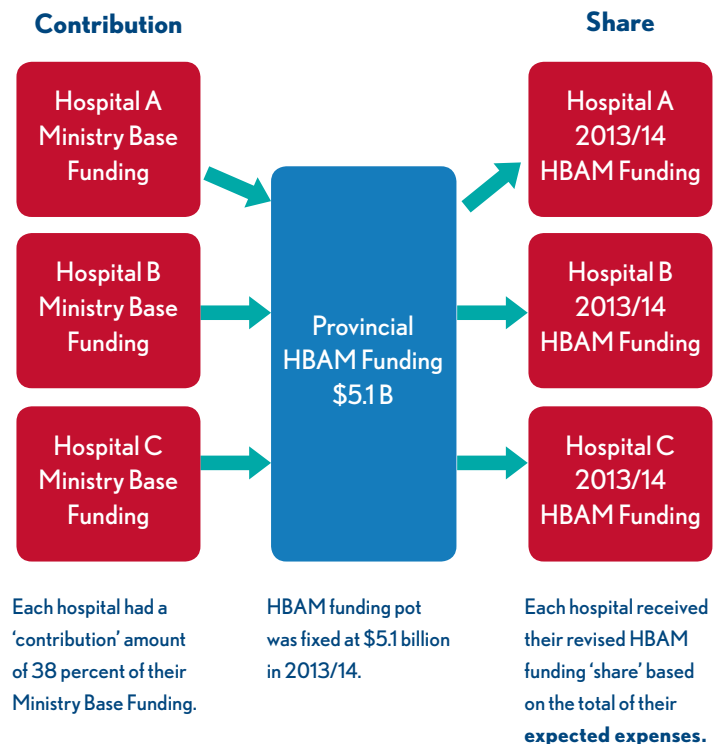
Figure 1: Understanding how HSFR introduced a separate HBAM funding pot



What is the HBAM contribution?

In fiscal 2013/14, the Ministry of Health and Long-Term Care (Ministry) determined that the fixed pot of HBAM funding would be set at \$5.1 billion and that each hospital would 'contribute' 38 percent of their Ministry Base Funding to help establish the pot. Each hospital would then receive their revised HBAM funding 'share' of the \$5.1 billion based on their proportion of **expected expenses** relative to the sum of all hospital corporation expenses in the province. See Figure 2 below.

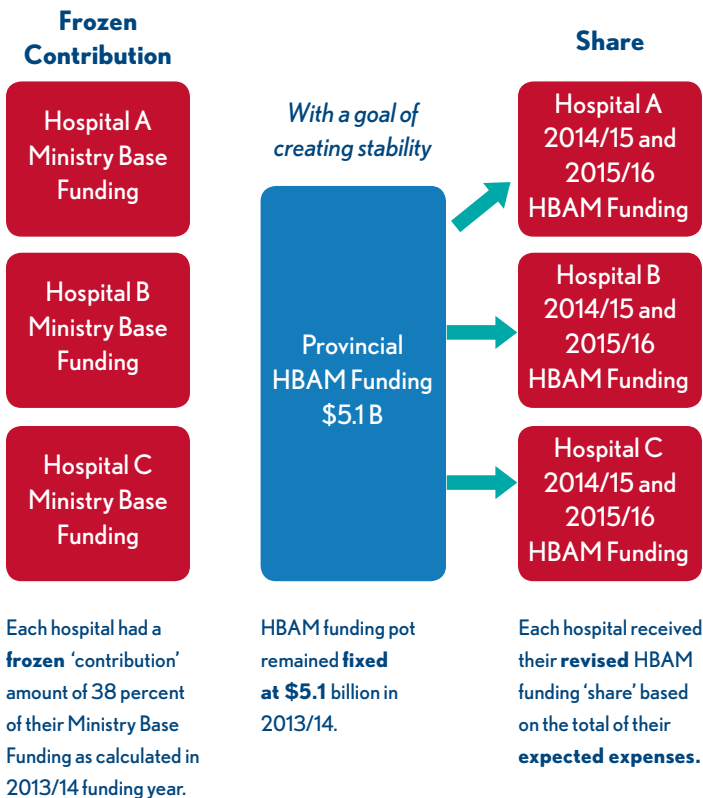
Figure 2: Understanding the relationship between contribution and share in HBAM funding



Why was the HBAM Reset required in Fiscal 2016/17?

In fiscal 2014/15 (and subsequently in fiscal 2015/16), there was a change to the HBAM funding pot contribution methodology. In an effort to create stability in the HBAM model, it was determined that the contribution from hospitals to the HBAM funding pot would be ‘frozen’ at the same amount as fiscal 2013/14 (i.e. hospitals would not contribute 38 percent of their updated Ministry Base Funding as calculated in the fiscal 2014/15 funding year). On the share side of the formula, however, hospitals would continue to receive a revised amount of funding based on updated their proportion of **expected expenses** relative to the sum of all hospital corporation expenses in the province. See Figure 3 below.

Figure 3: Understanding the relationship between a frozen contribution and share in HBAM funding



This ‘frozen contribution’ approach created several anomalies whereby some hospitals had shares that were growing disproportionately as compared to their contribution (and vice versa). In fiscal 2016/17 a policy decision was made by the Ministry to ‘reset’ the contribution side of the HBAM formula to ensure that the goal of equity in funding was still being maintained. This reset involved recalculating what each hospital’s contribution should have been to the HBAM funding pot for the two years that the contribution was frozen (i.e. fiscal 2014/15 and fiscal 2015/16). Hospitals were then either required to pay back or receive the difference.

Important to Know

Effective fiscal 2016/17, the Ministry will be reverting back to its original HBAM contribution concept. The contribution will be based on data that trails funding by two years. As an example, the fiscal 2016/17 contribution will be based on fiscal 2014/15 Ministry Base Funding.

Resources

A webcast with a detailed overview of the types of anomalies that resulted from the frozen HBAM funding contribution in fiscal 2014/15 and fiscal 2015/16 can be viewed on the OHA website by following this link:
<https://www.oha.com/health-system-transformation/health-system-funding-reform/hsfr-webcasts>