

## A framework for considering hospital payment options

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There are a number of ways of paying hospitals, activity-based funding being the most prominent currently but block funding, line-item budgeting and fee-for-service are all still used. This paper proposes a framework for considering the circumstances in which one method might be preferred over another. Central to the choice are the objectives of the payer and the hospital – they may have different objectives or attach different weights to them. We discuss the key factors influencing funding model design choice, namely the number of payers and hospitals in the system, what weight payers attach to each objective, and the effort involved in designing and managing the payment system. We argue that there is no “best” payment model, the choice being critically dependent on system characteristics and capacity, and principally related to which objectives the payer wishes to prioritise.