Reviewer's report

Title: Design of price incentives for adjunct policy goals in formula funding for hospitals and health services

Version: 1 Date: 9 January 2008

Reviewer: Andrew Street

Reviewer's report:

This paper is well-written and provides a helpful summary of the policy issues, drawing appropriately on the wide literature about formula funding. The paper would benefit from some revision before it is acceptable for publication, as follows

Major compulsory revisions

1. A key challenge in devising appropriate incentives arises when policy goals are subject to trade-off. This possibility is suggested in passing (the threat to quality under casemix funding (p5), the elective/emergency split (p11)) but needs to be dealt with more explicitly throughout the paper. In the absence of trade-off between goals, there is no problem. But with competing goals, policy makers may need to weight them explicitly and design incentives to ensure that providers accord them their due weight.

2. I’m not convinced that ‘all-or-none’ measures send more powerful signals. Rather they encourage either convergence to a specified value or if, this is deemed unattainable, undesired behaviour (e.g., inaction, gaming). More discussion of the relative benefits of thresholds vs variable reward structures is merited. For example, thresholds might be preferred if the concern is to maintain minimum standards.

3. Also more discussion of the issues of capped or uncapped arrangements is required. What is the logic for uncapped quality goals? Is quality naturally self-limiting or is willingness to pay for additional quality infinite? How much funding should be directed to pursuit of adjunct goals depends on what relative weight policy makers attach to these goals and what marginal returns are realised by funding increments. I don’t feel that the capping/uncapping distinction really captures the subtlety of the issue.

Minor essential revisions

4. On page 4, either more attention needs to be given to devising appropriate incentives under population funding (e.g., to cope with greater uncertainty about the relationship between spending/effort and population measures of achievement) or the paper should focus solely on casemix funding, in which case the paragraph can be dropped.

5. On page 8 replace ‘linear’ with ‘positive’ in describing the
relationship between indicator values and rewards. Rewards may be structured to increase non-monotonically.

6. In the paragraph on positive/negative incentives I would stick to single-period arrangements, and reserve mention of the dynamic context for page 13, where it is dealt with at greater length. The point about failing to achieve a target holds irrespective of whether current/future rewards are related to past achievement.

What next?: Unable to decide on acceptance or rejection until the authors have responded to the major compulsory revisions

Level of interest: An article whose findings are important to those with closely related research interests

Quality of written English: Acceptable

Statistical review: No, the manuscript does not need to be seen by a statistician.

Declaration of competing interests:
'I declare that I have no competing interests'