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Introducing Competition and Informed User Choice into the Human Services – Identifying Sectors for Reform

3 November 2016

The Victorian Healthcare Association (VHA) is pleased to provide this submission to the Productivity Commission's following the release of its Preliminary Findings report: " Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform". The VHA is the peak body for the public and not-for-profit health sector in Victoria. Our members include metropolitan, regional and rural hospitals and health services, independent community health services, multi-purpose services, public residential aged care services and bush nursing centres. As the Victorian public health sector's peak body, we are keenly interested in the Commission's findings regarding the feasibility of market based approaches to financing public health services.

Market based approaches such as competition, contestability and informed user choice have been trialed in a range of health care settings both overseas and in Australia and evidence of their success is not conclusive.[1] The VHA believes that many areas of health care do not behave like a normal competitive market and the types of services opened up to competitive processes would need to be chosen carefully and supported by strong government stewardship. The implementation of these approaches needs to consider the degree to which the competitive market model is an appropriate platform to determine the allocation of specific health care resources. This is particularly relevant in challenging markets such as critical and acute care, rural and remote areas, and for other areas where competition is difficult to achieve and tends to lead to perverse outcomes for both communities and government.

In order to avoid this, government must put protections in place to allow public providers and smaller, niche services the opportunity to participate and contribute to a diverse marketplace. Similarly, the administrative, regulatory, accreditation and reporting burden should be the same for both public and private organisations that provide government funded services. Incentives must also be introduced into provider payment systems to ensure that the most vulnerable clients are able to access services, rather than be abandoned because their often complex needs are not adequately catered for by a poorly regulated market.

In summary, publically funded health and social care is a critical resource which contributes significantly to the well-being of the community and the introduction of

Victorian Healthcare Association Ltd / ABN 54 004 228 111
Level 6, 136 Exhibition Street Melbourne Victoria 3000 T / 03 9094 7777 F / 03 9094 7788 E / vha@vha.org.au
vha.org.au

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market based approaches needs to be clearly defined, and only applied to service areas that have been proven to be amenable to market based approaches.

Competition

Health care markets are extremely complex with many interconnected providers, services and funding streams and there needs to be a sophisticated understanding of how competitive processes will affect the provision of services in a given area before they are introduced.[2] Evidence of the effect of competition on health care quality is inconclusive,[2 3] notwithstanding that lack of ability to find stronger evidence may be in part due to the complexity of the health services being studied.[2] Before competitive processes are introduced into a market, government needs to assess whether sufficient pre-conditions exist for competition to be successful, and what the appropriate mix of services is for a community. For example, competition is more likely to be successful in services such as elective and home based care where there is a flexible range of providers and reliable supply of clients with adequate funds that are seeking health care services.[3] Similarly, health care markets do not behave like markets for many other services and will most likely fail in the absence of strong government stewardship, regulation and quality standards. There are also opportunities to improve efficiency and quality of care beyond market focused approaches and one example of this is increasing the scope of practice of a range of providers to deliver services more cheaply and efficiently.[4]

The introduction of competitive processes poses a number of risks for health care providers and certain communities that need to be addressed. User choice and a focus on outcomes and innovative service delivery is a critical part of any discussion about competition in health care[1] but competition often offers advantages to larger providers who have sufficient scale in their operations to adjust to marketisation.[5] The existence of smaller, niche providers increases diversity in the market and improves user choice but there is a risk that these providers may struggle in a highly competitive environment where price is often prioritised ahead of consumer needs and quality.[5] Similarly, people with limited health literacy, socially isolated communities and people in rural and remote areas where there is limited supply of health professionals[4] are at risk of reduced access to services in a market based system and strong regulation is required to ensure that these groups are not exploited by unscrupulous providers.[3]

Greater competition may lead to wasted resources if multiple service providers end up competing to access the same lucrative markets and therefore provide similar services. In many cases greater efficiencies will be achieved by offering incentives for providers to collaborate, share costs and develop integrated referral pathways.[3] Competitors in a market often do not have an incentive to collaborate, but for many

services (e.g. palliative care, see below) collaboration between service providers is critical to providing high quality care.[3] It is not always possible to generate a system where a range of providers will be competing to provide services to a large range of clients, and in many instances there may instead be a group of services competing for funding from a single purchaser or commissioner of services.[2] In these circumstances, the most realistic form of health care market will be that of a well-regulated quasi-market, rather than a competitive open market.[2]

VHA Recommendations

That the Commission should find that the introduction of competitive processes to a market may only be amenable in service areas where conditions for competition are strong.

That the Productivity Commission make a recommendation to acknowledge the importance of diversity of service providers to facilitate informed user choice. Practical ways to ensure diversity could include the provision of financial or technical support to allow niche public and not for profit providers to adjust to a more competitive market.

That the Productivity Commission make a recommendation that calls for an examination of ways to improve efficiency and effectiveness of the public health system beyond competitive processes including diversification of the scope of practice of many clinical professions, and provision of incentives for services to work more collaboratively with each other.

Contestability

With the introduction of more contestable contracting arrangements, either for grant based service contracts or management of services, consideration needs to be given to accessibility of care for the most vulnerable groups in society who have diminished capacity to identify the services that they require in a marketised system.

Furthermore, the need for organisations to constantly re-apply for short term contracts leads to them focusing on preparation of tenders and other administrative procedures at the expense of providing services to their most vulnerable clients.[5]

In environments which are financially constrained services will likely not be incentivised to seek out the most disadvantaged clients and may instead look to manage clients who provide the least barriers to generating outcomes.[5] In many cases, mission-based services provide unfunded services in order to fulfil their

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mission which masks the core problem of underfunding of the system.[5] One example of this is the provision of some outreach services provided by community health organisations for very marginalised clients, which are not funded but which organisations continue to provide in order to fulfil their mission to their own financial detriment. Similarly, in some situations there is not enough demand for a service to make competition viable. For example, the Commonwealth's residential aged care funding model requires facilities to operate with sufficient economies of scale – of around 80 beds. Victorian public health services and hospitals with residential aged care manage on average 30 beds per facility because of the small size of the markets in which they operate. This means they have little option but to subsidise their aged care operations with funding from the state, even before investment in new capital is considered.

Clients that do not readily engage with, or are distrustful of services require more resources and input from providers to deliver them care.[5] In contestable markets, there is a risk that these clients will get missed or neglected.[5] Contestable arrangements that result in frequent provider changes for a service are also destabilising for clinicians and consumers, and may lead to consumers disengaging with a service[5] and clinicians seeking more stable employment elsewhere.[6]

VHA Recommendations

That the Productivity Commission recommend that longer contracts for grant based services be offered, e.g. 5 year contracts with a component of block funding (e.g. 10-20 per cent) that is not tied directly to outcomes and allows for activities such as service development and identification of the needs of marginalised groups. This will also provide increased stability of employment for staff, which is critical in rural and remote areas.

That the Productivity Commission recommend that payment systems for contestable services provide incentives for organisations to manage disadvantaged clients, and that payment for these clients not be solely linked to outcomes.

Informed User Choice

Health care services and systems are very complex and it is often difficult for people to make informed choices about which type of service best suits their needs.[5 7] In aiming to provide clients with health information to better inform user choice, consideration should be given to health literacy (i.e. the ability to seek out relevant health information, understand and utilise it).[8] A recent study by the Australian

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Bureau of Statistics showed that only 41 per cent of Australians have an "adequate" level of health literacy and 6 per cent have a "more than adequate" level.[8] Groups of people who are often vulnerable and less able to make informed choices include sick patients, people from lower socio-economic backgrounds, older people and people living outside major cities who often have lower health literacy.[1]

Data about the quality of health services is complex and there is evidence that not all clients can use this data effectively to make informed health care choices.[7] In the US, evidence shows that there is little public interaction with report cards for hospitals and in many cases the public neither trusted nor understood the information provided to them.[7] In any event, there is not always a ready supply of providers from which consumers can choose, especially in the case of large public hospitals or regional and remote areas where there is often only one option.

Furthermore, some clients do not use services because they have chosen to do so, but through some degree of compulsion.[5] Reforms to provide patients with information about the quality of health services will provide most benefits to those who have the capacity to use the information to make good choices and indeed people can suffer from a tyranny of choices if too much information or too many options are available.[9] This does not mean that services should not attempt to provide consumers with more useable information with which to make decisions but that information should be clear, unbiased and easy for people to interpret.

VHA Recommendations

That the Productivity Commission recommend the provision of support for providers and consumers to work together to produce service data that is easy to understand and accessible to consumers on a variety of platforms.

That the Productivity Commission includes a finding stating the importance of the development of central repositories of relevant hospital quality data information that are easily accessible for consumers and providers.

That the Commission recommends the provision of services to facilitate better understanding of health quality information for consumers.

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Implications for services

Palliative Care

The VHA accepts that there are some issues with the delivery of specialist palliative care services such as lack of uniformity of access to services and people with diagnoses of cancer receiving greater access to services than people with other diagnoses. However, we do not believe that sufficiently justifies implementing widespread market reform into the sector.

Any study of market reform of palliative care services must lend significant consideration to the complex needs of clients who access these services. Palliative care clients are generally at the end stage of terminal illness and are highly vulnerable. Provision of optimal palliative care requires collaborative approaches between specialist palliative services and other health care providers including general practitioners and medical specialists. The VHA considers there is a risk that introduction of competition into a small market with a relatively limited number of providers will increase competitive tension and reduce collaboration between providers, and adversely impact quality of care.

Introducing contestability processes such as fixed term of management of these services could be disruptive for a client group who are highly vulnerable and have less capacity to deal with change. Provision of improved client information on the range of services provided may be of some benefit but a sophisticated approach to provision of information needs to be considered. For example, some clients may become concerned when the need for palliative care services is discussed with them as it reinforces the notion that their condition cannot be cured. Facilitation of community education to better understand issues around dying may need to occur first before considering the provision of more quality data and client information about palliative services.

Dental Services

The VHA agrees that improvements to the delivery of public dental services can be made, but we do not agree with the Commission's finding that uncontested provision of services in government clinics leads to limited responsiveness. Public sector dental services are a scarce resource, and as stated in the Commission's preliminary report deliver only 14 per cent of all dental services.

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As a result of this scarcity, there is little possible competition for dental services. Further, the public system has been under-funded for a significant period and is over-burdened with reporting and regulatory administrative demands. Although waiting lists for some services are long, many services are working at capacity and are responsive to the needs of clients with urgent needs who are seen promptly.

The VHA is of the view that the Commission needs to recognise that other factors affect service usage rates for the range of clients that typically use public dental services. Many recipients are from socio-economically disadvantaged backgrounds[10] with a range of other social and health conditions and these factors lead to a reduction in uptake of oral health care services.[11] Furthermore, public dental services (e.g. in community health services) are usually integrated with a range of other public services and can provide a wrap around, holistic service that many clients require. These services address not only oral health issues but broader health and social concerns and in a fee for service system as is typical of private practice, this type of care is difficult or impossible to deliver.

Furthermore, the VHA considers that if the issues of funding and administrative burden were addressed in the first instance, user needs would be more readily met. The public dental system should be given the opportunity to operate with adequate finances and reduced administrative burden before government funded services are opened up to an unnecessary market based approach.

Other issues would also adversely affect the operation of a contestable and competitive public dental market. There may be an incentive for private dental services operating under a fee for service arrangement to “cherry pick” the most profitable, or most easy to manage clients and refer others back to the public system which is not operating under a fee for service model and effectively acts as a safety net. In a fee for service model for the provision of government funded care, the possibility of supplier induced demand for some services must also be addressed.

The playing field must also be levelled for private and public dental services in terms of regulatory, accreditation and reporting requirements. Public dental services are constrained by significant administrative mechanisms including extensive reporting on service data and accreditation which is greater than those for private providers.[12] While data collection on effectiveness of services provided is important for assessing their quality and would offer the opportunity to compare public and private dental services, public services are already heavily over-subscribed and would have difficulty competing with private services in a market if private services are not required to meet the same administrative demands. Therefore, all dental services that are government funded should be subjected to the same administrative and reporting requirements in order to avoid creation of an unfair and anti-competitive market.

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Furthermore, lack of time and resources reduces public dental services' capacity to be more responsive to community needs and develop more innovative models of care, notwithstanding the wide range of innovative services and preventative health programs that public dental providers already conduct. If financial resources were increased and the administrative burden reduced, more treatments could be carried out and providers could engage in longer term planning. Indeed, some community health services are already adjusting their models of care to be more outcomes focused as per Victorian Government policy directions.

VHA Recommendations

That the Productivity Commission make a recommendation for increased funding for public dental services and reduction of their administrative and reporting burden before considering inviting private providers to provide publically funded services.

That the Productivity Commission make a finding that administrative, regulatory, accreditation and reporting requirements should be the same for all government funded dental service whether in the public or private sector.

Public Hospitals

Large public hospitals (and hospitals in smaller rural towns) are often natural monopolies[13] and many of the services they provide would not benefit from competition. Competition is less likely to be successful in highly specialised settings which are reliant on costly infrastructure, high levels of clinical expertise and training, significant client throughput to maintain clinical skills, and a large population to deliver an adequate client load.[13] Competition would lead to breaking up of services and reduced economies of scale leading to confusion of clinical pathways, and potentially affecting quality of care and placing patients at significant risk. Governance oversight and monitoring of quality and safety would also be more challenging in this environment.

Competition for hospital based services is best suited to clinical areas with less acuity, complexity or urgency of care and where there is a range of providers and consumers with enough funds and resources to be available to be able to make informed decisions in a competitive market.[13] Indeed, public hospitals already are involved in competition with private hospitals. Competition for more specialised services may drive supplier increased demand and duplication of services and

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infrastructure[13] and increased contestability would lead to more short term thinking and adversely affect service planning and patient safety.

In terms of contestability of management appointments and monitoring of performance, the VHA believes that Victoria already has a robust executive recruitment, appointment and performance management framework. These strong processes could potentially be made more transparent to the public, but the Victorian framework could serve as a model for other states and territories to replicate.

VHA Recommendations

That the Productivity Commission make a finding that the introduction of competition into hospital services should only be considered where the conditions for competition are strong and where there is significant overall benefit to the public that outweighs any adverse consequences (e.g. reduced integration of services).

That the Productivity Commission recommends that before introducing market based changes to a sector (e.g. hospitals), the effects that these changes could have on other areas integrated with that sector be thoroughly assessed to ensure that there are no unintended consequences of the reform.

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