



# The Role of the Private Sector in the Health System

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# Outline

- Characteristics of the ‘new world’ of private health
- Reasons for and risks of corporatisation
- Criticisms of the role of private health
- Creating problems or highlighting problems?
- Role of the Government as purchaser

# 'New world' of private health care

- For (corporate) profit
- Fast moving – buying and selling
- Vertical integration – hospitals, pathology, diagnostic imaging
  - ◆ and now primary care

## Case study: Maynes 1992 — 2001

	1992		2001	
	Number	Revenue	Number	Revenue
<b>Hospitals</b>	9	\$100m	61	\$1163
<b>Pathology</b>	0	0	5m episodes	\$246
<b>Diagnostic imaging</b>	0	0	1.4m episodes	\$147
<b>Medical centres</b>	0	0	44	\$14

# Key corporate players

	Hospitals	Pathology	DI	GPs
Mayne Health	*****	***	**	**
Ramsay	***			
Healthscope	**			
Sonic		*****	**	indirect
Foundation		*	indirect	****
Medical Imaging Australia			**** *	
Gribbles		***	**	**
Primary			*	***
Endeavour (not listed)		*	*	**

## State of play: corporate ownership

- 45% of private hospital admissions
- 75% of private pathology practices
- 40% of private diagnostic imaging practices
- 15% of GPs in corporate structures

## Growth 1991-92 to 1999-00

	<b>% increase</b>
<b>Private hospitals:</b> admissions per 1,000 population	47
<b>Pathology:</b> services per capita	76
<b>Diagnostic imaging:</b> services per capita	24
<b>GP attendances:</b> services per capita	4

# Reliable sources of funding

- Private hospital care
  - ◆ health insurance, subsidised and encouraged by the Government
- Pathology, diagnostic imaging and GP attendances
  - ◆ 80-90% funded by Medicare



# Business model: consolidation and capturing referrals

- Enhancing the ‘operating profit per patient’
  - Lower costs
    - ◆ economies of scale
    - ◆ centralised services
    - ◆ lower cost of capital
  - Increased revenue
    - ◆ larger volume
    - ◆ more quickly
    - ◆ more services

# Risks

- Gaining the efficiencies
- Capital costs
- Doctors – changing practices; keeping motivation
- Making profits fast enough

# Risk: expectations of the private sector

- Criticisms of the private sector: performance not matching expectations:
  - ◆ For example, allegations of ‘cherry picking’ by Mayne Health
  
- Expectations:
  - ◆ ‘With massive subsidies, private hospitals should be doing what is needed by patients and the community rather than what serves the interest of shareholders.’  
(Doctor working at Mayne hospital)

# Unrealistic expectations?

## Government objectives

- Access to health care
- Quality of care
- Sustainable outlays

## Corporate strategies?

- Shift away from bulk-billing
- Cherry picking
- High volume throughput
- Referrals within company
- Increased throughput

# Highlighting or creating problems?

- ‘The most common characteristic of practitioners referred by the HIC is that they are professionally isolated and have little contact with professional colleagues.’

Dr John Holmes, Director, Professional Services Review

# Follow the money

- Where does the fault lie:
  - ◆ in corporate providers seeking to extract higher profits from the system, or in the system that allows and/or encourages this to happen?

# Funding incentives

- Medicare: open-ended, flat rate fee-for-service
  - ◆ Rewards high volume throughput and economies of scale
- Health funds contracts
  - ◆ Discourage the treatment of long-stay, medical patients

# Government as purchaser

- Pathology, Diagnostic Imaging and GP Funding Agreements
  - ◆ Global caps of expenditure
  - ◆ Do not restrict *individual* doctors' access to open-ended, fee-for-service
  - ◆ May encourage consolidation
  
- What buying with the \$2b, 30% private health insurance rebate?
  - ◆ A complement or a supplement to public hospital treatment?



# Medicare millionaires

- ‘The nation’s health-care system is being rapidly and radically transformed – not by changes in public policy, but by the activities of a small number of aggressive market players who are making a killing, courtesy of the taxpayer.’

Ray Moynihan, AFR, 2 December 2000