

Business  
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Australia



SUBMISSION

Submission to the Productivity  
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The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

## About this submission

This is the Business Council's submission to the first stage of the Productivity Commission's inquiry into Reforms to Human Services.

The submission focuses specifically on the redesign of the health system based on the ongoing work of the Business Council's Healthy Australia Task Force. The Healthy Australia Task Force is comprised of chief executives who advocate for redesign of the health system so that health services are provided in a way that is consumer centred, fiscally sustainable, efficient and effective.

The Business Council supports efforts to redesign the health system on the basis that getting this right should boost the wellbeing and labour force participation of Australians and contribute to stronger government budgets and economic growth over the long-term.

The Productivity Commission's preliminary findings have identified public hospitals as one priority area in health where greater competition, contestability and informed user choice could improve outcomes for the community. As the Commission rightly notes, many other services could benefit from reform.

Greater competition, contestability and user choice must be carefully conceived as the means rather than the ends that should be sought through proposals for reform of the health sector. The ends must be improving consumer outcomes.

While adopting principles of choice and competition in human services like health is the right, high-level approach, implementing this in the health system requires a methodical bottom-up approach, introducing the fundamental principles of market design. This submission therefore outlines the Business Council's 10 fundamental principles for market design of the health system as a guide to any reforms the Productivity Commission proposes.

Redesign of the health system in line with market-based principles is necessary if Australia is to provide better, safer and more convenient health care for consumers on a fiscally sustainable basis.

## Key recommendations

- ▶ In developing proposals for reform of the health system as part of this inquiry, including public hospitals, the Productivity Commission should focus first and foremost on the ultimate end of improving consumer outcomes.
- ▶ Any proposals to reform the delivery of health care, including public hospital services, should be consistent with and integrate the following fundamental principles for market design of the health system:
  1. Improved consumer outcomes must be the central objective.
  2. Redesign must be fiscally sustainable.
  3. Enhanced information and transparency are critical enablers of redesign.

4. All parties in the system must have clear accountabilities.
5. Pricing and regulatory incentives should improve consumer outcomes and efficiency.
6. Clinical innovation must be matched by service delivery innovation.
7. Care must be increasingly digitally enabled.
8. Supervision and regulation of health care should pay adequate attention to consumer rights and interests.
9. Redesign initiatives must be effectively integrated with the whole health system.
10. Redesign should embrace the respective importance of both the private and public sectors.

## Context for redesign of the health system

The Australian health system performs relatively well by world standards. We perform at or above average on most measures, and are world-class in several, but our health system needs to perform more efficiently and be better geared to the changing needs of consumers.

There are five pressing reasons to redesign the system.

### 1. Our health system is increasingly ill-equipped for our changing needs

The health needs of Australians have changed over time. Australians are on average living longer than ever before, but increasingly with disease, especially chronic and age-related conditions. For example, more than 80 per cent of Australians are estimated to have at least one chronic condition or risk factor.<sup>1</sup>

These chronic conditions call for ongoing management rather than the episodic care for which our system is overwhelmingly configured. This requires business model and service delivery reconfiguration.

Further, an incredible array of new technologies has been introduced into health care, leading to improved health outcomes, reduced costs and greater safety. More recently, wearable health technology has increased the focus of consumers on preventative health and wellbeing, resulting in annual sales growth of 50 per cent over the last five years.<sup>2</sup>

While our health profile, available technology and care expectations have all changed significantly, our health system has not kept pace with these changes. For example, Medicare reimbursements remain weighted towards in-person medical consultations. This prevents us benefiting from digital innovations like telehealth, which would enhance consumer convenience and increase efficiency.

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<sup>1</sup> H Britt, G Miller, J Henderson, et al, *General Practice Activity in Australia 2013-14*, Sydney University Press, 2014, [purl.library.usyd.edu.au/sup/9781743324219](http://purl.library.usyd.edu.au/sup/9781743324219).

<sup>2</sup> International Data Corporation, *Worldwide Wearables Market Forecast*, 2015.

## 2. The health system places insufficient focus on consumers

Compared to most other markets, the health system places consumers in a weak position relative to providers. While there will always be some imbalance in medical knowledge between health care providers and consumers, there are a number of features of the health system that exacerbate this imbalance. For example:

- Consumers often have limited knowledge of the full price of treatment before committing to purchase.
- The fragmented mix of public, private, primary and acute services along with the mix of Commonwealth, state and private funding and service provision makes the system difficult for patients to navigate and receive integrated care. As a result providers, administrators and governments often look at the system through this complex maze, rather than through the eyes of the consumer.
- Providers do not tailor their services for consumer convenience. For example, there is limited use of digital platforms even for simple interactions such as making appointments and paying bills. Services also tend to be provided in traditional institutional settings rather than in the home or at places of convenience for consumers.

## 3. Health expenditure growth cannot be sustained at current levels

Health care comes at a substantial and rapidly increasing cost to governments and the community, which cannot be sustained.

Total health expenditure has increased at an annual average rate of 4.6 per cent in real terms over the last decade.

At a government level, health costs are increasingly running the risk of overwhelming government budget balances. The Premier of New South Wales, Mike Baird, has predicted annual deficits for combined governments by 2030 of \$45 billion, of which approximately \$35 billion would be generated by health.<sup>3</sup>

Consumers are also bearing an increasing cost burden, with their expenditure on health growing at almost 6 per cent a year over the last decade, twice the rate at which real disposable incomes grew.

## 4. There is considerable waste in the health system

Governments, individuals and insurers spend a considerable amount of money on health interventions that are irrelevant, duplicative or excessive, provide low or no benefits, or arise from missed opportunities for earlier interventions.

For example, recent research has identified more than 150 low or no value health care practices in Australia that deliver marginal benefit.<sup>4</sup> Also, a 2015 Grattan Institute report on five treatments that should not be given to certain categories of patients found that nearly

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<sup>3</sup> M Baird, 'Mike Baird: Raise the GST to 15 per cent to Pay for Healthcare,' *The Australian*, accessed 25 September, 2015, <http://www.theaustralian.com.au/opinion/mike-baird-raise-the-gst-to-15-per-cent-to-pay-for-healthcare/story-e6frg6zo-1227448117813>.

<sup>4</sup> A Elshaug et. al., 'Over 150 Potentially Low-Value Health Care Practices: An Australian Study', *Medical Journal of Australia*, vol.197, No. 10, 2012, <https://www.mja.com.au/journal/2012/197/10/over-150-potentially-low-value-health-care-practices-australian-study>.

6,000 people in 2010-11 – or 16 people a day – received these entirely unnecessary and potentially harmful treatments.<sup>5</sup>

Considerable waste is also driven by poorly informed and disempowered consumers. For example, the Australian Commission on Safety and Quality in Health Care (ACSQHC) found that people with lower health literacy had higher expenditure each year of up to US\$7,798 per person compared to people with adequate health literacy.<sup>6</sup>

## 5. Quality and safety issues are contributing to poor patient outcomes

Despite Australia's relatively high life expectancy, there is substantial room for improvement in the quality of health care to reduce relatively high rates of preventable adverse events in hospitals and preventable hospital admissions. For example, hospital-acquired infections add a total of 850,000 bed days to Australian hospital stays each year.<sup>7</sup>

The ACSQHC estimates that preventable adverse events in Australia add between 6 and 10 per cent to costs of the system.

### The need for redesign

While the case for consumer-centred redesign of the health system is clear, reform debate and directions have often been dominated by provider interests, with little attention to the needs of consumers.

As a result, efforts in innovating the system have largely been directed at the procedural and clinical level, rather than the underlying market and business model arrangements underpinning the health system. There have been some exceptions to this including progress achieved on public hospital funding arrangements.

We need a focus on whole-of-system redesign. As the Commonwealth health secretary, Martin Bowles has noted, long-term big picture reform involving both existing and new policy levers will help solve short-term problems and set the system up for the future.<sup>8</sup>

This means introducing new mechanisms that will fundamentally change the market that delivers health care through empowering consumers and influencing the behaviour of providers. The Productivity Commission's inquiry presents the opportunity to outline some of these new mechanisms.

If we don't make a conscious reform effort now, we will confront the need for redesign in the future through dramatic fiscal readjustment or consumer-led disruption, both of which are more likely to bring unintended consequences.

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<sup>5</sup> S Duckett, P Breadon, D Romanes, P Fennessy & J.Nolan, *Questionable Care: Stopping Ineffective Treatments*, Grattan Institute, 2015.

<sup>6</sup> Australian Commission on Safety and Quality in Health Care, *Health Literacy: Taking Action to Improve Safety and Quality*, 2014.

<sup>7</sup> N Graves, K Halton, D Paterson, M Whitby, 'Economic Rationale for Infection Control in Australian Hospitals', *Healthcare Infection 2009*, pp. 81–88.

<sup>8</sup> M Bowles, Address to the Committee for the Economic Development of Australia, 11 March 2015.

## **Fundamental principles for redesign of the health system**

In considering initiatives to increase competition, contestability and user choice in the health system including public hospitals, it is critical that the initiatives are consistent with and integrate the ten fundamental principles below.

### **1. Improved consumer outcomes must be the central objective**

Reforms must be driven by the ultimate outcome of improved consumer health and wellbeing through high-quality, safe, convenient and efficient care. This means that it is critical that consumers are better able to exercise choice and are closely involved in the design of new models of service delivery and the ongoing evaluation of the performance of the system.

### **2. Redesign must be fiscally sustainable**

Reforms should have a positive impact on the long-term fiscal sustainability of health care. This could come through changes that slow the growth in expenditure or enable the more effective delivery of services within existing resources. In some cases it may entail an initial investment that will slow the growth in expenditure in the longer term.

### **3. Enhanced information and transparency are critical enablers of redesign**

Consumers, providers and funders in the system must contribute to and have access to a range of information including the cost of services, and the price and clinical performance of providers. Otherwise health care providers will not be sufficiently accountable and consumers will either make poor choices or have no capacity to exercise choice at all.

### **4. All parties in the system must have clear accountabilities**

With adequate information and transparency on the performance of the system, providers, funders and governments should be clearly accountable for the outcomes achieved in the parts of the system for which they have responsibility.

### **5. Pricing and regulatory incentives should improve consumer outcomes and efficiency**

A system that is focused on consumer outcomes must include more incentives that recognise the quality of care. This requires changes to payment and pricing mechanisms, including greater utilisation of individualised packages, bundled pricing and blended pricing, and less fee-for-service.

### **6. Clinical innovation must be matched by service delivery innovation**

While there is considerable focus on clinical innovation in health, this must now be coupled with a much stronger focus on changing the underlying business models and delivery systems to improve consumer convenience and improve cost-effectiveness.

## **7. Care must be increasingly digitally enabled**

Health care must be digitally enabled through trusted platforms that enable the exchange of information by clinicians and consumers across different modes of care to enable higher quality tailored care, along with better predictive and preventative health care.

## **8. Supervision and regulation of health care should pay adequate attention to consumer rights and interests**

Deregulation, privatisation and other reforms to open up markets have in most cases been accompanied by the effective oversight and regulation of the newly created market.

The Harper Competition Policy Review found that as governments seek to reform the way in which human services are delivered utilising market-based reforms, they have an important stewardship role. This means ensuring that the long-term interests of consumers are being served and that there are appropriate consumer protections in place. This may include attention to ensuring that:

- barriers to entry and exit are appropriate to the sector
- adequate and trustworthy information is available to consumers to guide their choices and ensure grievance and complaints processes are in place
- the quality of goods and services meets appropriate benchmarks, including safety benchmarks, and that services are provided by appropriately qualified personnel.

## **9. Redesign initiatives must be effectively integrated with the whole health system**

Previous health sector reforms have demonstrated the difficulties with seeking to improve one part of the system only to find that this has had unintended consequences in another part of the system. For example, changes that impact the accessibility of primary care resulting in increased hospital admissions.

While the Productivity Commission may choose to focus on one part of the system (public hospitals) during this inquiry, it must be cognisant of the flow-on impacts of any proposals for change across the entire system.

## **10. Redesign should embrace the respective importance of both the private and public sectors**

The public and private sectors both play important roles within the health sector. For example, the public sector through both funding and provision, provides an important universal safety net for all Australians to access health care. Private health insurance provides additional choice, shorter waiting times and cover for a broader range of services, which in turn takes pressure off the public health system.

The fundamental roles and strengths of the different sectors should continue to be embraced and strengthened as part of delivering better health outcomes. In addition, Australia's mixed system can be conducive to innovation by applying lessons learnt across both sectors.



## Conclusion

Despite the significant potential benefits, recent market-based reforms in human services have demonstrated the challenges in introducing new mechanisms of choice, contestability and competition. If efforts to redesign parts of the health system are to be successful, then the development and implementation of reform must strongly adhere to a set of underlying principles like those outlined above.

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