



## SUBMISSION

# Submission to the Senate Inquiry into Price Regulation associated with the Prostheses List Framework

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Prostheses List Framework*

Healthscope Limited is a publicly listed company, trading on the Australian Securities Exchange under the ticker HSO. Healthscope is a leading private healthcare provider in Australia with 45 hospitals (\*over 4,500 beds) and 48 medical centres, including skin clinics and a specialist breast clinic.

Healthscope also operates pathology operations in New Zealand, Malaysia, Singapore and Vietnam.

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## 1 Healthscope

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Healthscope was established in 1985 and first listed on the Australian Securities Exchange in 1994, operating three hospitals. Today, Healthscope operates 45 private hospitals and 48 medical centres in Australia. Internationally, Healthscope operates 50 pathology laboratories across New Zealand, Singapore, Malaysia and Vietnam. The company employs over 15,000 people in Australia and 2,500 internationally.

In its Australian Hospitals operations, Healthscope provides services to over 17,500 accredited medical practitioners and their patients, including access to operating theatres, patient accommodation, nursing and other clinical care and consumables. Accredited medical practitioners operate independently and are not generally employed<sup>1</sup> by or remunerated by Healthscope.

Healthscope has an unwavering commitment to deliver high quality care to patients in its facilities. Healthscope's staff are focused on providing high quality services to patients, supported by robust systems, efficient processes and world-class equipment and facilities. Healthscope has led the industry in providing transparent access to data to support its commitment to quality. In 2012, Healthscope was the first Australian private hospital provider to publish data on 25 quality indicators from its network of hospitals. The 25 quality indicators published on the Group's website include rates of falls, infection, pressure injuries, hand hygiene, unplanned return to theatre, hospital or intensive care, mental health and rehabilitation outcomes as well as accreditation results.

Healthscope supports the Senate Community Affairs References Committee Inquiry into the price regulation associated with the Prostheses List framework. Healthscope also supports the Private Health Ministerial Advisory Committee's work to ensure Australians continue to have access to high quality care in private hospitals.

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<sup>1</sup> This is distinct from Australian public hospitals where doctors are paid an annual salary and employed by the Government.

## 2 Private hospitals

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Private hospitals play an important role in the Australian healthcare system, in particular by significantly reducing the pressure on the public health system. The Australian Government supports the private hospital sector through the regulation of private health insurance and the design of policies to encourage uptake including Lifetime Health Cover, Private Health Insurance Rebate and Medicare Levy Surcharge.

Recently, private health insurance has been the focus of greater public scrutiny and community concern on the back of a steady increase in premiums, well in excess of inflation. Since the beginning of 2010, premiums have increased annually by between 4.8%-6.2% compared with inflation of 1.3%-3.3% per annum over the same period. However, since March 2010, the cost of private hospital care has remained almost flat. According to recent APRA data, benefits paid by insurers to hospitals in the year to 31 March 2016 grew by \$3.5 billion compared with the year to 31 March 2010. Of this \$3.5 billion, growth in cost of care accounted for only 1.1%, after accounting for inflation, the increase in number of people insured and increased utilisation of hospital services.

The lack of any meaningful growth in cost of care over the six years from 2010 to 2016 can be directly attributed to the private hospital sector's focus on being more efficient while still delivering an increase in acuity of care. Efficiencies have been driven by a combination of factors including continuous innovation in the model of care, better discharge planning of patients and an increase in the use of same day care. Importantly, patients were the beneficiaries.

With this in mind, Healthscope is concerned by the recent trend that shows Australians are opting out of private health insurance or downgrading their level of hospital cover when private hospitals provide an efficient vehicle for delivering quality healthcare outcomes. Healthscope is also concerned by the increase in privately insured patients being treated in public hospitals. The number of private patients in public hospitals has been growing more quickly than private patient episodes overall. Clearly, this places increased pressure on an already stretched public hospital system and results in uninsured patients reliant on the public

system being pushed to the back of the queue, while also undermining the intent of current health legislation.

### 3 Government and the Prostheses List

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The Australian Government has a specific objective to ensure patients have access to safe and effective medical devices. The Department of Health operates the Private Health Insurance (Prostheses) Rules that underpin private health insurance benefits for medical devices and prostheses. The Prostheses List is the Schedule to the Prostheses Rules. The Department also provides secretariat support to the Prostheses List Advisory Committee (PLAC) and importantly, acts as the Minister's Delegate in the approval process.

Private patients treated in both private and public hospital settings are able to access the minimum benefits on the Prostheses List. Public hospitals, through state health departments' central arrangements, have significant purchasing power because of the size of the market they operate in. Healthscope does not participate in the assessment and negotiations of the benefits in the Prostheses List, nor directly sponsor applications made by medical device manufacturers to the PLAC. The Australian Private Hospital Association (APHA), of which Healthscope is a member, has a representative on the PLAC.

The prostheses reimbursement process involves a chain of key stakeholders, with the Australian Government responsible for changes to the prostheses pricing framework. When the market was deregulated and negotiations were left between the insurer and the sponsor of the product, benefits per prostheses almost doubled between 2000-01 and 2002-03.

Under the current system, the price on the Prostheses List operates with a floor, in that like products are listed at a fixed level of reimbursement, the components of which are not reviewed or analysed by the PLAC.

In addition, the definition of 'prostheses' as defined by the Prostheses List restricts eligibility of items to be listed. This, combined with the lack of efficacy

reviews, means that the current system does not benefit from rapid changes in technology and innovation, which can greatly improve clinical outcomes. We support a review of the definition and requirements to incorporate other items, including non-implantables and high cost consumables that have been shown to have clinical efficacy.

While Healthscope supports recent commitments by the Government to reduce the price on certain items on the Prostheses List in the short term, we share the concerns expressed by the Consumers Health Forum that the insurers are under no obligation to pass on the savings gained through the changes.

Overall, Healthscope supports a healthy balance between government regulation and competition. We commend the recommendations made by the Industry Working Group on Private Health Insurance Prostheses Reform (IWG), which was established by the Department of Health to examine opportunities for reform of the arrangements governing prostheses and devices access in the private health insurance sector. These recommendations include:

- a Prostheses List be maintained to ensure consumers and clinicians can access a reasonable choice of clinically relevant prostheses, reimbursed by insurers, preferably without a consumer co-payment;
- the setting of a benefit for a device where consideration should be given to appropriate costs for inclusion in the benefit, including any clinically relevant requirements of the device (e.g. in-theatre assistance, software, maintenance/monitoring and product support etc.); and
- consideration of a mechanism to ensure service providers are reimbursed for the appropriate costs of maintaining inventory to encourage timely access to prostheses.

In regard to IWG's recommendations of a move towards a new pricing model, we support the Government in modelling:

- a price disclosure system encompassing both public and private sector medical device pricing; and

- reference pricing system, taking into account domestic and relevant international prices, while having regard to the different market dynamics in other countries.

Our view is that these recommendations would allow for greater consideration and introduction of effective new technologies and innovations to benefit Australian patients earlier. Healthscope would welcome a consultative and transparent approach to policy change, and the subsequent execution of any changes in a phased and coordinated manner such that all stakeholders are clear about the transition process.

## 4 Prostheses management

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The private healthcare system in Australia provides greater choice, higher quality and faster access to medical services for consumers. Healthscope provides high quality hospital facilities and clinical services for accredited medical practitioners to deliver these objectives. Individual accredited medical specialists are our key stakeholders in driving the high standards of care that our patients expect.

In terms of prostheses, the specialist recommends a product based on the clinical needs and what best suits a particular patient. It is important to note that Healthscope is not involved in determining the prostheses device to be used in surgery and essentially passes through the implanted device cost – as charged by the manufacturer – to the insurer. According to the AMA, “the products are chosen based on clinical expertise, ease of use and research so that patients are getting the most efficacious products for their needs”. In supporting this, we also acknowledge a balance between valuing medical practitioner choice, improving affordability of items on the Prostheses List, and safety and quality implications for patients. Healthscope supports transparency in this process to ensure there are no other incentives being built into this important clinical decision.

It is important to emphasise that Healthscope incurs a significant cost in enabling medical practitioners to implant a large range of prostheses. Healthscope caters

for individual doctor preferences through the breadth of prostheses we offer through direct purchase or consignment, regardless of similarities between devices. By not limiting choice (where practical), our hospitals incur greater management and facility costs to store, track, sterilise and re-pack medical devices and prostheses. In addition to the space provided in operating theatres and Central Sterilising Service Department (CSSD), prostheses and associated kits must be managed through a quality assurance system of ordering, reconciliation and documentation. To ensure the greatest level of safety and compliance, clinical support is often provided through this process.

Another less understood aspect is the unforeseen costs incurred by private hospital providers when implanting prostheses. Under the current Prostheses Rules and funding arrangements, Healthscope receives a reimbursement from private health insurance for prostheses implanted in a patient. However, if a surgeon decides to change prostheses during the operation due to an unforeseen clinical condition, use a different sized prostheses, or if the device breaks during handling, Healthscope still incurs the costs associated with the unused prostheses and devices, given that they are single use.

Healthscope supports reform of reimbursement that accounts for the full cost of providing the associated services rather than the cost effectiveness of the prostheses alone. This includes any clinically relevant requirements of the device and quality assurance components essential to provide, maintain and monitor such products.

Healthscope would like to thank the Community Affairs References Committee's invitation to provide a submission to its inquiry into price regulation associated with the Prostheses List framework. We look forward to receiving a report on the outcome of this review and working with the Government to improve the sustainability of the Australian healthcare system.