Australian Government
Department of Veterans' Affairs
OFFICE OF THE SECRETARY

EC16-000207

Ms Jeannette Radcliffe
Secretary
Senate Standing Committee on Community Affairs
PO Box 6100
Parliament House
CANBERRA ACT 2600

community.affairs.sen@aph.gov.au

Dear Ms Radcliffe

RE: Price regulation associated with the Prostheses List Framework

Thank you for your email of 25 November 2016 inviting the Department of Veterans' Affairs (DVA) to provide a submission to the Inquiry into *Price regulation associated with the Prostheses List Framework.*

DVA has prepared the attached submission. The departmental contact for information regarding the submission is Ms Veronica Hancock, Assistant Secretary Policy Branch, Health and Community Services Division.

Yours sincerely

S. Lewis PSM
Secretary

27 January 2017

GNABRA BUILDING
21 GENGE STREET
CANBERRA CITY ACT 2601

GPO BOX 9998
CANBERRA ACT 2601
AUSTRALIA

TELEPHONE (02) 6289 6736
FACSIMILE (02) 6289 6257
INTERNET www.dva.gov.au

Department of Veterans' Affairs submission:

Senate Standing Committee on Community Affairs
Inquiry into Price regulation associated with the Prostheses List Framework

On 21 November 2016, the Senate referred the following matter to the Senate Community Affairs References Committee for inquiry and report:

Price regulation associated with the Prostheses List Framework.

The terms of reference are:

a. the operation of relevant legislative and regulatory instruments;

b. opportunities for creating a more competitive basis for the purchase and reimbursement of prostheses;

c. the role and function of the Prostheses List Advisory Committee and its subcommittees;

d. the cost of medical devices and prostheses for privately insured patients versus public hospital patients and patients in other countries;

e. the impact the current Prostheses List Framework has on the affordability of private health insurance in Australia;

f. the benefits of reforming the reference pricing system with Australian and international benchmarks;

g. the benefits of any other pricing mechanism arrangements, including but not limited to those adopted by the Pharmaceutical Benefits Scheme, such as:

    i. mandatory price disclosure,

    ii. value-based pricing, and

    iii. reference pricing;

h. price data and analytics to reveal the extent of, and where costs are being generated within, the supply chain, with a particular focus on the device categories of cardiac, Intra Ocular Lens Systems, hips, knees, spine and trauma;

i. any interactions between Government decision-making and device manufacturers or stakeholders and their lobbyists;

j. any implications for prostheses recipients of the National Disability Insurance Scheme transition period; and

k. other related matters.

Context – Australian Government support for veterans

The Australian Government, through the Department of Veterans' Affairs (DVA), delivers comprehensive repatriation support to members and former members of the Australian Defence Force and their dependants. For almost 100 years, DVA has recognised the unique nature of military service by providing a dedicated system of compensation, income support and health treatment for veterans and their families. DVA's annual budget of around $11.7 billion in 2015-16 includes $6.4 billion for income support and compensation, $5.2 billion for health and community services and funding of under $0.1 billion for war graves and commemorations.

In addressing the health care needs of our clients DVA works closely with public and private providers to ensure that eligible clients have access to a wide range of health care and other support services that they require. DVA provides health and support services under the authority of the *Veterans' Entitlements Act 1986* (VEA), the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation Act 1988* (SRCA).

DVA hospital expenditure and client demographics

In 2015-16 DVA provided access to a comprehensive range of health services including hospital, medical, pharmaceutical, allied health and other community health services for approximately 200,000 veterans, war widows and dependants. Expenditure for hospital services over this period was $1.6 billion, with $853 million in the private sector and $743 million in the public sector. The following table shows the estimated number of hospital admissions and patients across the public and private hospital sectors for DVA clients in 2015-16.

Table 1: DVA client hospital admissions, public and private

	Public	Private
Admissions	87,110	180,339
Patients	36,640	67,900
Average admissions per patient	2.4	2.7

Note: An individual patient may have been admitted to both a public and private hospital over the course of the year, in which case they would be counted for each admission.

Private hospital arrangements

DVA private hospital contracts use the Prostheses List as the basis for funding medical devices for veterans. DVA arrangements are consistent with the private health sector, minimising impost on private hospitals and reducing red-tape, and ensuring veteran access to private hospitals where these may be the appropriate venue for the required treatment.

If a DVA client requires a device that is not on the Prostheses List, there are provisions to fund items on a case-by-case basis, subject to clinical need. This may include items that are scheduled for listing on the Prostheses List at the next available release in either February or August; or novel items that are unlisted due to their unique application and/or very limited demand.

DVA private hospital expenditure for medical devices was $101 million in 2015-16, accounting for approximately 11.9% of total DVA expenditure on private hospitals. Of this 60% of expenditure was for cardiac, knee, hip and ophthalmic devices. The following table shows total DVA expenditure over five years to 2015-16, for medical devices provided in private hospitals.

Table 2: DVA expenditure on medical devices in private hospitals

	2011-12	2012-13	2013-14	2014-15	2015-16
Expenditure	$110,473,079	$105,748,801	$107,026,717	$103,962,144	$101,284,452
Items	116,580	111,352	110,274	103,276	101,769
Average cost	$948	$950	$971	$1,007	$995

Table 2 shows that over the five years DVA expenditure was reasonably consistent, with an overall decrease in total cost of 8.3 percent and a 12.7 percent decrease in items used. Over the same period there was an increase in average cost of 5 percent of medical devices provided to DVA clients.

Public hospital arrangements

Since 1 July 2015 medical devices provided under DVA public hospitals arrangements have been funded using the national efficient price as determined by the Independent Hospital Pricing Authority.

Prior to this, DVA funded medical devices through either the use of agreed cost-weights, the Prostheses List, or a combination of both. Where the combination of cost-weight and Prostheses List was used, this provided for funding of high cost items, such as novel cardiac technologies not reflected in the relevant cost-weight. The move to the national efficient price allows DVA a consistent and transparent approach to funding of public hospital services, and to share efficiencies as a result of any bulk purchasing arrangements within the public hospital system.

It is estimated that DVA public hospital expenditure for medical devices was $9.6 million in 2015-16 representing 1.3% of total DVA public hospital expenditure. This difference in funding compared to the private sector reflects a number of factors, such as the higher proportion of non-surgical admissions to public hospitals than the private sector, as well as the expected economies of scale that can be realised by the public hospital system through purchasing arrangements.

Prostheses List Advisory Committee

Since divesting of the Repatriation Hospitals during the 1990s, DVA's role has moved from being that of a provider of hospital services to solely a funding responsibility. DVA has been represented on the Prostheses List Advisory Committee (PLAC) since its formation in 2010, as well as its predecessor the Prostheses and Devices Committee (PDC) when formed almost a decade earlier. Prior to the current Prostheses List arrangement, DVA as well as private health insurers negotiated individually the price for each device with prostheses manufacturers / sponsors for each product available.

DVA has maintained an active membership on the PLAC, including participation on subcommittees for the economic assessment of benefits. Based on this experience it is clear that information available on pricing for medical devices is variable, which reflects a competitive market and the associated sensitivities. But it also is evident that there is scope for efficiency within Australian pricing arrangements given the variation across some devices in terms of international pricing, and domestically across the public and private sectors.

As noted by the review undertaken by Emeritus Professor Lloyd Sansom as chair of the industry working group, there is capacity for reform in terms of transparency of pricing, product assessment, deregulation, refinement of scope of listed products, and opportunity to achieve some rationalisation of benefits.

The past and current arrangements for the pricing of medical devices for the Prostheses List have allowed for a consistent and consensus approach across all stakeholders. However, DVA acknowledges that there is a need to consider future options to ensure effective and transparent expenditure, particularly in light of emerging and novel technologies and the consequent consumer expectations in terms of access.