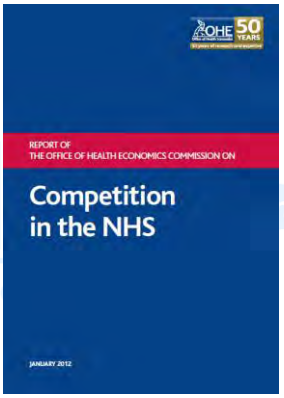
Competition can help the NHS – but proceed with care

Launch of the Report of the OHE Commission on Competition in the NHS

31st January 2012



Research OHE Consulting
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Remit of the OHE Commission

- Role for competition in the NHS
  - a hot political issue
  - highly polarized views
- Remit of Commission to:
  - assess evidence on competition among providers
  - make recommendations for use in NHS in England

Our Starting Point

- NHS provides a whole variety of services
  - with many different characteristics
  - no reason for competition to work the same for all
- When does competition serve public interest?
  - economics has studied characteristics that problematic for competition
  - some health services have such characteristics
  - which ones?

What the Commission Has Done

- Commissioned reviews of evidence on:
  - effects of competition in health services
  - effects of competition in market for care homes
  - economies of scope in A&E
  - evidence more limited than would have liked
- Developed a framework for effective competition
  - maps relevant attributes to specific health services
- Explored with NHS commissioners:
  - its framework for competition, with positive response
  - possible conflict with integration of care

Price Competition

- Evidence:
  - greater competition reduces costs & waiting times
  - but may also result in lower quality care for patients
- Not surprising in light of economic theory
  - particular danger where quality of care not visible to patients / GPs / NHS commissioners
- Not appropriate to recommend wholesale price competition
- But where commissioning one or a few providers for an area, with quality monitored directly, it makes sense to take cost of provision into account

Competition with Regulated Prices – Quality Competition

- Evidence that can be beneficial
  - without increased inequity in access to care
- Recent studies of heart attack NHS admissions
  - find increased competition from "payment by results" and patient choice reduced mortality
  - have weaknesses, as many point out
  - but critics have not done better statistical analysis reaching opposite conclusions
  - so still best evidence available
- Effects (300 fewer deaths per year?) too big to ignore

Conclusions for Competition with Regulated Prices

- **Certainly *not*** appropriate to re-organise NHS yet again by rolling back "payment by results" and patient choice
- **NHS commissioners should:**
  - promote competition where OHE Commission's framework indicates effective
  - consider competitive tendering for other services
  - ensure data is collected to enable evaluation

Integrated Care

- Of great concern; considered very carefully
- Many areas outside health care where services need to be effectively co-ordinated
  - and competition does not appear to hinder it
- Not found evidence that health care different
  - NHS commissioners actually gave examples where potential for competition helped in getting integration
  - specifically, between hospital and community
- So, unless new evidence to the contrary is forthcoming, integration seems unlikely to be hampered by competition

Competition Does Not Mean Privatization

- Competition not same as privatization
  - there can be competition between NHS trusts
  - even in countries with much more competition in health care than England, most providers are not-for-profit institutions
- There would seem to be good reasons for this
- Commission has not addressed question of whether NHS would be better served by having a higher proportion of *private* providers

The OHE Commission Recommends

- Where current providers' performance suggests health care could be improved, competition should be given serious consideration
- The likely effectiveness of competition be assessed before it is tried – using the analytical tool developed by the OHE Commission and described in the report
- "Any qualified provider" arrangements allowing patients, helped by their GPs, to choose where to get their health care are suitable in some cases
- In other cases competitive procurement by local NHS commissioners will be appropriate
- Routine collection and publication of patient outcome measures be expanded to enable evaluation of the effects of competition

In Summary: "Competition Can Help the NHS – But Proceed with Care"

- On the best available evidence, competition at regulated prices has improved the quality of some NHS services
- Health care consists of a whole variety of services with different characteristics
  - OHE Commission has produced a tool for evaluating where competition is most likely to be effective
- Competition can help integration of care – no evidence that it hampers integration

Framework for Assessing the Feasibility of Competition

- Priority areas for promoting competition are where it looks likely to be **beneficial** and **feasible**
- The framework is about **feasibility**
- Starts from economic principles
- Focused on the specific characteristics of health care 'markets'

Assessing Feasibility – 8 Main Dimensions (of 23)

1. Density and stability of demand	High	Medium	Low
2. Willingness/ability to travel	High	Medium	Low
3. Ease of acquiring information about output quality	Easy	Medium	Difficult
4. Economies of scale	Small	Medium	Large
5. Economies of scope	None	Medium	Large
6. Scope for cherry picking and/or dumping	None	Minor	Major
7. Asymmetric competitive constraints	None	Modest	Substantial
8. Politics: too important too fail	No	Maybe	Yes

1. Density and Stability of Demand

Competition is more feasible ….

- The greater is the demand for a service in a given area *relative to the minimum efficient scale of production* of that service
- The more stable and predictable is demand, and hence the more attractive is the market

Density and stability of demand	Elective hip replacement	Major trauma services	Tertiary hospital care

2. Willingness/Ability to Travel

Competition is more feasible the greater the extent of the potential market and hence ….

- The more willing patients are to travel to receive the (non-emergency) service
- The less damaging to their health is the travel time to the (emergency) service

Willingess/ability to travel	Cardiac surgery	Elective hip replacement	GP consultations

3. Ease of Acquiring Information about Output Quality

- Competition is more feasible the easier it is for the 'customer' to determine the quality of the service, i.e. where ….
  - likely quality of output is visible in advance
  - quality of output can be defined and monitored
  - costs of switching between providers are low
- 'Customer' can effectively be the patient, their GP or the commissioning agency (PCT/CCG), depending on the service

Ease of acquiring information about output quality	**IVF**	**Cancer chemotherapy**	**Community based mental health care**

4. Economies of Scale

Competition is more feasible where economies of scale are small or non-existent, i.e. where ….

- Fixed costs are small
- Sunk costs / highly specific assets are few or none
- Learning-by-doing conveys little advantage

Economies of scale	**GP consultations**	**Cardiac surgery**	**Radiotherapy**

5. Economies of Scope

Competition is more feasible where there are few or no economies of scope, i.e. it is not significantly lower cost (for a given quality) to produce services separately rather than together

Economies of scope	Flu vaccination	Elective hip replacement	Major trauma services

6. Scope for Cherry Picking and/or Dumping

- Competition is more feasible if service providers would find it difficult to select low cost patients and exclude high cost patients
- Which arises when the provider can predict patient cost before treatment and the payer cannot detect that selection is occurring

Scope for cherry picking and/or dumping	End of life palliative care	Cardiac surgery	GP consultations?

7. Asymmetric Competitive Constraints

Existing providers may have different capacities to compete with one another. E.g. a hospital-based provider might be able readily to expand into community provision but a community-based provider would not be able to match the hospital-based providers' back-up facilities. This imbalance could render the weaker party unwilling to try to compete

Asymmetric competitive constraints	Elective hip replacement	Community based mental health care	Cancer chemotherapy?

8. Politics: Too Important to Fail

- Say no more ....

Politics: too important too fail	Flu vaccination	Elective hip replacement	Major trauma services

Assessing Feasibility

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