

Professor Ian Harper
 Chair, Competition Policy Review
 Competition Policy Review Secretariat
 The Treasury
 Langton Crescent
 PARKES ACT 2600

29 August 2014

Dear Professor Harper

ADIA welcomes the opportunity to make a submission to your review - the Competition Policy Review ('the Harper Review').

Competition in the context of the recent changes in Government health policy

With the recently announced change in Government policy regarding the introduction of a “modest price signal” for Medicare-funded diagnostic imaging services the Review presents a very important and timely opportunity to consider the effectiveness of competition in this market and, in particular, how more efficient competition in the provision of Medicare-funded diagnostic imaging services to outpatients can be achieved.

Traditionally the role of public hospitals has been to provide free healthcare (including diagnostic imaging services) for Australians that elect to be treated publically. This role has sat alongside a private sector providing diagnostic imaging services that were traditionally also largely bulk billed through Medicare.

Under the proposed new arrangements, concession patients are expected to pay \$7 per service or per episode (it is not clear at this stage) while general patients are expected to pay more than this due to the abolition of the bulk billing incentive for general patients:

Ultrasound	CT	X-Ray	NM	MRI
\$16 - \$99	\$35 - \$136	\$10 - \$56	\$55 - \$104	\$65 - \$163

*Range is based on the rebate cut for general patients, and the average gap by modality for privately billed patients in 2012-13

From mid 2015, 75 per cent of patients will no longer be bulk billed and it is expected that they will “shop around” for the lowest cost options. This will be significant test for the effectiveness of competition in the diagnostic imaging market between public hospitals and private practices.

Public hospitals currently deliver around 16 per cent of Medicare-funded diagnostic imaging services (rebates totalling \$412.2 million in 2010-11).

If patients find that services are available in public hospitals for free or involve lower out of pocket costs then patients will seek out these services. If this were to occur then the flow on impacts on sector wide efficiency, private sector investment and public sector priorities would be concerning.

Competition in the context of the recent changes in Government health policy

ADIA requested Mr John Zeitsch of Verve Economics to prepare a submission to the Harper Review.

The report explores the major advantages that public hospitals derive from Government ownership, and how this is causing competitive failure in the diagnostic imaging market.

The report does not explore the broader question of whether the Government should fund public hospitals to compete in a strongly contested, well-functioning private diagnostic imaging market for outpatients.

The report does outline an approach to improve the competitive balance if public hospitals are to continue to be funded to provide diagnostic imaging services to outpatients in competition with the private sector. These recommendations address both the demand and supply-side issues, and need to be implemented as a package to achieve competitive neutrality in the provision of Medicare-funded diagnostic imaging services to outpatients.

The report concludes that if policy settings are amended to support competitive neutrality, significant benefits will accrue to taxpayers and patients, including through increased sector productivity, lower cost provision of diagnostic imaging services in the community, and improved outcomes for public hospital inpatients.

ADIA is concerned that the administrative cost of adopting the approach recommended in the report might outweigh the benefit of public hospitals competing with the private sector for Medicare funding. The Harper Review could consider other means of delivering Government support to public hospitals that do not undermine competition with private practices.

ADIA proposes that the Harper Review recommend that:

1. The Government should determine the role of Government in funding diagnostic imaging services delivered by public hospitals to outpatients.
2. If the Government is to continue to fund public hospitals to deliver diagnostic imaging services to outpatients, then:
 - i. Government funding to support these services should be delivered to public hospitals through activity based and block funding; and/or
 - ii. the recommendations in the Verve Economics report should be adopted.
3. The Government should prioritise achieving competitive neutrality in the provision of Medicare-funded diagnostic imaging services to outpatients, ahead of the Medicare co-payment commencing in mid-2015.

ADIA commends the Verve Economics report to the Harper Review, and would welcome the opportunity for ADIA and Verve Economics to discuss it further with the Review Panel.

Kind Regards,



Pattie Beerens
Chief Executive Officer