

LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

**REVIEW OF
AUDITOR-GENERAL'S REPORT
NUMBER 3, 1996**

VMO Contracts

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Report Number 21

November 1996

RESOLUTION OF APPOINTMENT

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 9 March 1995 with the following terms of reference:

- (a) examine:
 - (i) the accounts of the receipts and expenditure of the Australian Capital Territory;
 - (ii) the financial affairs of authorities of the Australian Capital Territory; and
 - (iii) all reports of the Auditor-General which have been laid before the Assembly;
- (b) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;
- (c) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and
- (d) inquire into and report on the implementation of the *Public Sector Management Act 1994* with particular reference to:
 - (i) the public interest; and
 - (ii) any other related matter.

MEMBERSHIP OF THE COMMITTEE

Mr Bill Wood MLA (From 26 March 1996. Elected Committee Chair 3 April 1996)

Mr Trevor Kaine MLA (Deputy Committee Chair)

Ms Lucy Horodny MLA

Ms Rosemary Follett MLA (To 26 March 1996. Former Committee Chair)

Secretary: Bill Symington

1. INTRODUCTION

Background

1.1. Auditor-General's Report No 3, 1996 was presented to the Assembly on 27 March 1996.

1.2. This audit report had its origins in a 1993 performance audit on Visiting Medical Officer (VMO) contracts, and an undertaking by the Minister for Health and Community Care to provide the Public Accounts Committee with the new contracts which were being negotiated and to provide financial and other information in relation to the contracts.

1.3. In a letter dated 14 June 1995 to all Members of the Assembly the Minister provided a table showing the percentage of each type of VMO contractual arrangement finalised in the ACT public hospital system and operational from 1 June 1995, and the agreed savings under the new arrangements. The savings were given as \$2,670,000 per year. On the same date the Minister provided the public Accounts Committee with copies of sessional and fee-for-service contracts in use in the Canberra Hospital, and provided contract acceptance rates for the two public hospitals.

1.4. The committee discussed the new contracts with the Auditor-General following which it requested that the Auditor-General comment on the contracts and on a cost model of aggregated VMO arrangements, the costs indicated and the projected savings.

1.5. The audit included a comparison of the previous and new contracts and an analysis of the potential cost effects of the variations between the previous and the new. The audit did not extend to an assessment of potential benefits which may be generated from medical practice changes being developed at The Canberra Hospital (previously the Woden Valley Hospital) as part of an integrated approach involving the new contracts.¹

2. COMMITTEE APPROACH

2.1. The committee sought comment on the audit findings from the Minister for Health and Community Care and sought advice on a number of specific matters arising from the committee's initial consideration of the audit. The specific matters on which the committee sought advice from the Minister were:

- (i) what is being done to develop a more appropriate cost model on aggregated VMO payments
- (ii) the form of any such model
- (iii) plans to realise future cost savings and what guarantees can be given in this regard
- (iv) whether VMO data will be provided in quarterly reports to the Assembly
- (v) what accounting systems will be put in place to bring out this information.

¹ Audit Report, p3

2.2. There was also Assembly debate² on the audit report shortly after it was presented to the Assembly and the committee has taken note of that debate in this review. An outline of the audit findings together with the Minister's comments and responses to the additional queries raised by the committee is given in the following sections of this report.

3. AUDIT FINDINGS

3.1. On the evidence available, the audit concluded that the new VMO contracts will not lead to the forecast savings of \$2.6m, at least in the short-term.³

Comparison of New and Old Contracts

3.2. The audit noted that the extended time - four years - taken by contract negotiations had a major influence on the content of the new contracts. During that time individuals responsible for negotiations changed and industrial action by VMOs seriously affected hospital services and generated intense community pressure for settlement of the dispute.⁴

3.3. Under the previous contract VMOs could choose either fee-for-service or sessional payments. The new contract removes this choice, enabling the Department of Health and Community Care (the Department) to make the decision.

3.4. VMOs in obstetrics/gynaecology, gastroenterology and cardiology have both fee-for-service and sessional contracts. The audit found that depending on the patterns of service provision the Department can vary the contract mix to achieve a lower overall cost. However, the audit noted that mix changes will have a significant impact on the incomes of some VMOs with a possibility that some will seek to maintain their incomes by over-servicing.⁵

3.5. The Minister for Health and Community Care advised that careful management of contract arrangements is the key to producing benefits, and the Government does not consider the risks of over-servicing significant.⁶

3.6. Sessional rates under the new contracts increased by about 5% and the audit found that unless services are reduced or re-arranged, or there is variation in the methods of payment, the increase will generate extra costs of up to about 2% of total VMO expenditure. The audit noted that the increase will need to be offset by savings in the arrangements before any savings can emerge.⁷

3.7. The Minister advised that although the fee-for-service rates did not change, the sessional rates of remuneration have increased in line with those in NSW in order to ensure the ACT is well placed in the market. The Minister advised that the increased expenditure has the

² Debates of the Legislative Assembly, 28 March 1996, p752 et seq

³ Audit Report, p3

⁴ *ibid*, p5

⁵ *ibid*, p6

⁶ Minister for Health and Community Care, letter to committee dated 21 August 1996

⁷ Audit report, p8

potential to bring about improvements in productivity provided the sessional arrangements are well managed.⁸

3.8. With regard to fees-for-services rates of remuneration, the audit found that as the rates continue to be based on the ACT Public Hospital Schedule rather than the Medicare Schedule, the cost impact will depend on how services are rearranged or reduced, although the removal of indexation, which applied under the previous fee schedule, will provide some benefits.⁹

3.9. Under the old contract, fee-for-service VMOs were paid an on-call allowance of \$84 per day and sessional VMOs 10% of the hourly rate. As VMOs are usually rostered for 24 hours, the daily on-call allowance for sessional VMOs varied between \$230 - \$318 per day. Under the new contracts, the on-call allowance for all VMOs is \$168 per day. The audit found that the impact on costs was minimal.¹⁰

3.10. The audit found that the removal of indexation will remove a degree of uncontrollability over VMO costs and should achieve some short-term savings in the rate of increase of these costs.¹¹

3.11. Facility fees are now paid by VMO specialists based on a percentage of each VMO's remuneration for certain services. The fees vary between 20% and 60% of the service fee received and the audit found that the new requirement will contribute savings.¹²

3.12. The audit found that the submission of accounts within 60 days, compared to previous practice where accounts often lagged up to months and years will allow for improved budgeting and management of VMO costs, but will only generate small savings.¹³

3.13. The audit found potential to generate increased costs arising from the participation of VMOs in all quality assurance, quality improvement and peer review activities required under the new contracts.¹⁴

⁸ Minister for Health and Community Care, op cit

⁹ Audit report, p8

¹⁰ *ibid*, p9

¹¹ *ibid*

¹² *ibid*, p10

¹³ *ibid*, pp10,11

¹⁴ *ibid*, p11

Departmental Estimation of Costs and Savings

3.14. A cost model used by the Department in the contract negotiations was the basis for cost and savings advice provided to the Public Accounts Committee by the Minister. Estimated savings indicated by the model were:¹⁵

Contract Mix	\$1.7m
Changes to Roster	\$0.7m
Productivity	<u>\$0.2m</u>
Total	<u>\$2.6m</u>

3.15. With regard to contract mix, the audit found that the cost model was compiled from activity and costing data from hospitals from 1991-92 to arrive at average costs for each specialty. Having regard to changes in the contract mix, specialty rates were increased by 6.7% to turn them into 1995-96 terms, and a comparison made with the estimated new contract costs. The relevant costs were calculated as follows:¹⁶

1991-92 costs (\$9,137,976) increased by 6.7%	\$9,750,000
1995-96 estimated new contract costs	<u>\$8,015,861</u>
Saving	<u>\$1,734,459</u>

3.16. However, the audit noted that the new contract costs did not reflect actual recent levels of expenditure. In 1994-95, actual VMO expenditures were \$11,513,200.¹⁷

3.17. In the light of its examination, the audit expressed concerns about the robustness of the cost model and the relevance and use of 1991-92 activity data for estimating savings to be achieved in 1995-96. The audit expressed considerable doubt as to the overall validity of the model and the reliability of the savings forecast.¹⁸

3.18. The Minister acknowledged the limitations of the cost model and advised that the age of the base data used for comparison in the model led to conclusions that can not be sustained for budget estimation. The Minister advised that the new contracts do contain a provision to review the rates of remuneration to apply from December 1996 but that any changes will be negotiated and arbitrated on the basis of reasonable market rates and will not involve changes in the current mix of contracts.¹⁹

3.19. In response to the committee's query as to what is being done to develop a more appropriate cost model on aggregated VMO payments, the Minister advised that the cost model used in the previous negotiations will not be used to predict savings in

¹⁵ *ibid*, p12

¹⁶ *ibid*, p13

¹⁷ *ibid*, p14 & Appendix 1

¹⁸ *ibid*, p14

¹⁹ Minister, letter dated 21 August 1996

any future negotiations on VMO contracts. The Minister advised that at this stage there is no requirement for a new cost model to be developed, as the previous modelling was done to try to predict the possible outcome of changing the mix of contracts.²⁰

3.20. The Minister advised that the opportunity to revisit the mix does not arise until the current three year contracts expire in June 1998 and, by that time, it is anticipated that each hospital will have developed a more appropriate way of estimating its desired outcomes. The Minister further advised that it was anticipated that any future model will be based on the activity and financial parameters current at that future time.²¹

3.21. With regard to estimated on-call roster savings, the audit noted these were calculated by subtracting projected on-call costs under a new roster from actual costs for 1992-93. However, the audit noted that the reduction in VMO costs will be achieved by sharing rosters between the Canberra and Calvary hospitals so that a single practitioner is available to work at either hospital, and by increased use of Staff Medical Officers (SMO) on the roster.

3.22. The audit concluded that cost savings which may be achieved from these roster changes could not be regarded as resulting from the new VMO contracts, although it acknowledged that the Department disputes this finding, arguing that the on-call roster variations could only have been made following the climate of change engendered by the new contracts. The audit noted that while the success of the changes was unknown at the time of the audit examination, using a single roster for hospitals should lead to cost reductions. However, the audit also noted that the use of Staff Medical Officers will also generate additional SMO costs.²²

3.23. In relation to this finding, the Minister advised that although savings from the on-call roster are not specifically referred to in the new contract arrangements, they were clearly achieved in the context of the negotiations and can legitimately be seen as part of the changes introduced in relation to the contracts. The Minister advised that certain specialities undertook to improve practice arrangements as part of the contract negotiations.²³

3.24. The audit found no supporting or verifiable information for productivity savings, but noted Departmental advice that these would flow from efficient use of clinical procedures, less intervention in obstetrics procedures, possible increase in procedures performed in rooms requiring less intervention, more efficient theatre practices, more efficient use of prosthetics in orthopaedics, and joint emergency rosters between Canberra and Calvary hospitals.

²⁰ Minister for Health and Community Care, letter to committee dated 2 July 1996

²¹ *ibid*

²² Audit Report, p15

²³ Minister, letter dated 21 August 1996

3.25. As with on-call rosters, the audit did not consider that cost savings from the productivity measures should be regarded as resulting from the new contracts, noting that savings could have been achieved independently through management action.²⁴

3.26. The Minister advised that the productivity improvements were estimated to achieve a conservatively estimated \$0.2m of the more efficient practices and procedures introduced at the time of the contract negotiations.²⁵

1995-96 VMO Budget Estimates

3.27. The Department advised the audit that VMO savings at Canberra Hospital will be achieved as the 1995-96 budget for VMOs had been reduced by \$3m below the actual expenditure for 1994-95.²⁶

3.28. However, the audit noted that budget reduction estimates were made without reference to the cost model referred to in paragraphs 3.14 et seq above and suggested that the Department had little faith in the validity of the cost model as a predictor of future expenditure. Notwithstanding this, the audit noted that budgeted reductions against 1994-95 expenditure for various services appear to involve significant reductions in the levels of services provided by Canberra Hospital but it is difficult to see how such reductions can be achieved. In this regard, the audit noted that at the end of December 1995, year to date actual expenditure on VMOs at \$6,439,200 was considerably in excess of the budgeted amount of \$4,516,400 to that date.²⁷

3.29. The Department advised the audit that the cost model was not intended to be a budget management tool, being developed for use in the arbitration case to demonstrate what savings might be possible. The Department advised the audit that budget targets took account of service provision arrangements and that this was made clear in material presented to the Assembly.²⁸

3.30. The audit also noted that the lag in past years in VMOs billing the Department meant that any full-year benefits of the new contracts cannot be achieved until 1996-97.²⁹

3.31. Responding to these audit findings, the Minister advised that the time lags resulting from the 60 day period for submission of accounts by VMOs has impacted on the level of savings achievable in the 1995-96 financial year. The Minister also advised that the Government had acknowledged that time lags and the growth of services provided by VMOs had been reflected in the 1995-96 budget as a non-decline in expenditure from the previous year. The Minister further advised that the decline in

²⁴ Audit report, pp15,16

²⁵ Minister, letter dated 21 August 1996

²⁶ Audit Report, p17

²⁷ *ibid*

²⁸ *ibid*, p18

²⁹ *ibid*

the number of private patients in public hospitals has led to an increase in public patients who are treated by VMOs.³⁰

3.32. In response to the committee's request for advice on plans to realise future cost savings and what guarantees can be given in this regard, the Minister advised that the Government remains committed to bringing the costs of the ACT health system closer to national average levels and to do this, it will continue to pursue arrangements that are more in line with those applying in other states.

3.33. The committee requested advice as to whether VMO data will be provided in quarterly reports to the Assembly. The Minister responded that the Government does not plan to provide quarterly reports on VMO data to the Assembly. The Minister noted that this information is provided in the Department's annual report and can be scrutinised by the Assembly and the public at that time. The Minister further advised that the Government does not believe that more frequent reporting of this information will achieve a benefit that would justify the increased administrative overheads involved.³¹

3.34. With regard to accounting systems to be put in place to bring out this information, the Minister advised that both the current FISCAL accounting system and the new Oracle Government Financial system, which was to be in place by 1 July 1996, are able to record payments to VMOs to allow these to be reported.³²

4. COMMITTEE COMMENT AND CONCLUSION

4.1. The committee notes the Minister's advice that careful management of contract arrangements is the key to achieving improvements in productivity. However, the committee must accept that, on the basis of the audit report, it seems unlikely that the new contracts would have produced the forecast savings of some \$2.6m in the first year (ie the year 1995/96) even after allowing for unforeseen developments within the hospital systems including the increase in public patients treated by VMOs.

4.2. The committee's principal concern is that there should be clear and identifiable costs associated with VMO contractual arrangements and that estimates of future cost savings resulting from VMO contracts should be realistic and based upon hard data and an appropriate model.

4.3. The Assembly is entitled to expect that cost estimates and projected savings resulting from VMO contracts and which are presented as fact are based upon viable cost models and that they have been fully tested before being presented to Members as achievable. This does not appear to have been the case with projections relating to the new VMO contracts.

³⁰ Minister, letter dated 21 August 1996

³¹ Minister, letter dated 2 July 1996

³² *ibid*

4.4. The committee concludes that while there must be scope for achievable savings from the new VMO contracts it is not possible at this stage to quantify those savings, and that any savings are unlikely to be measurable before the contracts are reviewed in June 1998 when possible savings will be calculated over the three year life of the contracts.

A handwritten signature in cursive script that reads "Bill Wood".

Bill Wood MLA
Chair