

Controlling costly care: a billion dollar hospital opportunity

Stephen Duckett

**Presentation to
Women's and Children's Health
Network Futures Forum
March 2014**



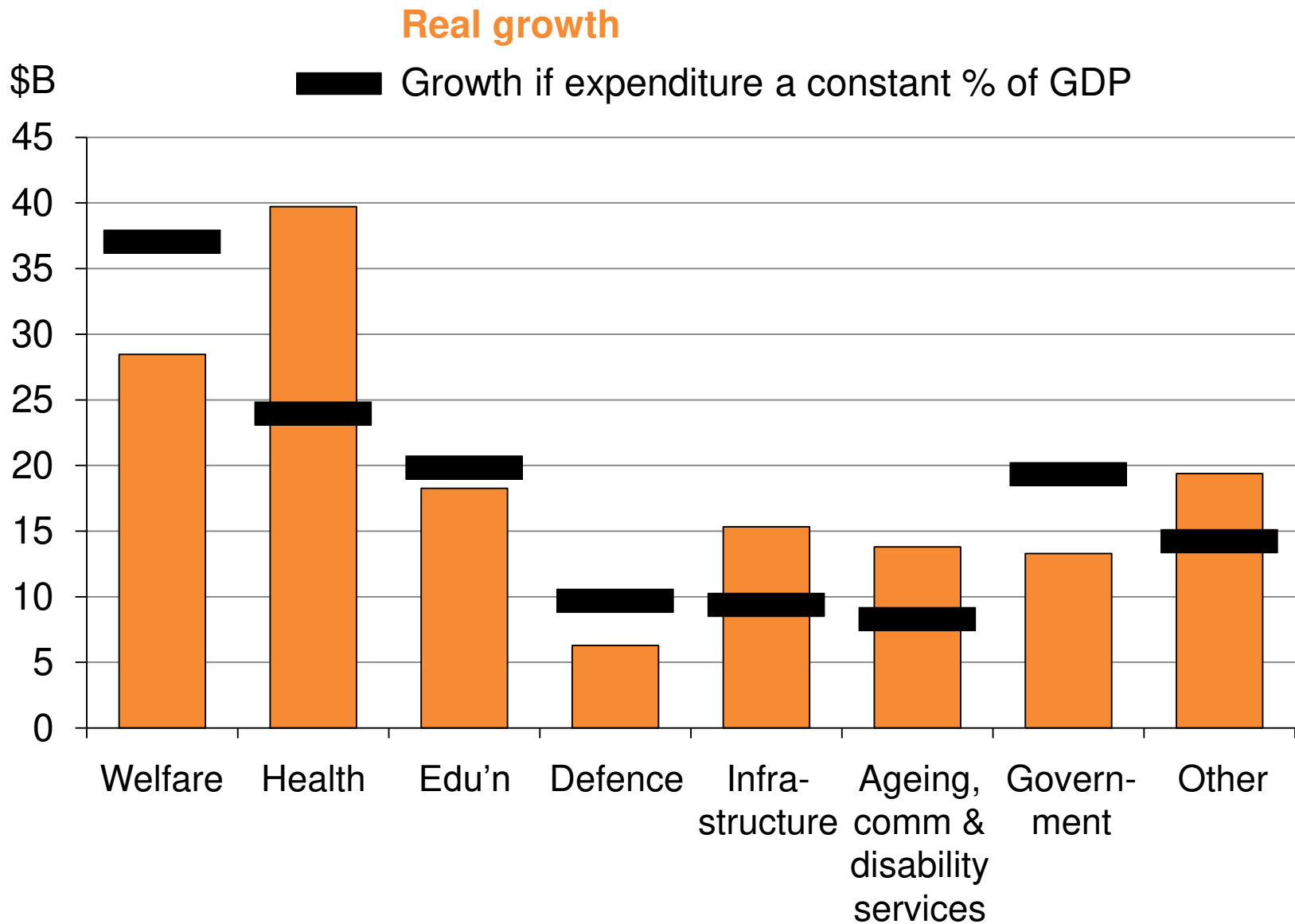
**Controlling costly care:
a billion-dollar hospital opportunity**

Stephen Duckett and Peter Breadon

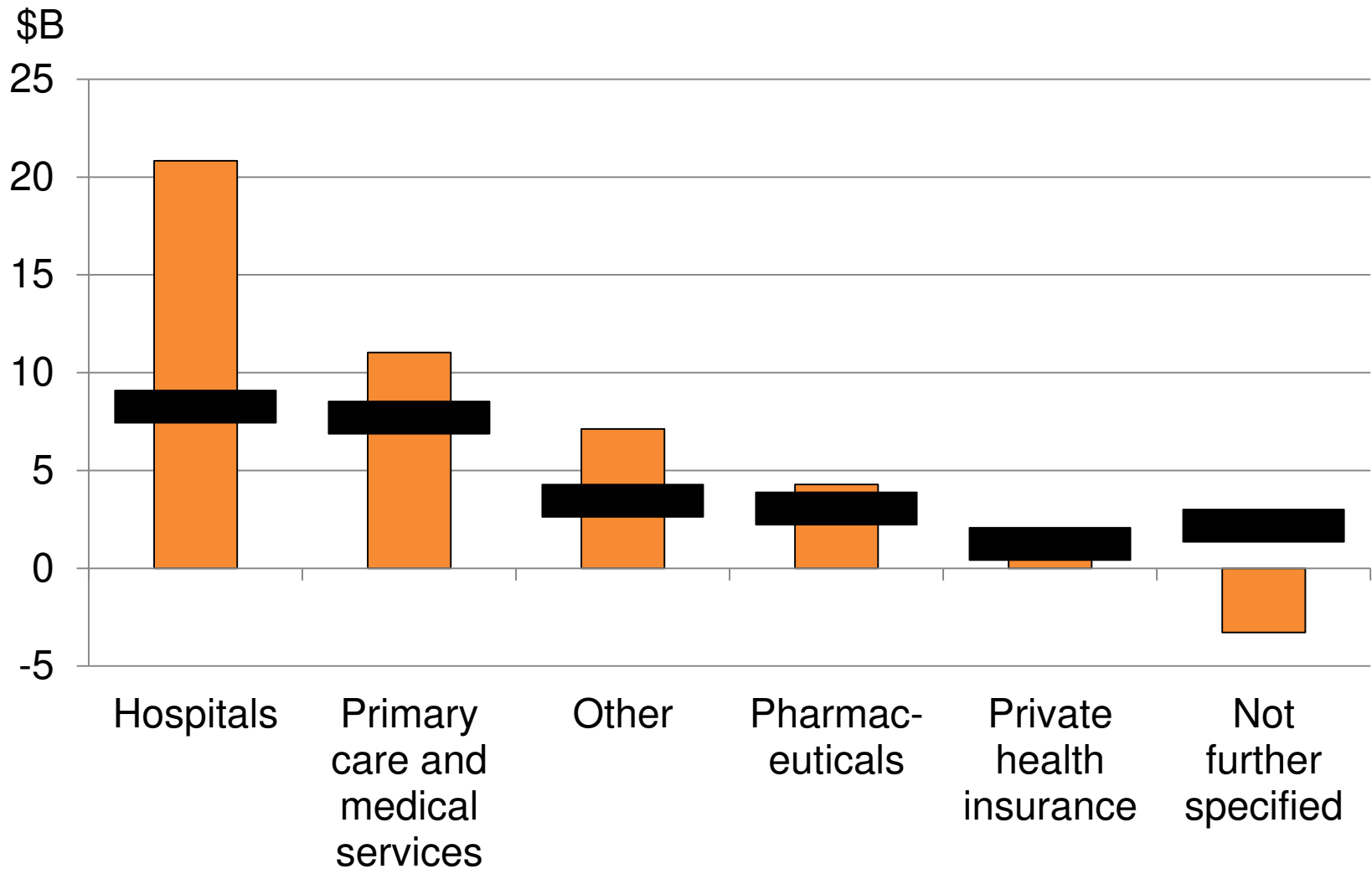
Agenda

- What is the context?
- What did we find?
- What do we propose?

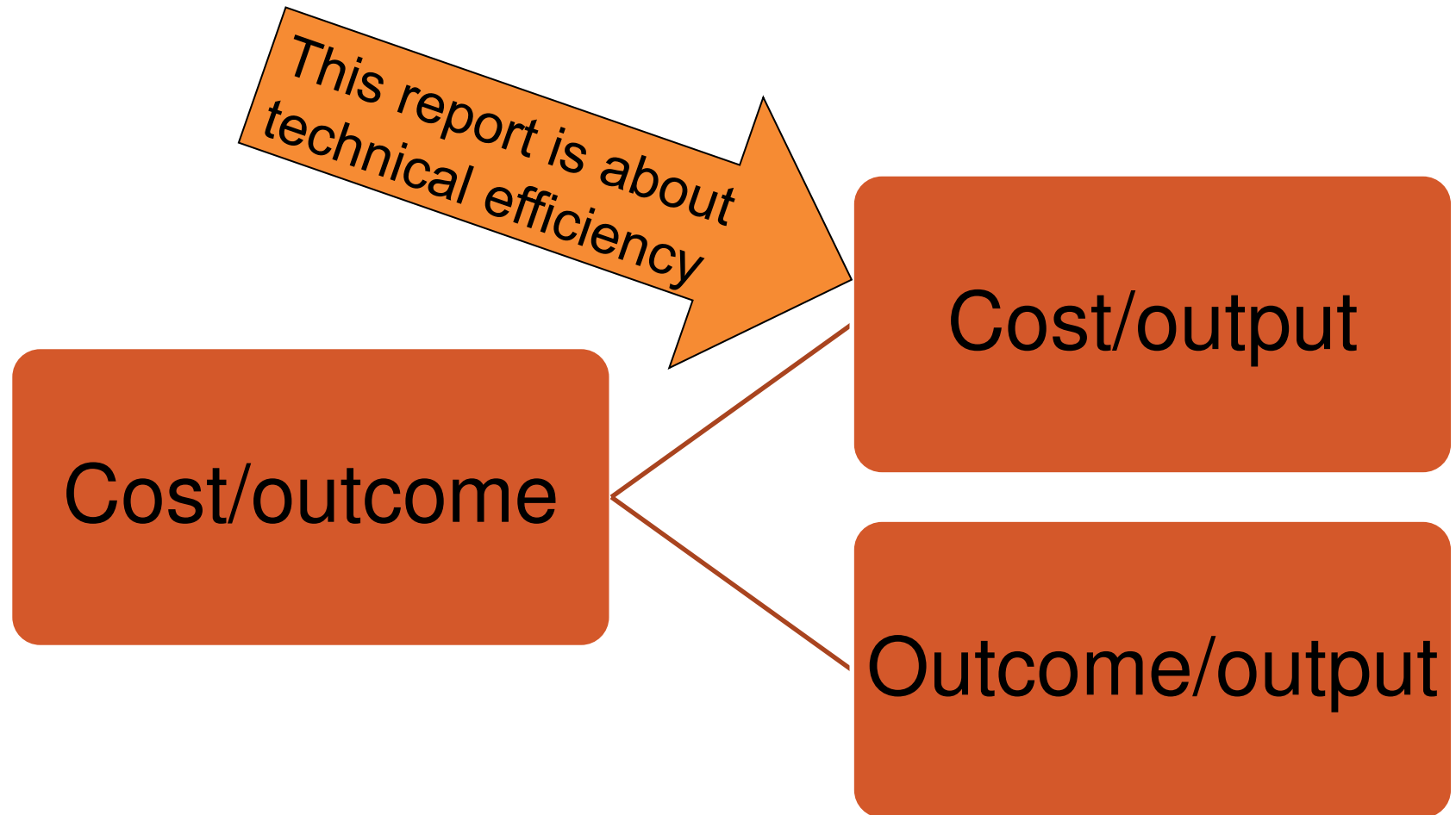
Health is the fastest growing segment of government expenditure (2012-13)



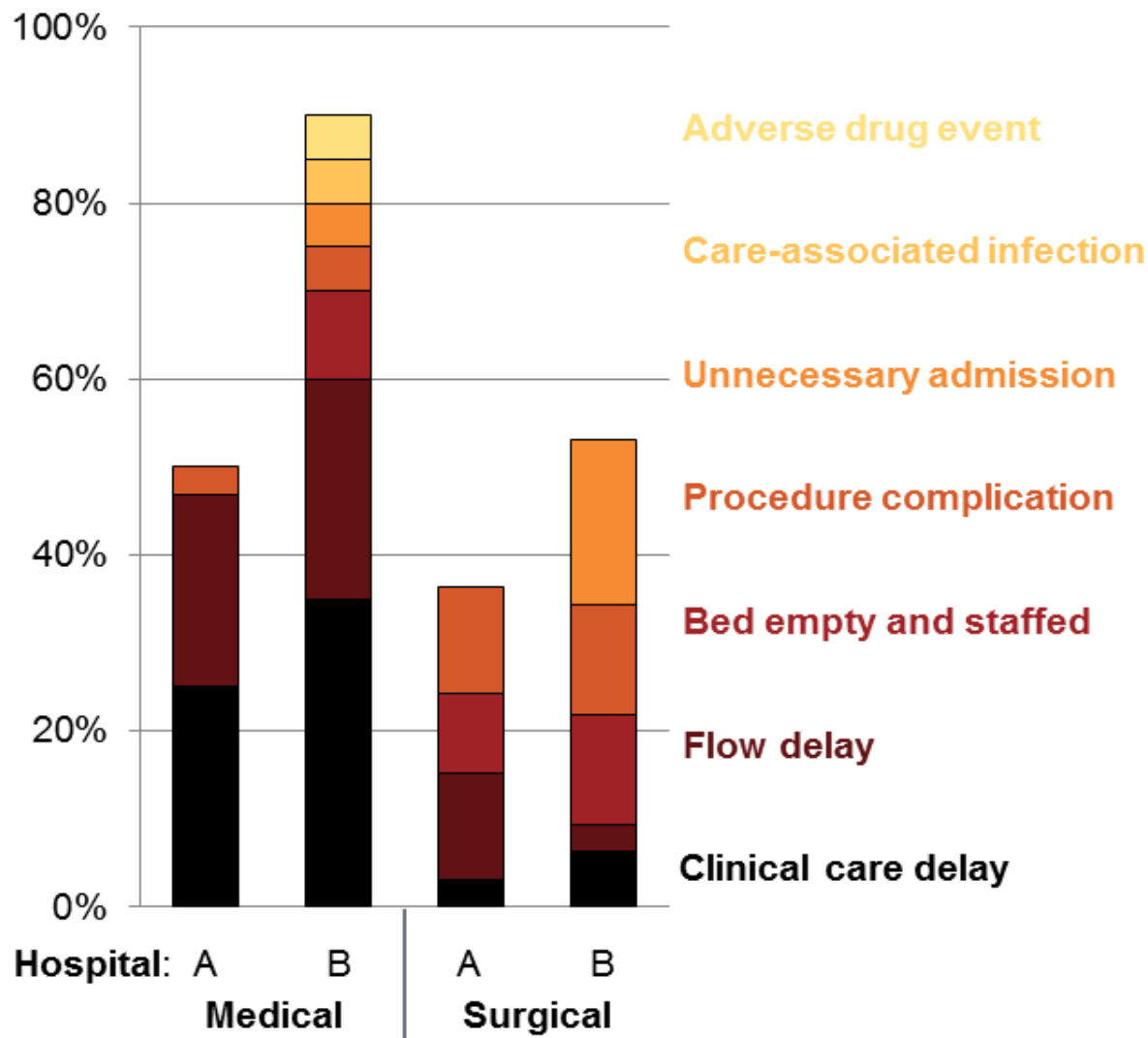
Hospitals are the fastest growing segment of health expenditure (2002-3 to 2012-13)



Some background



Waste abounds in hospitals: proportion of beds with identified waste at audit

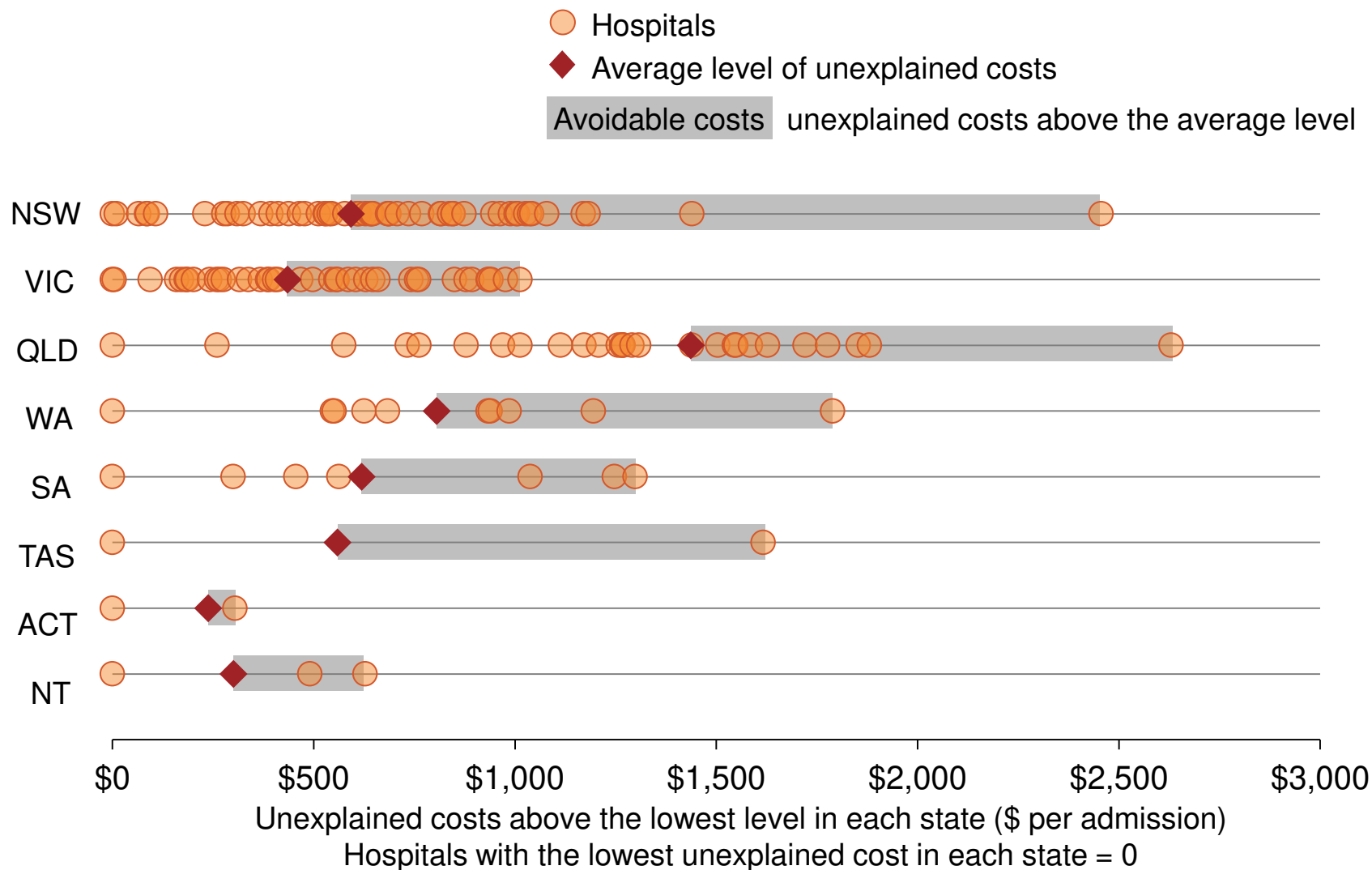


Note: Only one type of waste was recorded for each bed.

Legitimate, unexplained and avoidable costs



There is significant within-state variation in public hospital costs (2010-11 data)



Note: Some small hospitals (total admissions < 4,000 p.a.) not shown

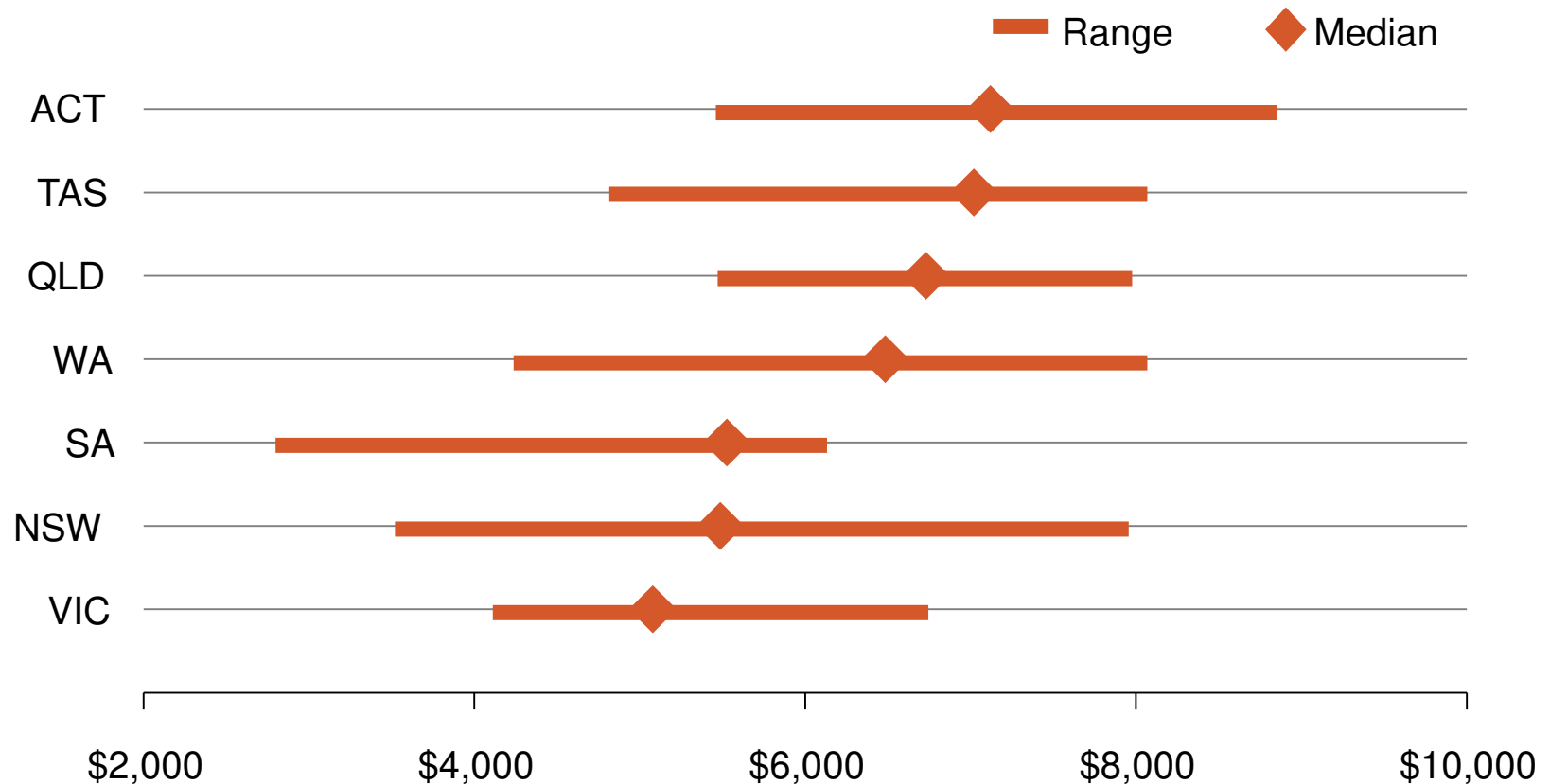
Avoidable costs add up to \$1 billion a year

Avoidable cost by state, 2010-11



There is huge variation in the cost of treatments, e.g. gall bladder removal ...

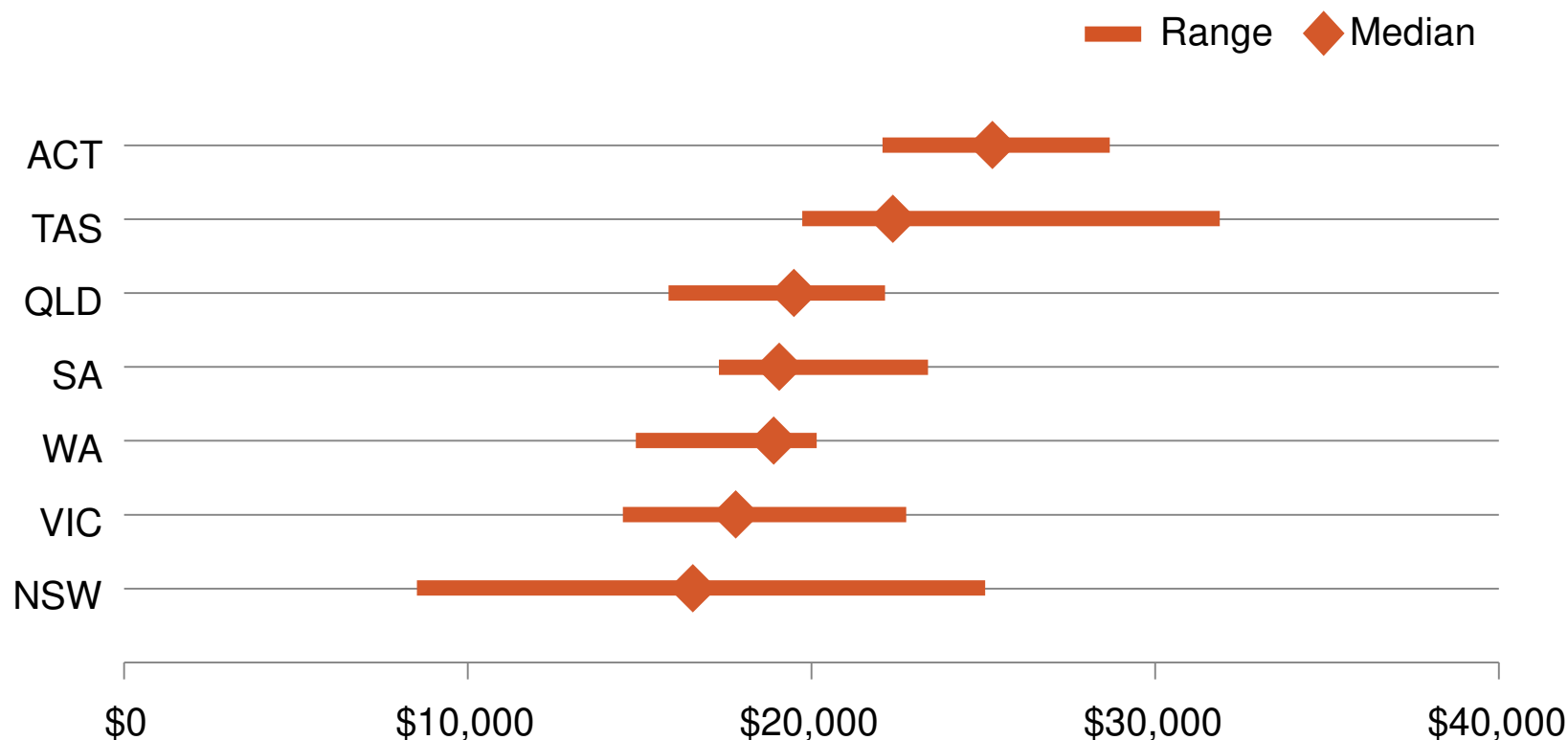
Cost of laproscopic colecystectomy (gall bladder removal), unadjusted, 2010-11



Note: H08B, the less complicated DRG category for the procedure

... and hip replacements

Cost of hip replacement, unadjusted, 2010-11



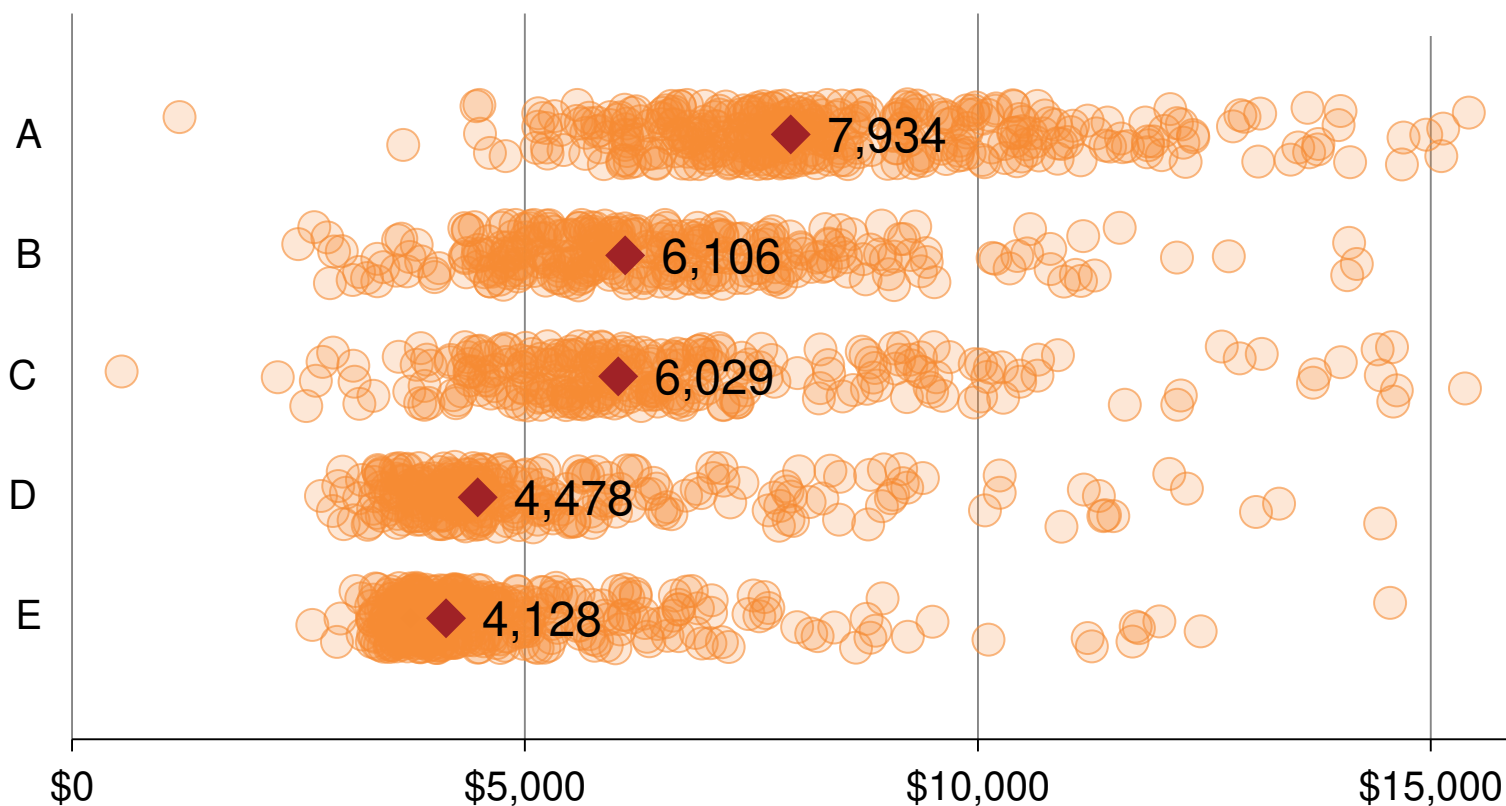
Note: I03B, the less complicated DRG category for the procedure

Costs aren't driven by scale

Cost of gall bladder removal, unadjusted, five high-volume hospitals, 2010-11

High volume hospitals

Admissions
Median cost

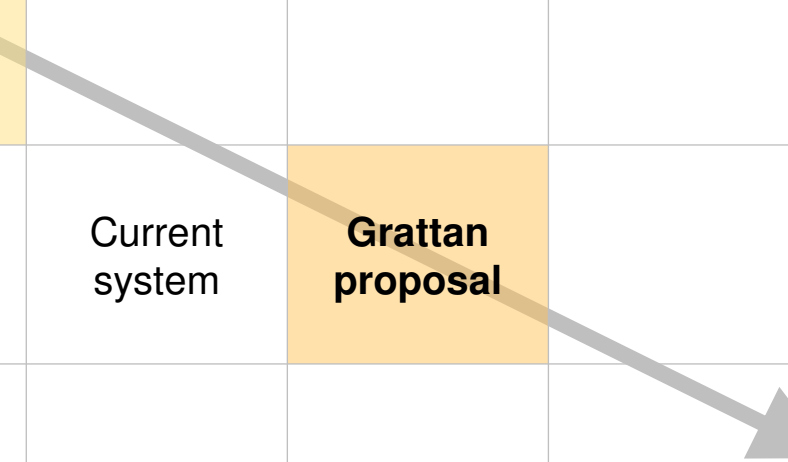


Note: H08B, the less complicated DRG category for the procedure

There are three steps to remove avoidable costs, starting with setting the right price

What costs are funded?

What standard should hospitals reach?	Arbitrary	Pay for costs caused by patient factors	Don't pay for avoidable costs	Pay for care that works	
				Adjust for adverse events Adjust for readmissions	Pay for pathways Adjust for outcomes
Their own previous standard	What care <i>does</i> cost				More research & better data needed
Average cost		Current system	Grattan proposal		
Below-average cost					What care <i>should</i> cost



Then combine it with information and governance that focus on avoidable cost

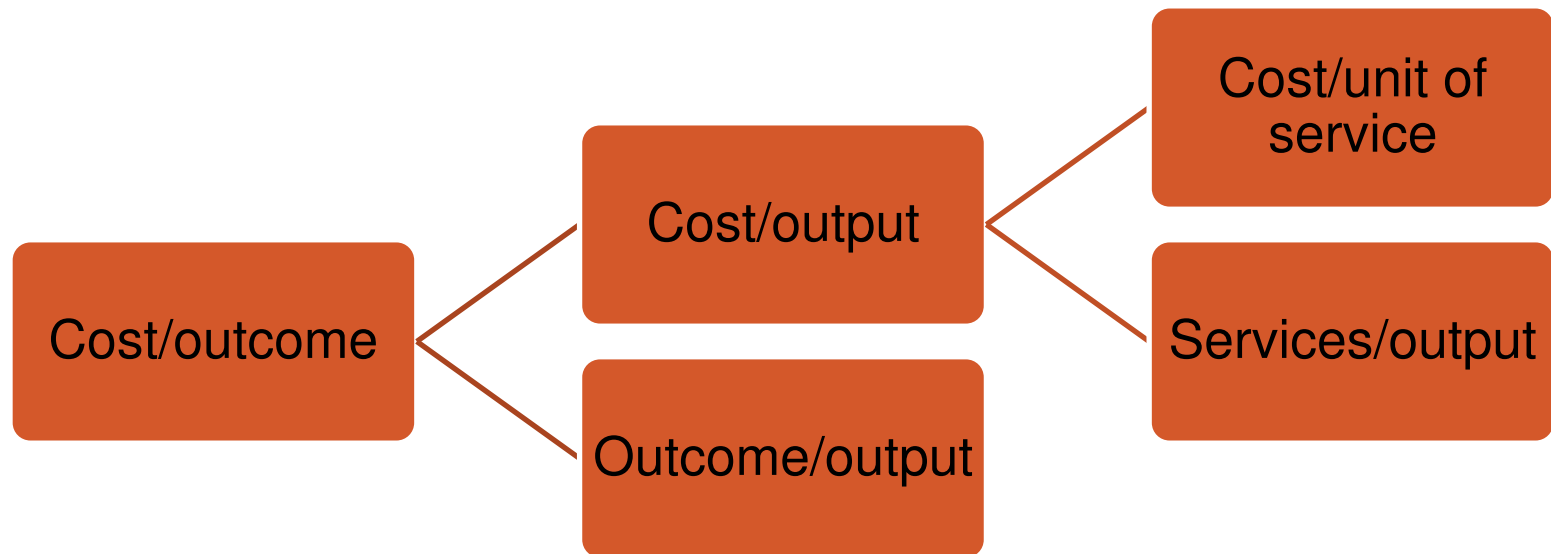
1. The right price

Don't pay for avoidable costs

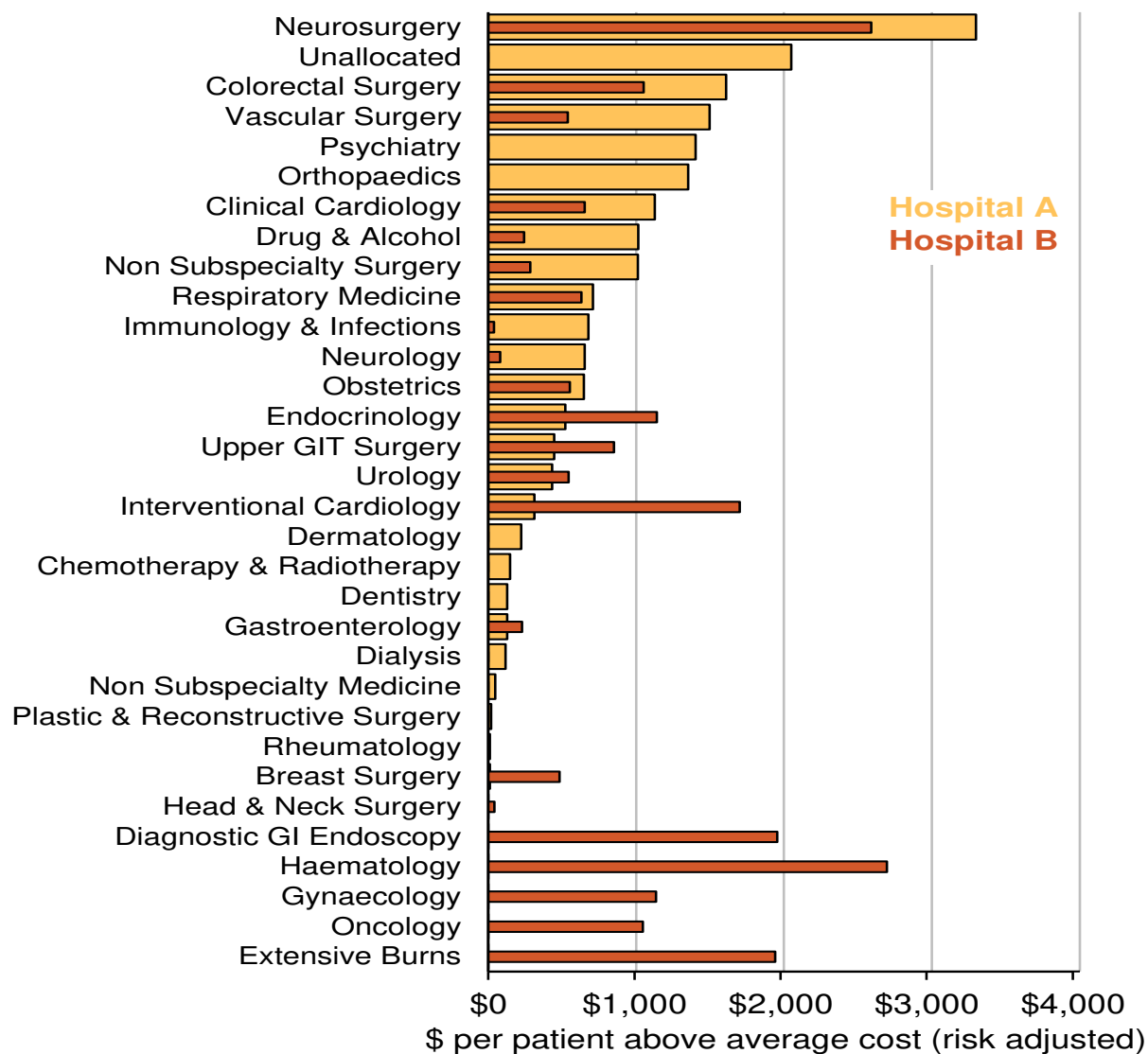
2. Data for decisions

Let hospitals know where they need to improve

Hospitals need to know where to look



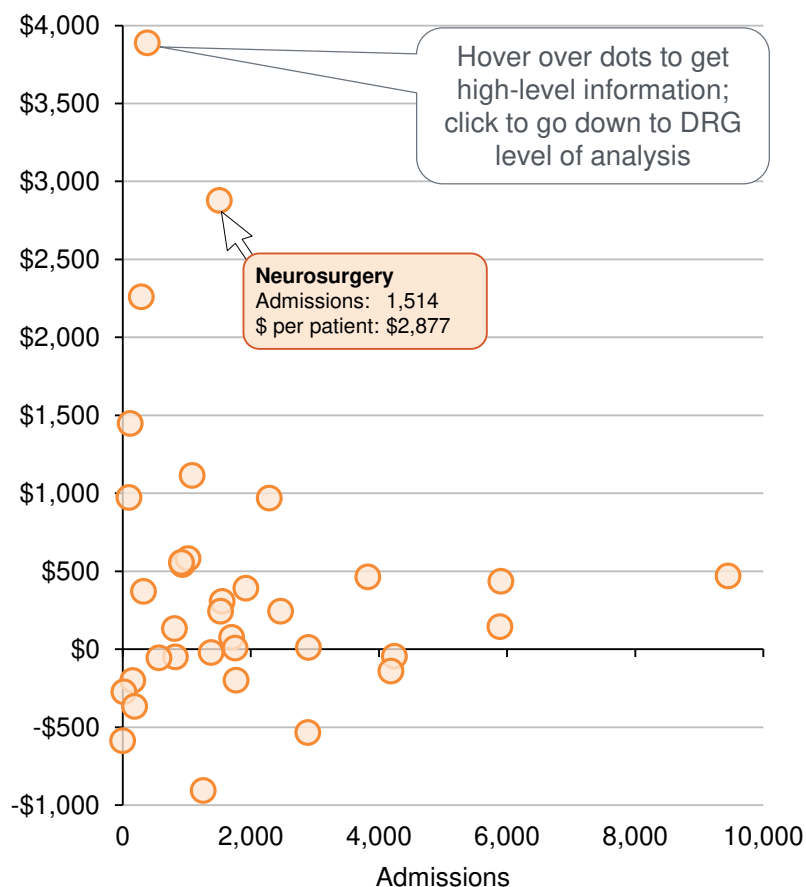
A tale of two hospitals



Comparative information should be available

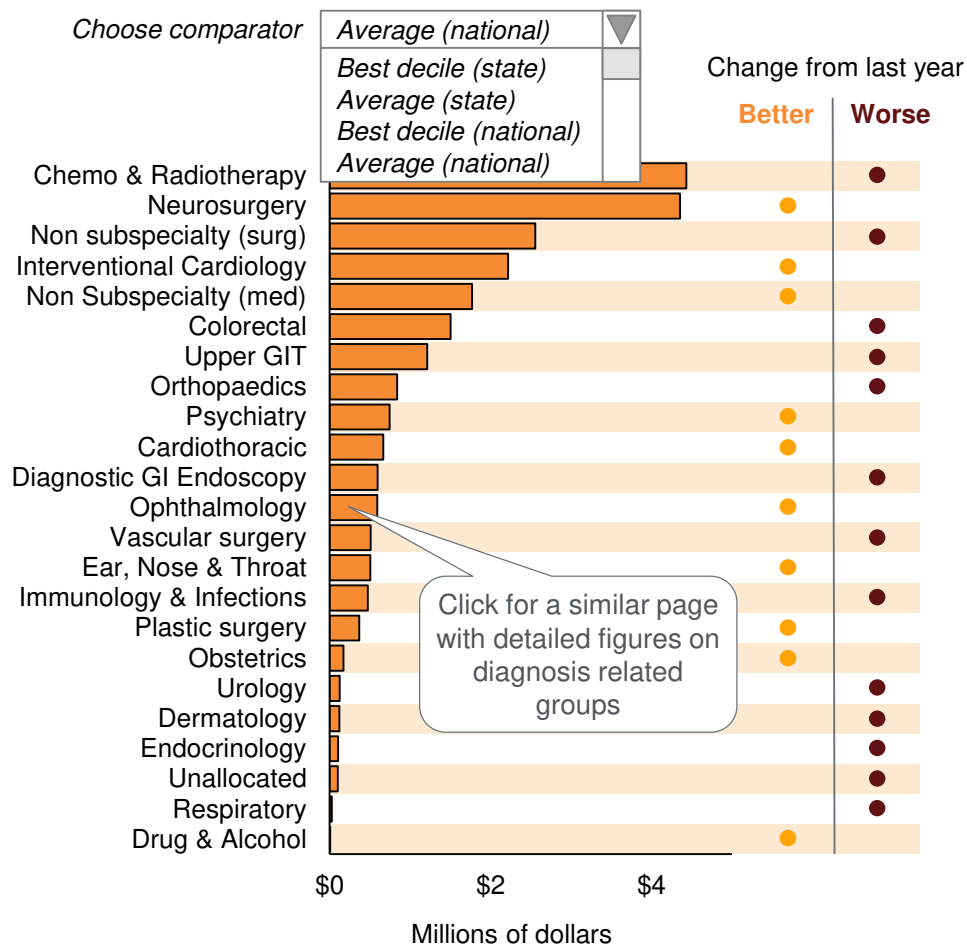
Deviation in cost, by volume (2010-11)

\$ per patient above average cost



Total expenditure above benchmark

Choose comparator



Then combine it with information and governance that focus on avoidable cost

1. The right price

Don't pay for avoidable costs

2. Data for decisions

Let hospitals know where they need to improve

3. Getting the carrots and sticks right

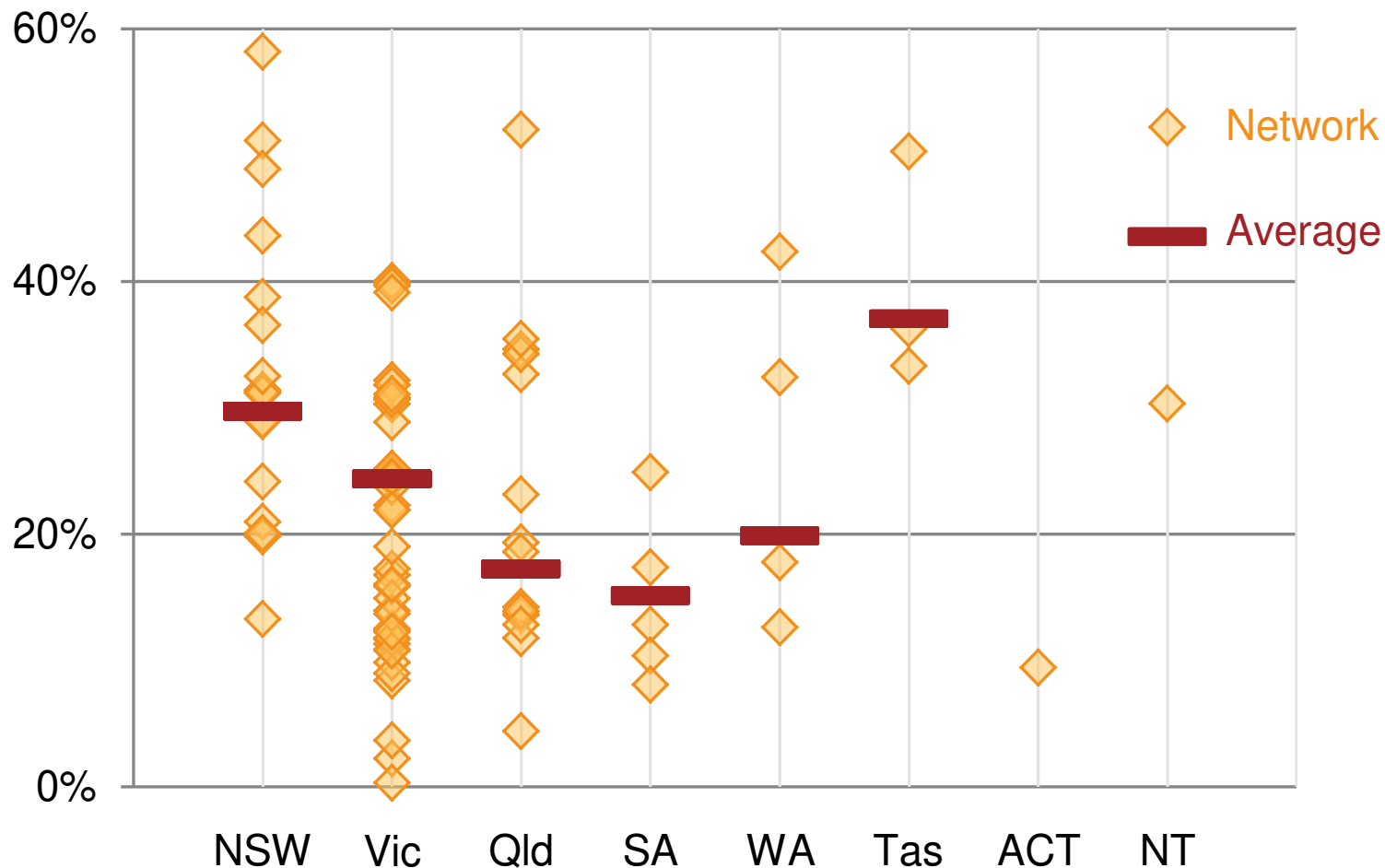
Tighten up block funding

Sanctions for bailouts

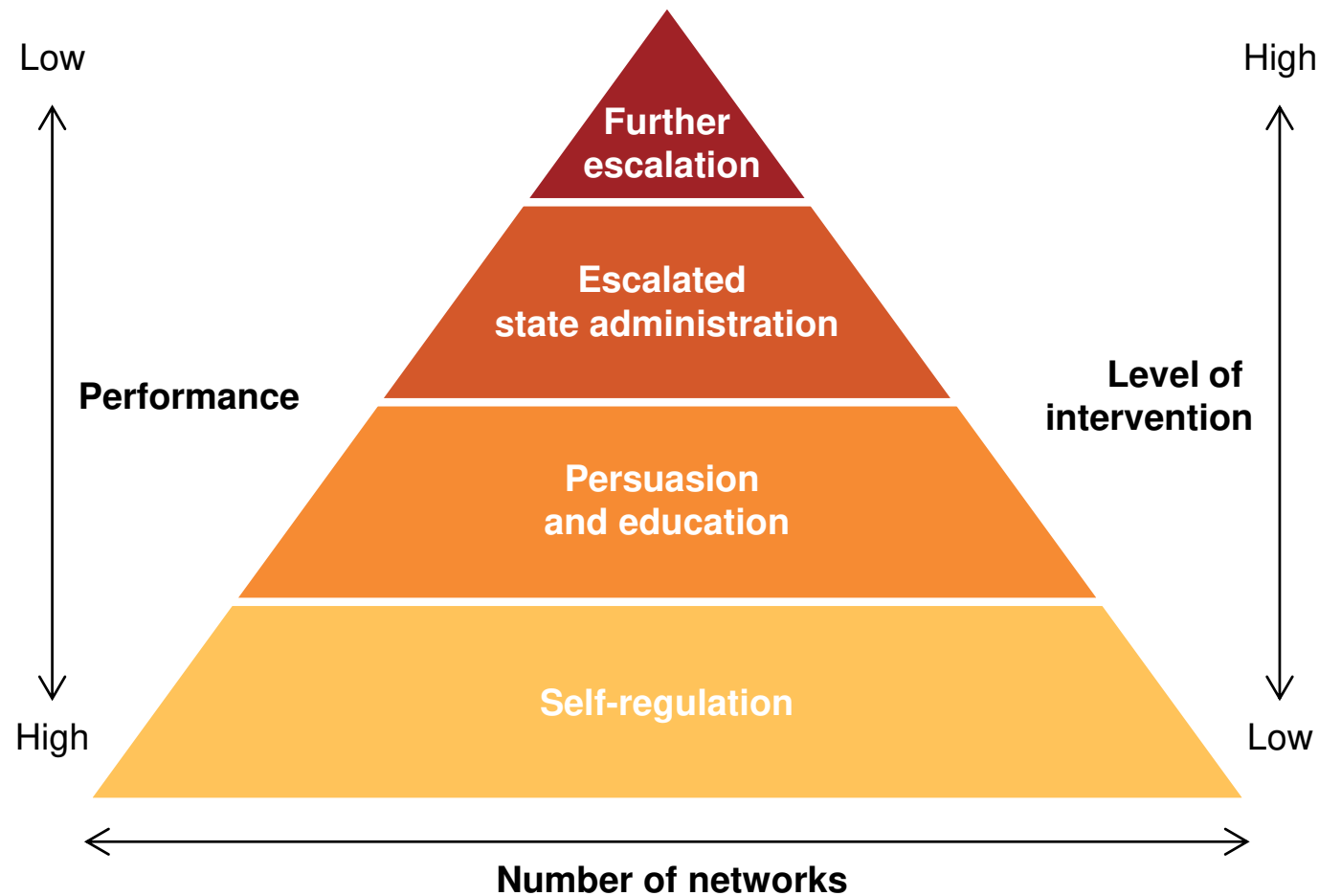
Graded governance (based on avoidable data)

Block funding needs to be reviewed and controlled

Planned block funding (per cent of total funding), excluding National Partnership Payments, 2012-13



Need to introduce/use graded governance



Then combine it with information and governance that focus on avoidable cost

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Let hospitals know where they need to improve

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Tighten up block funding

Sanctions for bailouts

Graded governance (based on avoidable data)

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