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Impact of Competition Funding in the National Health Services: The Importance of Financial Intelligence

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Abstract

The UK healthcare system is primarily taxation funded with very limited funding earned from private patients. There is an ever growing demand of healthcare services and the Government is responsible for catering to these demands within the limited resources available. Over the past decade there have been various reforms brought about in the funding of the healthcare system whereby the key intention is to reduce costs whilst improving efficiency. The Government is trying to do this by encouraging internal market health service providers to compete against each other which ultimately lead to cost reductions and benefits to the wider economy. Most recently there has been a growth spurt in private hospitals and services being commercialized within the National Health Services (NHS). However this has led to various questions concerning cost reductions, quality of services provided and the macro economics of competition within the health sector being raised. This paper discusses the attributes of positive competition within the national health sector and presents the key findings that discuss the ways in which the competition could be leveraged.

Keywords: Financial Intelligence; National Health Services; UK; Funding.

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1. Introduction

Over the past two decades there has been a paradigm shift in the government's health policies and the current system is more customer oriented as opposed to the earlier control and command orientation. In this system, money follows the patient whereby funding initiatives have been developed to provide financing to the Clinical Commissioning Groups (CCG), (previously titled Primary care Trusts-PCTs). The CCG's role is that of a purchaser who commissions services from the acute hospital sector that act as providers. There is a fixed tariff for the treatments offered by the providers that is determined nationally. This model ensures that there is a healthy competition amongst the providers on the access and quality to give patients a choice. This also increases the competitiveness between the CCGs who compete for the national funding [1]. This research paper critically analyses the literature to point out the link between using good financial intelligence techniques to enhance competition and discusses the key initiatives that need to be taken in order to achieve customer satisfaction and increase productivity.

2. Literature Review

Customer orientation and using market forces has a great impact on the National Health Service (NHS) expenditure and there has been a lot of investment in information systems for the provision of fully integrated systems that would facilitate easier access to patient records for healthcare professionals. The project on information systems was estimated to have spent a total of £8.5bn in the year 2013-2014, that was aimed at boosting NHS spend beyond European average [2,1]. With the Healthcare Commission, the National Institute for Healthcare and Clinical Excellence and the Modernisation Agency, there has been a marked improvement in the system of regulation, standard setting and performance measurements within the NHS.

Though there has been a marked improvement, this cannot be considered complete as there are still various unknowns. There is a general consensus that the quality of healthcare services has improved however there is no concrete statistical evidence or means to measure how much has improved. Surveys and other productivity measurement techniques to measure satisfaction of services offered, however differ as the results suggest otherwise. Similarly, a global comparison and evaluation of standards at specific disease level or general overall level also points out that the services are not performing well. The NHS lacks good quality data with reference to clinical outcomes, however healthcare data from other competitive markets such as the US shows that there are differences in terms of quality amongst providers.

In the UK when there is a lag in the NHS in terms of quality of services, the government plays a major role to accelerate change to ensure that services provided are responsive and in a manner that is expected by the public. This is done by ensuring that the consumers are given the choice like any other market segment. On the downside though, consumers lack appropriate information about various options which would empower them to make the right choice. It therefore becomes imperative that appropriate and adequate information about the providers including clinical outcomes and experience be collected and disseminated in a timely manner as this would facilitate the consumer have pertinent information to make an informed choice.

Competition is prevalent in various sectors and when customers are offered more choice, the providers of services strive to ensure that they are being chosen over the others. One way to be the first choice of the consumer is by improving quality. Similar extensions can be made to the NHS. Studies show that costs can be reduced by promoting competition as it increases pressure on providers and also subsequently improve the quality of services [3]. Increasing the choice that patients have promotes and drives healthy competition thereby containing costs [4]. Keeping this in mind, over the past decade there have been various initiatives by the Government whereby patients have been given more choices to promote a healthy competition. The Health and Social Care Act (2012) provides a framework to promote competition amongst providers and increased choice for patients. This helps in moving forward towards the customer centric paradigm. Dixon et al [5] in their research show that the quality of the NHS trusts have significantly risen in the past decade given the shift to consumer oriented process and this has led to lesser waiting times, increased productivity and above all improved quality.

There have a lot of discussions about how competition leads to an increase in quality and decrease in costs, but it is difficult to measure the impact of competition on the former. Also the impact of competition on certain key areas is neglected.

Research shows that good management practices followed by healthcare service providers leads to better management of financial resources that in turn has a positive impact on the quality of the service provided. Furthermore, when there is a healthy competition prevailing, it leads to better management practices that focus on improving quality. Competition ensures that there is pressure on managers to exhibit better performance and the fear of consequences on poor management drives positively the management practices within the NHS [6].

Various management accounting tools are in use by the public healthcare service that facilitates automation of budgeting and costing processes. The recent reforms in the healthcare sector dictate that providers are paid on a cost per case basis. This cost is determined nationally and fixed (Payment by Results - PbR). This gives providers good incentives to compete and ensure that a profitable business is run both from patients as well as purchasers [7]. Given that the health providers are paid based on PbR, it becomes imperative to use existing financial data and business intelligence in order to increase competitive advantage. Having good financial intelligence would also help track how well money is being spent and provide a more insightful update on the outcome for the money being invested. This data when available to the customers affects their choice and drives competition. One such tool is Service Line Reporting (SLR) and Patient Level Information and Costing Systems (PLICS). SLR and PLICS are nowadays used extensively to manage cost and drive behaviour of Clinical and non-Clinical staff.

3. Creating Positive Competition

Studies show that though there has been a lot of investment in the NHS, there is very less evidence for improved productivity and customer satisfaction in the UK [8]. There are a variety of reasons including not keeping up to the acceptable standards and difference in quality between providers. One of the key reasons for service level discrepancies can be attributed to not adapting to the best practices across all providers. Competition within the

NHS also remains very much localised which leads to shift of focus to the dominant players.

Before discussing about competition within the NHS, it is imperative to understand the term competition. In the healthcare sector, competition aims to add value to the consumer by improving the service quality, enhancing business practices and reducing costs. Researchers argue [1] that unlike other business competitive environments, the healthcare competition is very different given its nature, complexity of the system, limited availability of information to the end consumers and the level of customisation required for the consumers. Though other industries have similar characteristics, the costs of running such enterprises have come down significantly unlike the healthcare sector.

Now that the term competition has been defined, it is essential to understand the term “healthcare”. It refers to the diagnosis, treatment as well as preventive efforts that are taken by specific and registered entities that have the capability to provide such services. Competition therefore with respect to healthcare should not just be driven based on volumes but also in terms of productivity and customer satisfaction. When the prime focus is value creation and addition, the perspective changes from “How much” to a more qualitative approach of “To what extent” [9].

Value creation helps the CCGs in the pursuit of excellence by offering skilled teams and taking a more tailored approach with greater efficiency. Some researchers in favour of this argument show that lower death rates have been associated with hospitals that have higher volume with more specialist services being available thereby leading to better outcomes [10].

4. Key Findings

From the critical assessment of literature, the following were the key findings:

When the competition has a primary focus of treating individual ailments along with a significant focus on quality, it helps reduce costs in the long run. This is because centres of excellence focus on specific procedures and adopt and adhere to best practices in order to leverage costs and improve services [11].

Conversely, when poor quality treatment is provided it adds costs due to the time taken for recovery, cost of repeat treatments and complications, thus leading to lower rates of success. Hence spending and funding alone cannot be a yardstick by which competition should be measured as more spending would not account for better treatments or improved outcomes [12].

Innovations should be encouraged but at the same time it should be understood that disruptive innovation would only lead to increased costs without achieving the required outcome. Innovation in healthcare is very much similar to innovation in any other industry and hence should aim at lowering costs, improving quality and meet the needs of the consumers. Also, when innovation becomes central, it leads to better medical care and reduction in costs as argued by researchers [13].

Improvement in decision making for patients can be provided by competition. This is achieved when the

referring GPs have an objective knowledge of the experience of the provider, the treatment methods along with the medical outcomes that are risk-adjusted. This information along with the financial and cost-related information that are available to the providers, act as an incentive to improve practice thus offering more power to the consumers [13,14].

5. Summary and Conclusions

The first step forward would be to release data on provider experience, including current and past volume of service provided to patients with particular diagnoses and treatments. Just knowing which providers have extensive experience in diagnosing or treating specific conditions could improve choices significantly, given the superior results of facilities with high volumes.

Next for dissemination would be information on treatment methods and standards of care used by each provider for the condition. This would encourage providers to move rapidly to offer care consistent with established medical knowledge about what works and to communicate that prevailing standards are equalled or surpassed.

The UK healthcare market is restricted geographically to localised networks. Though many healthcare services should be provided locally, healthcare competition should take place regionally or even nationally. This would create competitive pressures on all providers to improve.

An ideal healthcare system would encourage close working relationships between local providers (for most routine and emergency services and follow-up care) and a wide array of leading providers (for definitive diagnosis, treatment strategies, and complex procedures in particular areas). These relationships would speed the adoption of state-of-the-art clinical practice and help increase quality and efficiency throughout the system. There are substantial gains to be made from allowing patients and their GP's to seek the best value anywhere rather than the best value available in their local CCG area.

While travelling to a superior regional facility may sound expensive and inconvenient, the savings in cost and the promise of better short- and long-term medical results can easily make it worthwhile for both the patient and the NHS, for example, the costs and inconvenience of inefficiency and poor outcomes (longer recovery times, complications, and mistakes). This choice could conceivably be extended to facilities in Europe, India and even the USA.

The stakes are highest for more complex or uncommon conditions. Providers could draw from a wider area and serve enough patients to develop the greater expertise and efficiency that would come with repeated experience and learning.

In a market without geographic restrictions, many people would still choose to obtain care locally or in a nearby region. However, by promoting competition, even if just a fraction of patients actually took advantage of it, would jump-start service-by-service competition. Furthermore, as information comparing quality and costs for specific procedures becomes more widely available, more individuals will see the value in travelling for care. This would incentivise hospital trusts to close the quality gap. By simply having information about which

providers meet (or do not meet) the established standards of care for prevention and treatment of specific conditions, consumers and their GPs would have stronger reasons to compare providers and seek care consistent with best practices.

6. Future Work

It would be an interesting area to look further into competition by collecting primary and secondary data to understand how competition funding affects financial performance and how the use of financial intelligence would help PCTs enhance their service offerings further. This study has been generalised to cover all PCTs in the United Kingdom, but further research can concentrate on taking one single PCT as a case study to analyse in depth the best practices followed and to document the lessons learnt.

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