



Tasmania

DEPARTMENT of HEALTH
and HUMAN SERVICES

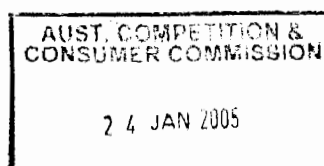
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Launceston General Hospital
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Mr Paul Palisi
Director Mergers and Assets Sales Branch
Australian Consumers and Competition
Consumer Commission
PO Box 1199
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FILE No:
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MARS/PRISM:

14th January 2005



Dear Mr Palisi,

Thank you for your letter of the 23rd December 2004 with regard to the application for authorisation A90947 lodged by Little Company of Mary Healthcare Limited. I refer to my previous correspondence and advise that this is an update on that correspondence. Please disregard the previous response, which was inadvertently sent prior to my final edit.

With regard to the questions that you asked:

1. Self-paying Customers

1.1 Do you consider that a number of these self-funded private patients would choose to be treated in the following facilities if the merged hospital raised its prices,

- Launceston General Hospital as a private patient, the Eye Hospital, or the Gynaecological Clinic or*
- in Hobart, North Western Tasmania, or Melbourne?*

I feel sure that price signal would be important in patients' selection of the hospital. This is more so as a private self-funded patient. I am not aware of any services that are only undertaken at St Vincent's or St Luke's which could not be undertaken at the Launceston General Hospital or indeed another facility. Also with the significant competition in airfares, it would be possible for patients to see Melbourne as a viable alternative should the cost be prohibitive at St Luke's or St Vincent's Hospitals.

1.2 Do you consider that a significant number of these self-funded private patients would choose to be treated in Launceston General Hospital as a public patient if the merged hospital raised its prices?

There may be some self-funded private patients that would choose to be treated at the Launceston General Hospital as a public patient, however there are limitations with regard to the number of public patients that can be seen and these patients would obviously be prioritised according to clinical need and also be placed on the public hospital waiting list which would be a disincentive for patients to attend the Launceston General Hospital as a public patient. I don't believe that there would be a significant number of self-funded private patients who would choose this option.

2. Patients whose treatment is paid for fully or substantially by health funds, the Repatriation Commission, or another entity

2.1 Currently who has the greater bargaining power and Hospital Purchaser Provider Agreement (HPPA) negotiations, the health funds and the Repatriation Commission, or St Vincent's and St Luke's?

I am uncertain of the answer for this, however I would believe that the health funds and the Repatriation Commission would have the greater bargaining power.

2.2 To what extent would this change if the proposed merger proceeded? Would St Luke's and St Vincent's be able to obtain significantly higher reimbursement from health funds? If so, why?

I am uncertain as to the position of the merged organisation and the Health Funds however I would think that the overall situation would be unlikely to be different from the present.

2.3 Could health funds credibly threaten to enter into a HPPA with the Eye Hospital, the Gynaecological Clinic in Launceston, or private hospitals in Hobart, Melbourne or North Western Tasmania in place of a HPPA with the merged entity?

Health Funds could enter into HPPAs with these other services however I don't believe that this would be a viable option as there are limited services available at the Eye Hospital and the Gynaecology Clinic. Distance is a disincentive for patients to travel to seek their inpatient care from hospitals outside Launceston. Inpatients would probably prefer to be treated in their local community if the service is available to allow easy access to their home and maintaining contact with relatives etc.

2.4 Is it possible to enter into HPPA with the Launceston General Hospital? If not, how are reimbursement rates determined for private patients treated at this hospital?

It is unlikely that a HPPA with the Launceston General Hospital could be negotiated.

3. If authorisation is not granted

3.1 Are two private hospitals sustainable in Launceston? If not and authorisation is not granted, which hospital is more likely to close? Broadly when might this happen?

I don't believe that two private hospitals are sustainable in Launceston. Both private hospitals as I understand it have had relatively low occupancy rates. With regard to which hospital would be more likely to close, again this is difficult for me to answer. The

infrastructure in the two hospitals is quite different and investments have been made in both facilities. St Luke's has a strong presence in Tasmania and St Vincent's has the strong support of the Catholic Hospitals Network. I could not speculate on which hospital would be more likely to close.

3.2 *If two private hospitals are sustainable in Launceston, would any of the public benefits identified by the applicant would be likely to arise if both hospitals continued to exist as competitors? Alternatively would the quality of service stay about the same or even fall with time?*

4. *Public benefits*

- *New and expanded services.* This could occur with the two hospitals continuing for example each of the hospitals could specialise in certain areas where they are not in competition and could make an investment in the situation. However were they a combined facility, the expansion and development of services would be enhanced because of the size of the combined organisation.
- *Improvements in quality.* A level of quality would be required to be sustained in the hospitals if they were to continue as separate entities. They would need to achieve accreditation with the Australian Council of Healthcare Standards and also as a prerequisite for their continued health insurance funding. Undoubtedly if resources were concentrated in one hospital, more resources would be available and able to be utilised in quality activities.
- *A reduction in demand to increase prices by health funds for hospitals.* I'm unclear as to how a merger would lead to this situation.
- *Benefits to health funds.* I would have thought that there would be less benefit to health funds in that there was a reduction in competition between the two major private health providers in Launceston.
- *Reduced waiting lists.* It would seem that there would be some capacity to reduce waiting lists, however I am unaware of any significant waiting periods in the private sector for surgery.
- *Reduced need for patients to travel to Hobart or Melbourne.* This would only occur if the current services were expanded or new services developed.
- *Improved recruitment and retention of health care professionals in Launceston.* There is potential for a reduction in the employment of healthcare professionals with the merged hospital. I'm uncertain how a reduction in the available positions would improve recruitment and retention; it would just mean that there would be less positions to fill with healthcare professionals available.
- *Benefits to doctors.* There would be some benefit to doctors in having one private hospital where all patients were located thus decreasing the travel between hospitals. If there was further expansion in services and additional new services added, then this may also be of benefit to medical practitioners.
- *Clinical services rationalisation.* There is already the capacity for the hospitals to concentrate in certain clinical areas without necessarily having the hospitals merge to provide this, eg one hospital providing obstetrics. If both campuses continue then it is likely that there will still be a need for a duplication of services at both sites particularly in some of the acute care areas, and continued duplication of equipment etc.


- *Capital equipment replacement.* It is unclear how the combined entity would respond to the continued issues around service arrangement and doctor preferences. It is more appropriate that standardisation of equipment between the private and public sector occur where the clinicians are working in both facilities rather than in the linkages between Hobart and Launceston. The example of anaesthetic modules I am unclear as to how one module could support the two campuses when they are separated and if anaesthetic interventions were occurring at both sites then there would need to be dedicated anaesthetic equipment at each site.
- *Human resources.* A combined service would provide opportunities for staff specialisation. There is concern that there will be decreased positions available and therefore a decrease in numbers of employed staff and opportunities, for example promotion etc.
- *Purchasing.* It is agreed that both St Luke's and St Vincent's would already be taking advantage of their purchasing power from their parent organisations. Any combined purchasing however, would most likely benefit in the areas that they have suggested which are a small proportion of total operating expenses. It is unclear from the documentation how the synergies of maximising doctor leave at Christmas and Easter, creation of a single pharmacy and expanding community nursing would occur in the combined facility. There is no doubt that while a reduction in the use of agency staff has potential to occur with the overall reduction in the use of staff between the two facilities, there would be some synergies in the single switchboard and standardised billing and admission processes.

5. *General. Did a similar acquisition by Calvary Healthcare Tasmania, St John's Hospital generate benefits for the community?*

I am unable to comment from personal experience with regard to this, however there aren't many similarities between St Johns' acquisition and the merger proposed in Launceston. There appears to have been quite a difference in the two facilities in Hobart, whereas the two private hospitals in Launceston are quite similar in the services that are provided.

I trust these comments will be of use in the Commission's deliberations.

Yours sincerely



Dr Stephen Ayre
CHIEF EXECUTIVE OFFICER