

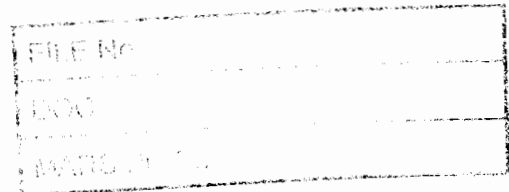


Tasmania

DEPARTMENT of HEALTH
and HUMAN SERVICES

Office of the Secretary

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File: H12796



Mr Mark Pearson
General Manager
Merger and Assets Sales Branch
Australian Competition and Consumer Commission
PO Box 1199
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Dear Mr Pearson

I am writing in response to the letter from Mr Paul Palisi from your organisation dated 23 December 2004 concerning the application for authorisation lodged by the Little Company of Mary Health Care Ltd (LCMHC) in relation to its proposed acquisition of St Vincents Private Hospital (Launceston) Ltd. In response to invitation to provide a submission contained in this letter, the following comments are provided in response to your questions:-

1. Self-paying patients

- 1.1 Patients may choose to self fund their care at the LGH but due to the requirement that patients are admitted based on clinical need self payment will not result in priority treatment. Patients are therefore more likely to self fund at private hospitals rather than at the LGH. Some patients may choose to be treated at the Eye Hospital or the Gynaecological Clinic but numbers would be relatively small due to the restricted range of services offered.

It would be expected that patients who fund their own treatment (usually in relation to elective procedures) would be prepared to travel to receive treatment in either Hobart, the North West or Melbourne.

- 1.2 Patients may choose to be treated at the LGH but due to the requirement that patients are admitted based on clinical need these patients would need to wait for treatment. As these patients can afford to pay for their health care, they are probably more likely to seek treatment elsewhere at a private hospital than wait for public patient treatment.

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

- 2.1 It is considered that the health funds and the Repatriation Commission have the greater bargaining power in the negotiation of Hospital Purchaser-Provider Agreements (HPPAs). Nationally funds have increased premiums by 7% per annum over the last three years but the bed day fees paid to private hospitals have increased by less than this amount.
- 2.2 It is considered unlikely that the situation would change. There is a large incentive on private hospitals to agree an HPPA as they will only receive the second tier default benefit if they do not.
- 2.3 Funds could enter HPPAs for certain procedures with other private providers in Launceston such as ophthalmology, dental and gynaecological procedures. Other medical and surgical procedures are available at the LGH either as a public patient or as a private patient or elsewhere in Tasmania in the private sector. However, given the general reluctance of the community to travel, any fund not having a HPPA with the merged entity would be likely to lose membership to funds which did. It is therefore considered unlikely that any fund would not seek a HPPA with the merged entity.
- 2.4 There has been Commonwealth legislation allowing HPPAs between public hospitals and health funds since the mid 90s but I am not aware of a single contract in the country. As an HPPA would see hospitals looking to increase cost recovery above the public sector default benefit, funds simply aren't interested as currently the default benefit for the public sector is less than half the real cost of care and public hospitals cannot offer priority to private patients while having extensive public patient waiting lists. Any HPPA would be negotiated centrally between the Department and health funds rather than with individual hospitals.

3. If authorisation is not granted

- 3.1 It is the Department's view that two private hospitals are not sustainable in Launceston. The patient load is insufficient to sustain each hospital at above 80% occupancy, and at just over 100 licensed beds at each facility, each of the hospitals is too small to achieve reasonable economies of scale. St Vincents, being a stand-alone facility, is the most likely to close in the foreseeable future. The last major capital investment in hospital infrastructure at St Vincents was in the mid 90s and so a capital upgrade is likely to be required in the next five years. If St Vincents is unable to achieve the required capital investment then closure would be likely.
- 3.2 The retention of two small private hospitals in Launceston is unlikely to result in additional services being provided and the lack of economies of scale, duplication of services and administration and competition for staff will see consumers receiving lesser services than a merged entity could provide. The splitting of services between the two entities is also likely to impact on quality due to the absence of sufficient patients to achieve quality standards.

4. Public Benefits

The Department of Health and Human Services (DHHS) supports the contention by LCMHC that a merged hospital would be a more efficient service provider with less duplication of resources and would provide higher quality services and be in a better position to expand the range of services provided and be able to invest in capital replacement.

Recruitment and retention of staff at both the merged hospital and the LGH is likely to be enhanced by the merger.

The merger of St Johns and Calvary in Hobart has already decreased duplication and enhanced the level of services available to consumers.

5. General

The Calvary and St Johns merger has lessened duplication of services by a more rational distribution of services across the two campuses, with the New Town campus concentrating on the more specialised inpatient procedures and the South Hobart campus on day surgery and ophthalmology in particular. Consumers benefit by having improved access to specialist services not available at St Johns (emergency department, cardiology, MRI, lithotripsy, obstetrics, nuclear medicine) while ophthalmology services have been enhanced and day surgery services made more efficient. The range of services available to consumers has thus been enhanced through the merger. The elimination of duplicated services across the sites in both the clinical and non clinical areas has benefited consumers by reducing the pressure for premium increases.

There is a competitive market for private patients in Tasmania. Patients will generally be treated within their own region but there are a small number of out of region referrals, especially from the North West to the North.

St Vincents and St Lukes generally do not compete with the LGH as they do not provide services to public patients. The LGH has private patients but mainly in areas where services are not currently available in the private sector.

The Eye Hospital, the Gynaecological clinic and other day surgeries do compete with the merger parties for day only patients.

The Launceston private hospitals compete with The North West Private Hospital, especially for patients from the Devonport, Latrobe, Kentish and Central Coast Municipalities.

St Lukes and St Vincents do not supply any services not available elsewhere in Tasmania.

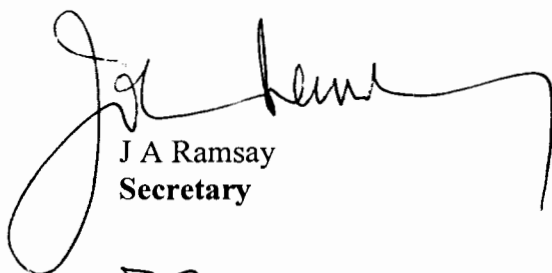
There are legislative barriers to market entry in that private hospitals must be licensed by the Minister who may refuse a licence if sufficient services are already available. However in recent years all applications for new licences or increased bed capacity at existing private hospitals have been approved.

The DHHS does not expect that the merger will lead to increased costs of accessing services or increased prices for the provision of hospital services.

The DHHS would expect prices to remain the same in real terms but it is expected that over time the range of services will expand.

In summary the DHHS expects the merger to improve service quality, the standard of facilities available and the range of private hospital services provided in the North and see the proposed merger as offering an overall benefit to consumers.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J A Ramsay', with a long horizontal flourish extending to the right.

J A Ramsay
Secretary

22 January 2005