Auditing For The Australian Capital Territory

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PA96/01

27 March 1996

The Speaker
Australian Capital Territory
Legislative Assembly
South Building
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with the authority contained in the Audit Act 1989, I transmit to the Legislative Assembly a Report entitled “VMO Contracts”.

This audit was conducted by Mr Peter Hade of my Office.

Yours sincerely

John A. Parkinson

TABLE OF CONTENTS

1. REPORT SUMMARY

1.1 WHY WAS THE AUDIT CONDUCTED?

1.1.1 Introduction

In the Legislative Assembly on 1 June 1995 as part of a response to a Question Without Notice, the Minister for Health and Community Care gave an undertaking to provide to the Assembly's Public Accounts Committee the new contracts which at that time were being negotiated between Visiting Medical Officers (VMOs) and the ACT Department of Health and Community Care. In a further response, the Minister also made a commitment to provide to the Public Accounts Committee financial and other information in relation to the contracts.

As a result of these commitments, copies of contracts and other documents were subsequently supplied to the Public Accounts Committee by the Minister.

1.1.2 Auditor-General's 1993 Report On VMOs

As part of a 1993 performance audit by the Auditor-General, VMO contracts current at that time were examined and certain findings made. A Report on the audit was tabled in the Legislative Assembly as Auditor-General's Report No. 5 of 1993.

1.1.3 Public Accounts Committee Request To The Auditor-General

In July 1995, discussions were held between the Public Accounts Committee and Auditor-General on the subject of the new VMO contracts. These discussions were initiated by the Public Accounts Committee because the Auditor-General's 1993 performance audit included an examination of the previous contracts. The knowledge gained from the 1993 examination placed the Auditor-General in a sound position to efficiently compare the previous and new contracts.

Following the discussions, the Committee wrote to the Auditor-General. The content of the Committee's letter is reproduced following:

"During recent discussions with the Committee you indicated a preparedness to examine the sessional and fee-for-service contracts for VMOs in the ACT health system when these became available."

"The contracts have now been sent to the Committee by the Minister for Health and Community Care and I enclose copies. The Committee would appreciate your comments on the contracts."

"I also attach a cost model of aggregated VMO arrangements which has been sent to Members of the Assembly by the Minister. You might wish to also consider the costs indicated and the savings."

As a consequence of this request, the audit was commenced. This Report represents the result of the audit.

1.2 WHAT WAS THE SCOPE OF THE AUDIT?

The scope of 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 usefulness of the cost model used by the Department of Health to estimate likely savings was also assessed. The procedure used by Health to set the 1995-96 budget for VMO payments was reviewed and actual VMO payments to 31 December 1995 compared to budget.

During discussions on the audit, Health Department and Woden Valley Hospital management provided comment that the contracts, while being a significant reform, are only part of an integrated approach which is being progressively developed to change medical practices at the hospital. Management also commented that over a period of years, it could be expected that changes in medical practices will produce significant benefits.

The scope of this audit did not extend to an assessment of potential benefits which may be generated from the medical practice changes referred to in the previous paragraph.

1.3 WHAT DID THE AUDIT CONCLUDE?

Overall, on the basis of the evidence available, the new VMO contracts will not lead to the $2.6m savings forecast, at least in the short term. This conclusion is based on the following findings:

- the new VMO contract rates are estimated by the Audit Office to generate a small increase in expenditure (up to about 2%)

which needs to be offset by savings from changes in the contract mix, etc., before any net saving can emerge *(Chapter 2)*;

- although contract mix changes could potentially lead to reductions in VMO costs, these changes will need to be managed closely if they are to actually generate the savings. The mix changes proposed will have a significant impact on the incomes of some VMOs, particularly those practising in Obstetrics. There could be a possibility that some practitioners will seek to maintain their incomes, by over-servicing for example *(Chapter 2)*;

- there is considerable doubt as to the validity of the cost model developed by Health to predict potential savings from changes in contract mix, roster changes and productivity, etc. *(Chapter 3)*;

- savings estimated from the on-call roster changes cannot be claimed as stemming from the new VMO contract arrangements *(Chapter 3)*;

- there is only limited verifiable information on how savings from the productivity improvements have been estimated *(Chapter 3)*;

- there must be a lag before the full year cost effect of the new contracts is achieved *(Chapter 4)*; and

- at 31 December 1995, expenditure on VMOs was significantly above budget, i.e. to this date, no savings had eventuated *(Chapter 4)*.

2. COMPARISON OF NEW CONTRACTS AND SUPERSEDED CONTRACTS

2.1 INTRODUCTION

In order to provide comment on the new contracts, the contents of the new contracts were compared with the superseded contracts. Also, the new contracts were discussed in detail with Health Department staff.

The contracts are similar in most respects, however there are some significant differences which are explained in this Chapter.

The length of time of the contract negotiations and the context in which they were being undertaken needs to be mentioned as these undoubtedly had a major influence on the content of the new contracts. A period of four years elapsed from the commencement of negotiations to completion of arbitration. This long time-frame created a situation where individuals responsible for the negotiations changed during the negotiation process, e.g. there were three changes in Ministers for Health including one resulting from a change of Government. In the period of the negotiations, industrial action taken by the VMOs seriously affected services at Woden Valley Hospital, generating intense community pressure for settlement of the dispute.

2.2 CHOICE BETWEEN FEE-FOR-SERVICE AND SESSIONAL CONTRACTS

Under the previous arrangements, each VMO could choose to contract on either the fee-for-service basis or the sessional arrangement. The

new arrangements have removed this choice for VMOs and enabled the decision to be made by the Department of Health and Community Care.

Under the new arrangements, VMOs in obstetrics/gynaecology, gastroenterology and cardiology have both fee-for-service and sessional contracts. For example, obstetrics work is paid sessional rates per rostered coverage of the labour ward. Elective caesareans are paid as fee-for-service if performed as part of the gynaecology list and following hospital protocols. All gynaecological work is paid fee-for-service.

The table on the following page summarises the VMOs' whose contracted arrangements changed between fee-for-service and sessional. It also shows new VMOs in 1995-96. The table represents Woden Valley Hospital's 116 VMOs.

Cost Impact

This option, if effectively utilised, should provide cost savings within some specialities, depending on the patterns of service provision. The option will enable the Department to vary the contract mix between fee-for-service and sessional suppliers to achieve a lower overall cost.

However, these changes will need to be managed closely if they are to actually generate the savings. The mix changes proposed will have a significant impact on the incomes of some VMOs, particularly those practising in Obstetrics. There could be a possibility that some practitioners will seek to maintain their incomes, by over-servicing for example.

Comparison of 1994-95 and 1995-96 Contracts

	1994-95	1995-96
Fee-For-Service (FFS)		
VMOs CONTINUING INTO 1995-96		
Unchanged	41	41
Changed from Sessional		16
Changed to Sessional	3	
Changed to Combined	16	
	60	57
NEW VMOs 1995-96	-	7
	60	64
Sessional		
VMOs CONTINUING INTO 1995-96		
Unchanged	26	26
Changed to FFS	16	
Changed from FFS		3
Changed to Combined	1	
	43	29
NEW VMOs 1995-96	-	5
	43	34
Combined (E.g. Obstetrics/Gynaecology)		
VMOs CONTINUING INTO 1995-96		
Changed from FFS	-	16
Changed from Sessional	-	1
	-	17
NEW VMO 1995-96	-	1
	-	18
TOTAL	**103**	**116**

2.3 SESSIONAL RATES OF REMUNERATION

Under the new arrangements, the sessional rates of remuneration have increased on average by approximately 5%. The rates of remuneration for sessional VMOs are comparable with those paid in NSW.

The Audit Office was advised that it is important that the ACT is able to compete in the marketplace to attract VMOs of high calibre. The rate set by arbitration, then increased by the previous Government to match NSW, was specifically targeted at managing a service within a competitive market. This problem did not change with the change of Government.

Cost Impact

Clearly, unless services are reduced or re-arranged, or there is a variation in the methods of payment, the percentage increase will generate extra costs. The Audit Office has estimated that this increase will be up to about 2% of total VMO expenditure. The increase will need to be offset by savings from other changes in the arrangements before any net savings can emerge.

2.4 FEES-FOR-SERVICES RATES OF REMUNERATION

The rates for fee-for-service VMOs did not change and continue to be based on the ACT Public Hospital Schedule rather than the Medicare Schedule. Automatic indexation of the fee schedule has ceased.

Cost Impact

As the rates have not changed, the cost impact will depend on how services are rearranged or reduced. The removal of indexation will provide some benefits.

2.5 ON-CALL ALLOWANCE

On-call allowances are paid to compensate VMOs for being on the on-call roster and therefore available to be called to come to the hospital to provide services.

Under the previous arrangements, fee-for-service VMOs were paid an on-call allowance of $84 per day. Sessional VMOs were paid at the rate of 10% of the hourly rate. As practitioners are usually placed on the roster for periods of 24 hours, the daily on-call allowance for sessional VMOs varied between about $230 per day to $318 per day, depending on the level of the VMO. Under the new contracts, the on-call allowance for all VMOs is $168 per day.

Cost Impact

The impact on costs of the change in rates, which involves an increase for fee-for-service VMOs and a decrease for sessional VMOs, is estimated by the Audit Office to be minimal.

2.6 INDEXATION

As previously mentioned, unlike the previous arrangements, rates of remuneration for VMOs are not now subject to annual automatic indexation. The current rates will apply to the end of 1996 when a new arbitration will occur.

Cost Impact

This will remove a degree of uncontrollability over the escalation of VMO costs and should result in some short term future reduction in the rate of increase of VMO costs in the period to the next arbitration (end 1996).

2.7 FACILITY FEES

Under the new fee-for-service arrangement, VMOs from the following 'areas of specialty' are now required to pay a facility fee based on a percentage of each VMO's remuneration for certain services:

- Cardiology;
- Radiology;
- Gastroenterology; and
- Neurology.

Facility fees now payable by these VMOs vary between 20% and 60% of the service fee received, depending on the specialty and/or the type of service provided. Under previous contract arrangements, only VMOs in Radiology were required to pay a facility fee (60%).

Cost Impact

The new requirement will contribute to reducing VMO costs.

2.8 SUBMISSION OF ACCOUNTS

Accounts for services rendered by VMOs must now be submitted within 60 days from the date of the service to the patient. If not submitted in time, the accounts do not have to be paid. In the past, VMOs' accounts have often lagged up to months and years.

Cost Impact

This alteration will allow for improved budgeting and management of VMO costs, however it should not generate any more than small savings.

2.9 PARTICIPATION IN ACTIVITIES

The VMOs, under the new contract arrangements, must participate in all quality assurance, quality improvement and peer review activities, as well as participate in post-graduate teaching and some undergraduate teaching duties.

As sessional VMOs are paid on an hourly basis, any time spent teaching is remunerated. Teaching duties performed by fee-for-service VMOs do not attract additional remuneration as these duties are considered to be a component of clinical practice.

The new contracts provide for a review every six months by the Clinical School to assess whether there is an increased teaching load which would warrant extra remuneration to fee-for-service VMOs.

Cost Impact

At present, the requirement to participate in these activities may involve some extra payments to sessional VMOs to the extent to which such activities were not already being remunerated. There is some potential to generate increased costs as the teaching responsibilities increase but these are unlikely to be substantial.

3. HEALTH DEPARTMENT'S ESTIMATION OF COSTS AND SAVINGS

3.1 INTRODUCTION

A cost model was developed and used throughout the negotiations by the Department of Health to estimate the savings to be made from the new arrangements. The model was the basis for the cost information provided to the Public Accounts Committee by the Minister for Health and Community Care. The model, which aggregated VMO payments indicated that under the new arrangements there would be savings of $2.6m.

The $2.6m savings are broken down into the following categories:

Contract Mix	$1.7m
Changes to Roster	$0.7m
Productivity	$0.2m
Total	$2.6m

Each of these items is discussed below.

3.2 VARIATIONS IN CONTRACT MIX AND FACILITIES FEE CHARGING

Variations in contract mix refers to changing VMOs' methods of payment between fee-for-service and sessional.

The cost model from which the savings of $1.7m were obtained was compiled from activity and costing data from 1991-92 for Woden Valley and Royal Canberra Hospitals.

Health officials have advised that the costs of 1995-96 contract mix were estimated in the following way:

Data from 1991-92 for activity levels and costs for each specialty were used to derive an average cost for each specialty. An overall total average for fee-for-service and sessional services was also derived.

Advice was received from a medical consultant regarding the average time taken to perform a service within certain specialties. Where the final contract type was sessional and the average time for services was available this average time was multiplied by the sessional rate ($143) and by the number of services provided in 1991-92 to produce an expected cost for that specialty.

Where a specialty remained fee-for-service, the 1991-92 rates were increased by 6.7% to derive a 1995-96 cost.

Where a specialty changed from sessional to fee-for-service, the average cost of fee-for-service for 1991-92 was multiplied by the number of services provided in 1991-92. This figure was then increased by 6.7%.

The 1991-92 costs were increased by 6.7% to turn them into 1995-96 terms to enable the most accurate comparison with the costs of the final contract mix.

The saving was calculated as follows:

1991/92 Costs ($9,137,976) Increased by 6.7%	$9,750,000
1995/96 Estimated New Contract Costs	$8,015,861
Reduction	$1,734,459

This saving includes the benefits anticipated from the varied arrangements for charging facility fees.

The estimated new contract costs were based on the 1991-92 costs and activities. They do not reflect actual recent levels of expenditure, say in 1994-95. As will be seen from *Attachment 1*, actual VMO costs in 1994-95 were $11.5m.

Audit Comment

There are considerable doubts about the relevance and use of 1991-92 activity data for the purpose of estimating savings to be achieved in 1995-96.

The assumptions for applying the reductions made to some specialities have been discussed with Health staff and the actual calculation of the costs and savings have been checked. While the explanations provided were generally reasonable, there are concerns about the robustness of the model for detailed cost forecasts. Some of the reductions forecast are substantial and appear unachievable, at least in the short term.

As a result, there is considerable doubt as to the overall validity of the model for estimating 1995-96 VMO costs and savings and therefore the reliability of the $1.7m saving forecast.

3.3 ON-CALL ROSTER

Savings of $736,432 are estimated by Health to be generated from better management of the on-call roster. The savings were calculated by subtracting projected on-call costs under a new roster from actual on-call costs for 1992-93.

In practice, the reduction in the VMO costs for the roster will be achieved by sharing rosters between Woden Valley and Calvary so that a single practitioner is available to work at either hospital and by increased use of Staff Medical Officers (SMO) on the roster.

Health has advised that these changes are being implemented at present.

Audit Comment

It is not considered that the cost savings which may be achieved from changes to the roster can be regarded as resulting from the new VMO contract arrangements. Such savings could have been achieved through management action independently of the new VMO arrangements.

Health disputes this comment. It considers that, in practice, the variations to the on-call roster arrangements could only have been made following the climate of change engendered by the new contract arrangements.

At the time of preparing this Report, the success of the implementation of the changes is unknown and therefore it is not possible to say whether the full savings will be achieved. However, using a single roster for hospitals should lead to cost reductions. While use of SMOs will reduce VMO costs, it will also generate additional SMO costs.

3.4 PRODUCTIVITY SAVINGS

There was no supporting information provided to the Public Accounts Committee for the productivity savings. Upon request, Health officials provided the Audit Office with the

following information on how the productivity savings are to be achieved:

The following changes to work practices are expected to assist in achieving the productivity savings:

- *efficient use of clinical procedures;*
- *hospital procedures in Obstetrics requiring less intervention;*
- *possible increase in procedures performed in rooms requiring less intervention;*
- *more efficient theatre practices;*
- *more efficient use of prosthetics in Orthopaedics; and*
- *joint emergency roster between WVH and Calvary Hospital.*

Audit Comment

Health has not provided a verifiable basis for its productivity savings estimate.

As was the case for the on-call roster savings, it is not considered that cost savings from these productivity measures should be regarded as resulting from the new VMO contract arrangements. The savings could have been achieved through management action independently of the new VMO arrangements.

4. 1995-96 VMO BUDGET ESTIMATES

4.1 BUDGET REDUCTION

During the conduct of the audit, Health advised the Audit Office that VMO savings in Woden Valley Hospital will be achieved as the budget for 1995-96 for VMOs has been reduced by $3m, (26%) below the actual expenditure for 1994-95. Details of the 1995-96 budget, the reductions and 1994-95 actual expenditure are set out in *Attachment 1* to this Report.

Audit Comment

Audit officers have reviewed relevant papers. The following observations are made:

- the budget reductions totalling $3m made by the WVH Hospital Management Committee were made without reference to the cost model referred to earlier in this Report. This suggests that Health itself had little faith in the validity of the model as a predictor of future expenditure; and

- the budgeted reductions *(see Attachment 1)* against 1994-95 actual expenditure in Surgical Services ($719,900 - 19%), Medical Services ($683,900 - 41%) and Maternity, Gynaecology and Paediatrics ($1,156,100 - 42%) appear to involve significant reductions in the levels of services provided by WVH. It is difficult to see how such reductions can be achieved. It should be added that at the end of December 1995, year-to-date actual expenditure on VMOs ($6,439,200) was considerably in excess of the budgeted amount ($4,516,400) to that date.

In addition to these matters, in past years there has been a lag in VMOs billing the Department of Health for services provided. It is understood that this lag extends over several months and can be more than a year for some accounts. In order to overcome this problem, the new contracts require that bills be submitted within 60 days of the provision of the service. Because of this lag, any full-year benefits of the new contracts cannot be achieved until 1996-97.

In relation to the budget estimates, Health has advised:

The cost model was not intended to be used as a budget management tool. The model was developed for use in the arbitration case to demonstrate what savings might be possible if management was able to determine the type of contracts offered to VMOs.

The matter of budget setting was not guided by the cost model - budget targets were set by hospital managers, taking into account their service provision arrangements.

The material tabled in the Assembly clearly showed that the cost model was not being used for actual budget targets.

The actual implementation of the contract arrangements was negotiated by two governments before the final arrangement was put in place.

The current government has expressed the view that all new VMO contracts will be sessional where cost-effective.

Finally, the test of the new arrangements will depend on many factors in hospital

management and the result will be known at the end of the financial year.

Annexure

Reports Published in 1992

1 Information Technology Management Policies in the ACT Government Service

2 Financial Audits with Years Ending to 30 June 1991

3 GAO Annual Management Report for Year Ended 30 June 1992

4 ACT Board of Health - Management of Information Technology

5 Budget Outcome Presentation and the Aggregate Financial Statement for the Year Ended 30 June 1992

6 Financial Audits with Years Ending to 30 June 1992

Reports Published in 1993

1 Management of Capital Works Projects

2 Asbestos Removal Program

3 Various Performance Audits Conducted to 30 June 1993

- Debt Recovery Operations by the ACT Revenue Office
- Publicity Unaccountable Government Activities
- Motor Vehicle Driver Testing Procedures

4 Various Performance Audits

- Government Home Loans Program
- Capital Equipment Purchases
- Human Resources Management System (HRMS)
- Selection of the ACT Government Banker

5 Visiting Medical Officers

6 Government Schooling Program

7 Annual Management Report for the Year Ended 30 June 1993

8 Redundancies

9 Overtime and Allowances

10 Family Services Sub-Program

11 Financial Audits with Years Endings to 30 June 1993

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12 Reports were issued prior to 1992. Details can be obtained from the Government Audit Office.

Reports Published in 1994

1	Overtime and Allowances - Part 2		
2	Department of Health	-	Health Grants
		-	Management of Information Technology
3	Public Housing Maintenance		
4	ACT Treasury	-	Gaming Machine Administration
		-	Banking Arrangements
5	Annual Management Report for Year Ended 30 June 1994		
6	Various Agencies	-	Inter-Agency Charging
		-	Management of Private Trust Monies
7	Various Agencies	-	Overseas Travel - Executives and Others
		-	Implementation of Major IT Projects
8	Financial Audits with Years Ending to 30 June 1994		
9	Performance Indicators Reporting		

Reports Published in 1995

1	Government Passenger Cars
2	Whistleblower Investigations Completed to 30 June 1995
3	Canberra Institute of Technology - Comparative Teaching Costs and Effectiveness
4	Government Secondary Colleges
5	Annual Management Report for Year Ended 30 June 1995
6	Contract for Collection of Domestic Garbage / Non-Salary Entitlements for Senior Government Officers
7	ACTEW Benchmarked
8	Financial Audits With Years Ending to 30 June 1995

Reports Published in 1996

1	Legislative Assembly Members - Superannuation Payments / Members' Staff - Allowances and Severance Payments
2	1995 Taxi Plates Auction

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