Response to costing patient care: Monitor's approach to costing and cost collection for price setting

The Optical Confederation represents the 12,000 optometrists, the 6,000 dispensing opticians and 7,000 optical businesses in the UK who provide high quality and accessible eye care services to the whole population. The Confederation is a coalition of the five optical representative bodies: the Association of British Dispensing Opticians (ABDO); the Association of Contact Lens Manufacturers (ACLM); the Association of Optometrists (AOP); the Federation of Manufacturing Opticians (FMO) and the Federation of Opticians (FODO). As a Confederation, we work with others to improve eye health for the public good.

Introduction

As a sector we very much welcomed

- the Government's decision to maintain the NHS sight testing service based on a national contract and a national fee basis agreed with the profession
- the Government's proposal that primary ophthalmic services should be exempt from additional regulation by the Care Quality Commission and Monitor on the basis that they are low risk, operate on a genuinely market based approach and that appropriate alternative regulation is already in place.

For the 'traditional NHS', where market disciplines do not apply or are distorted, as indicated in our previous responses to the Monitor consultations, we support the Government's aims of "promoting the provision of health care services which are: economic, efficient and effective; and maintains or improves the quality of those services". It follows therefore that we would also support the move towards more robust price setting methods and improving the quality of data used to analyse costs.

In the majority of the 'traditional NHS', where competition is limited and in many cases nonexistent, innovative methods to set fair prices are in the interest of patients and should broadly be encouraged and supported provided they are proportionate and the benefits can be demonstrated to outweigh the costs.

Primary Ophthalmic Services

As noted above, community optical services together with the three other primary care contractor professions' services are proposed by the Department of Health to be exempt from the Monitor licensing regime. This is because unlike the majority of NHS services community eye care services are delivered through a regulated but

genuinely open and market-driven system which delivers quality, access, choice and value to patients. Year on year this competitive market has driven quality and choice whilst keeping costs down.

For these reasons the Government moved away from a 'cost plus' pricing model for the optical sector some years ago and has since set NHS sight test fees based on price (taking account of supply and access for patients issues). Normal (and genuine) market mechanisms take care of the rest including cross-subsidy of NHS care by the private sale of spectacles, contact lenses and ancillary products and market exits for more costly and less efficient providers. Effective regulation, low clinical risk and normal market incentives ensure quality is maintained.

It is our strong view therefore that price setting using complex analysis and modelling is not required in the community optical market. There is simply no need to implement regulatory mechanisms that attempt to substitute for a proper market system where additional and unnecessary pricing, data collection and analysis or other regulatory burdens to be placed on the already very effective optical sector. Indeed this would have the perverse impact of driving some providers out of the market which would not be driven out by market forces alone, distorting the market and might reduce supply and access in, for example, remote areas or highly deprived communities.

We are extremely concerned therefore by the proposal that Monitor might wish to collect cost data from <u>all</u> providers**. We fundamentally question whether the costs of doing so outweigh the benefits for our sector and would argue for an exemption for the community eye care sector from this area of Monitor activity.**

Cost and Proportionality

As Monitor has recognised, data collection carries a cost, in particular for those providers that are not capturing costing data in line with NHS mechanisms (i.e. reference cost guidance, HMFA or PLICS or that differentiates between NHS or private patients. As mixed providers of NHS sight tests, private eye care services and private products (vision correction), community optical practices do not differentiate/breakdown their costing in this way and it would be particularly cumbersome, onerous and costly to do so. We understand the need for cost modeling in closed NHS markets to ensure fair pricing, however this should not apply in those parts of the NHS – such as the community optical sector – which are functioning markets in their own right with freedom of entry and exit.

As Monitor will know, each NHS patient's sight test is funded at the level of the GOS sight test fee at £20.70, which must rank as one of the lowest and easiest NHS prices to set. As noted above provision of NHS sight testing is widely recognised to be cross-subsidised by product sales (which are private) and we have seen no evidence to indicate that the Government, NHS and patients are not all getting a very

good deal, which we feel underlines the case for our exclusion from the collection of costings data.

If information is needed by the NHS Commissioning Board e.g. to set fees , there is already a lot of publicly available independent analysis on the structure of the optical market such as that provided by GfK, Mintel, optical trade press surveys and the Optical Confederation.[1] Moreover the costs of any additional data collection would have to be met through increased fees and we doubt this would be a sensible use of limited funds for the NHS, patients or the eye care sector.

Exemption for Community Optical Providers

We are pleased therefore to see a commitment included in the recent Department of Health consultation to exempt community optical providers (under Section 82 of the Health and Social Care Act 2012).[2]

In keeping with the principle of "proportionate regulatory costs" we cannot envisage any case where the pricing models or information collection mechanisms proposed should apply to the optical sector. In any case we have already welcomed Ministers' announcement that the community optical sector will be exempt from additional and duplicatory regulation by Monitor and would wish to see this apply across the board to all of Monitor's activities.

Should Monitor later decide that community optical sector be included (and we can see no reason why it should), we strongly recommend collecting this data on the basis of sampling sentinel practices while the cost of data collection would need to be funded per episode of data collected.

For further information on the case and the evidence we provided for exemption, please visit: http://www.opticalconfederation.org.uk/resources/consultations

[1] Optical Confederation (2011) *Optics At a Glance*, http://www.opticalconfederation.org.uk/downloads/key-statistics/Optics%20at%20a%20Glance%202011.pdf

[2] Department of Health (2012) *Consultation on Protecting and Promoting Patients' Interests – licensing providers of NHS services*

Questions on Costing Patient Care

Question 1: Do you agree with our assessment of reference costs? Are there other strengths or weaknesses of the current process that we should be considering?

Yes

Please provide more details:

We agree to the extent that despite steps taken to improve them, reference costs still have the shortcomings identified.

It is also important that chosen models are workable and do not unnecessarily add to the administrative costs of the health system, which ultimately leads to health cost inflation. Such an approach is also more likely to deliver more sustainable systems and show clearly that some providers of NHS services should be exempt from such regulatory requirements.

Notwithstanding our views on the principles of data collection, we strongly believe that the proposed cost collection mechanisms in place and proposed would be both unnecessary and disproportionate for the community optical sector. In an open and functioning market such as the community optical sector, incentives are already in place to benchmark one's performance against competitors, i.e. one's level or profitability or otherwise, upon which providers can benchmark their success.

Question 2: Do you agree with our objectives for costing and our long term vision set out in Section 4?

No

Please provide more details:

We do not support blanket requirements for all providers to be included. As noted above, this should not apply to community optical providers.

We would support strategies based on deliverable frameworks, rather than rush into a blanket process and hence impose unfeasible demands on providers (and in the end drive up costs). Therefore, we support the approach of a long-term plan and careful consideration before applying such systems to all providers.

We would like to reiterate that in an open market such as community optics, optical providers do not need to have accurate costs or comparable data to benchmark against. As noted above, and as for any functioning market, benchmarking is determined by a provider's profitability or otherwise (information which is held privately by each provider). We strongly believe that it would not be proportionate to include the community optical sector within the costing framework and its inclusion would distort a properly functioning market by increasing the compliance burden on SMEs.

Question 3: What is the most appropriate timing for the pilot Patient-Level Information and Costing System (PLICS) collection?

Please provide more details:
As a functioning open market, end of year accounting varies in the optical market, therefore there is no 'most appropriate' specific time of year to submit costings data. Please refer to our comments above regarding proportionality of the overall proposals and their unsuitability for community optical practices.

Question 4: Do you agree with the proposed actions set out in Section 5? Are there other actions we should be prioritising for 2013?

No

Please provide more details:

We see no value in including cost data for private patients for the community optical sector.

We support more robust price setting methods based on patient-level cost data for NHS markets with high barriers to entry only. In parts of the NHS where competition is limited, improving the quality of the data to perform a more robust analysis of costs is welcome.

Questions on Approved Costing Guidance

Chapter 1: Costing Principles

Question 1: Do you agree with the costing principles outlined in chapter 1?

Not applicable to our sector (N/A)

Question 2: Are the costing steps outlined in chapter 1 helpful for providers?

N/A

Question 3: Are there any aspects of costing which require further guidance?

N/A

Chapter 4: PLICS collection guidance

Question 4: Is the collection guidance sufficiently clear and easy to follow?

N/A

Question 5: Can the proposed fields of data be fairly readily provided by your organisation? If not, what changes would make that more feasible?

N/A

Question 6: Would your organisation be interested in participating in the pilot data collection?

N/A

Question 7: Is the template compatible with your costing system? Is it straightforward to use?

N/A

We are very happy for this response to be made public. If you have any queries on any of the above or require further information, please do not hesitate to contact us.