



Value-Based Procurement

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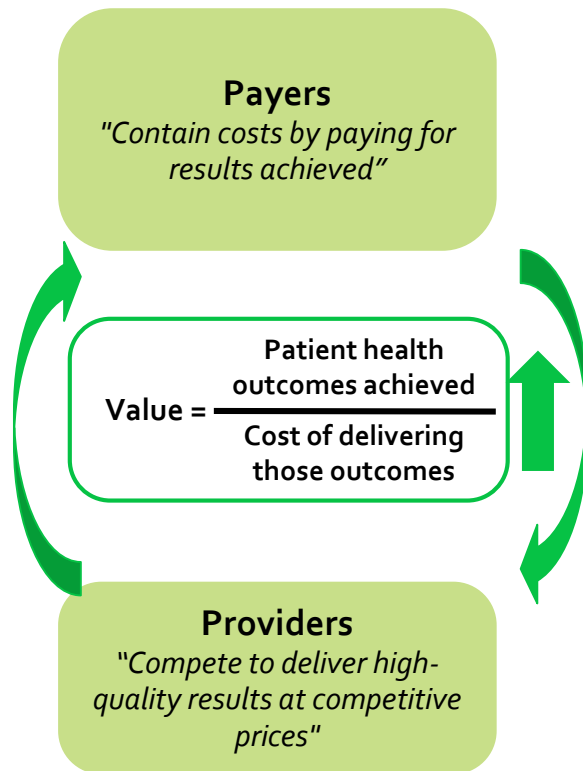
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Health System Priorities

1. to improve health;
2. to protect people from the financial consequences of ill health;
3. to promote associated equity objectives;
4. to **minimize inefficiency** associated with pursuit of these objectives.
5. health system responsiveness?
 - “the ability of the health system to meet the population’s legitimate expectations regarding their interaction with the health system, apart from expectations for improvements in health or wealth”
 - concepts such as respect, dignity, privacy and speed of treatment

A focus upon value creation will have profound impacts on all health care stakeholders

We believe in a model where value is at the center of health care...



... which will impact every stakeholder



Patients will **choose their provider** based on its expected outcomes and their share of the cost



Providers will **differentiate** into areas where they deliver superior outcomes at competitive prices



Payers will **negotiate contracts based on results** and encourage innovation to achieve those results



Suppliers will **market their products on value**, showing improved outcomes relative to costs

How do we currently pay for health care?

Fee for service

- Every single intervention recorded and charged
- Transparency and accurate cost recording (price = cost?)
- Potential to incentivise overtreatment
- Potential negative economic impacts upon whole cycle of care
- No connection to outcomes or disutility of care

DRG/HRG

- DRG/HRG, acts as a unit of currency for an intervention
- Price includes subsidiary activities/costs
- Valve replacement includes theatre, surgeon time, implant etc
- Incentivises volume delivery
- No connection to outcomes or disutility of care
- Usually secondary care focused can create, system disharmony, to incentive to stop hospital activity

What outcomes-based models exist?

Bundled payment

- Single payment covering entire cycle of care
- Encourages getting it right first time approach, the outcome as well as activities are paid for
- Coronary artery disease – diagnosis, treatment, recuperation, prevention
- Financial risk of disutility is placed on provider but also shared with payer
- Contractually challenging if more than one entity is involved in the whole cycle of care
- Payer has to understand cycle of care costs well and enable provider to generate a margin

Capitation

- Fixed budget applied to a defined patient population
- Receipt of funding is dependent upon population base achieving certain goals/outcomes
- Incentivises a focus on prevention and cost escalation
- Contractually challenging if more than one entity is involved in the whole cycle of care, however, less transaction costs than bundled payments?
- Moral hazard for provider, all financial risk is placed on provider

Value Based Commissioning (VBC) and Value Based Procurement (VBP)

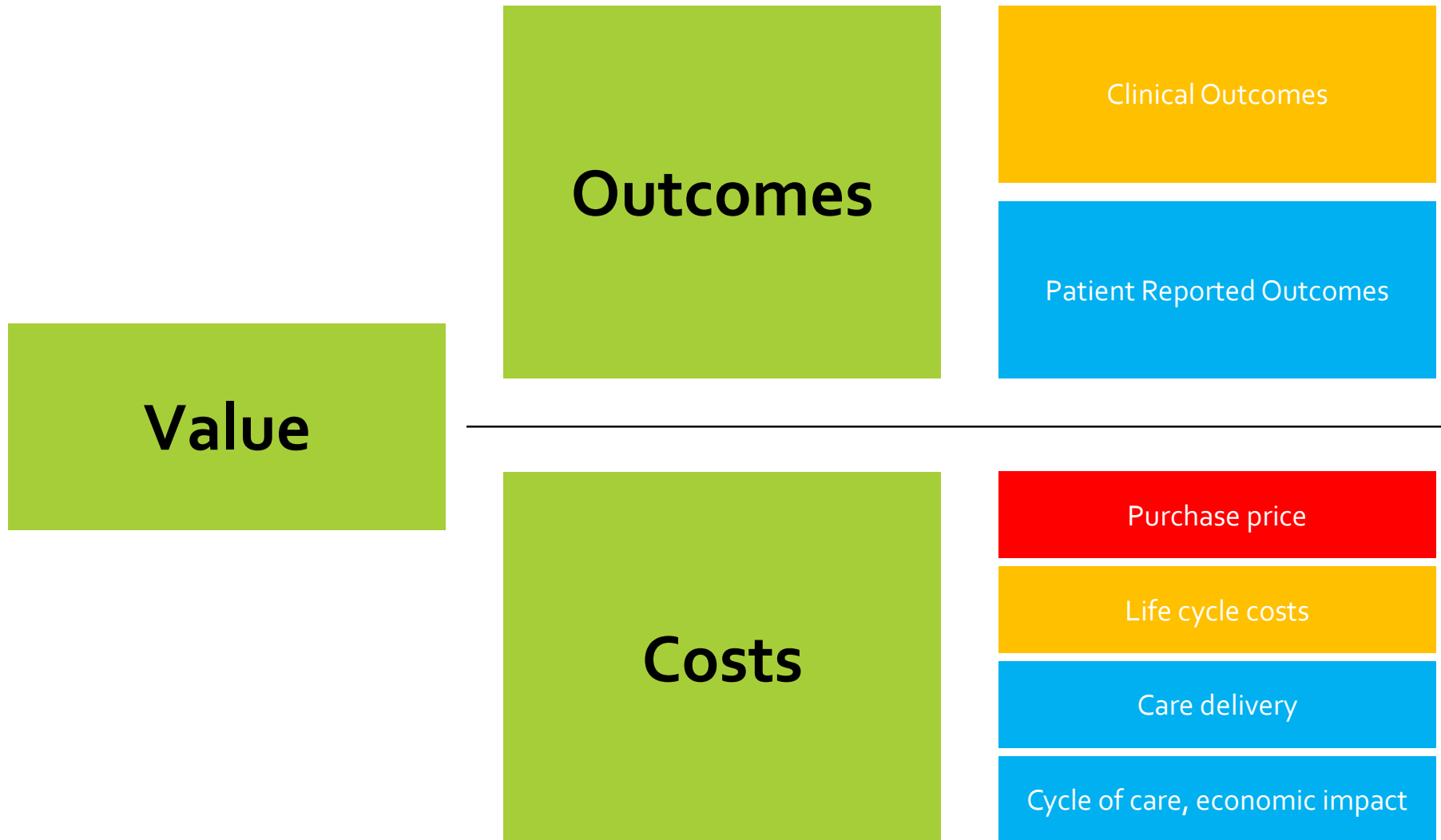
Value Based Commissioning

- Payments to health care providers are based on the value that they deliver to patients

Value Based Procurement

- Payments to suppliers are based on the value that products/services deliver to patients

Procurement, changing the current paradigm



Value based procurement examples

Imaging Solutions



- KUH 14 year tender for imaging services – MRI, USS and CT scanners
- Phillips won, particular focus upon R&D, offering to establish an R&D hub and value creation
- Focused upon improving **outcomes** in 10 disease areas
- Services to measure and improve patient outcomes, technological support, and access to newer imaging systems during the contract period

Wound care products



- 2012, Stockholm County Council (SCC) tendered for wound care products
- Bid request included 3 hypothetical cases: calculate the total cost of treatment for each and include complications.
- Winning bidder had the highest-priced showed a lower total cost of care over time and could document its claims with **clinical evidence**.
- SCC bidders to calculate the total cost of care, enabling them to move beyond purchase price to consider costs on a more holistic level.

Value based procurement examples

ICD and Pacemakers



- Canadian health authority, 2014 tender 22,000 pacemakers
- Critical award criteria was seven year battery life span
- Re-implantation risks, costs, disutility of care
- **No evidence entered risk sharing** – willing to pay the cost of revision surgery
- Industry encouraged to innovate products
- Providers/payers share financial risk

Catheters



- Norway, four regional authorities coordinated a public procurement for IV catheters in 2011
- Previous procurement led to catheters disliked by staff and causing pain for patients, failed injections
- Procurement included 2 month trial period with **patient and staff ratings**: pain, ease of use, safety etc.
- Catheter procured was not the cheapest but the one that scored on cost and qualitative benefits for staff and patients

Putting it all together

1. Define the patient population and care condition
2. Understand what are the value objectives you wish to achieve (outcomes & cost)
3. Design the care delivery model to enable this
4. Baseline the anticipated cost of the care model
5. Examine the role of medical devices or drugs in the care model/ care pathway
 - Understand their opportunity for creating value in the pathway
 - Procure according to the desired value parameters
6. Negotiate or design a payment model which supports and incentivises the value objectives
 - Bundled payment
 - Capitated model

Value Based Procurement

1. Assess the “true cost of care” and outcome throughout the lifetime of the patient/product or service - not just initial product costs but measure the benefit over the care pathway (the life cycle)

2. Reward suppliers who make more investment into the better outcomes that you want - including patient defined outcomes

3. Encourage innovation and long term efficiencies through revisions to the basis of contracting to reflect the approach

Examples

Measure
Outcomes
and Cost For
Every
Patient

Time Driven Activity Based Costing

TDABC is a method developed by Prof Kaplan at the Harvard Business School.

It uses process mapping to understand the time devoted to patients and to identify areas of potential inefficiency.

The Boston Children's Hospital

BCH has used TDBAC to optimize their care pathways for plagiocephaly, Neoplasm and Craniosynostosis

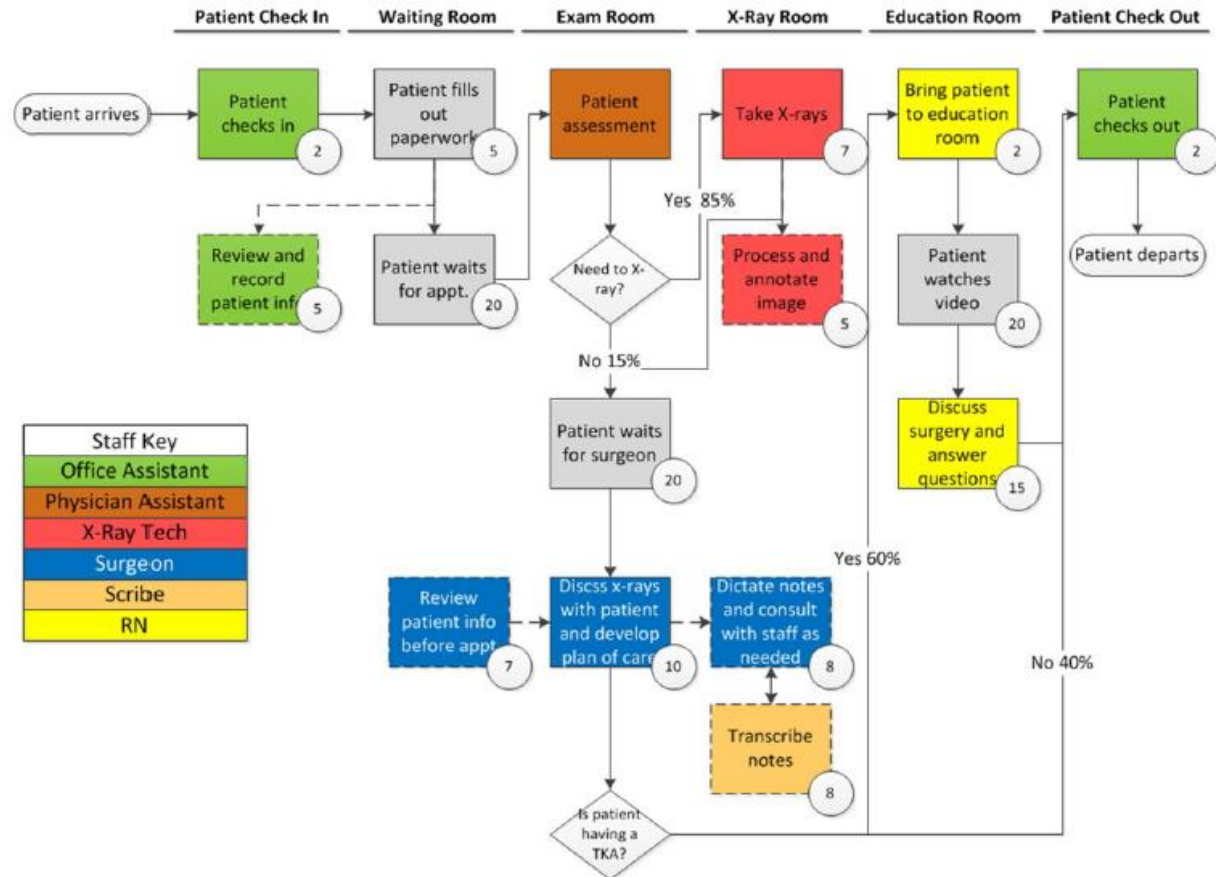


What is TDABC?

1	Determine the Care Process	<ul style="list-style-type: none">• What activities are performed over the care cycle for a medical condition?• Who is performing each activity?• How long does each activity take?
2	Calculate Cost Rates	<ul style="list-style-type: none">• What is the cost per unit of time for each type of personnel?
3	Account for Consumables	<ul style="list-style-type: none">• What materials, supplies, and drugs are consumed during the care cycle?

Clinical and administrative teams work collaboratively to identify:

- **Process-Steps:** All the administrative and clinical process-steps used over a patient's complete cycle of care for a medical condition
- **Resources:** personnel, equipment, consumable medicines and supplies – used at each process step
- **Time Estimates:** The personnel and equipment time used at each process step for that patient



Bundled Payments

1. A bundled reimbursement payment covers all the treatments and interventions performed over a full care cycle for an acute medical condition.
2. Such bundled payments create benefits for all the principal players:
 - **Patients** receive proven and effective care for their medical conditions.
 - **Providers** earn a positive margin for efficiently treating patients and producing good outcomes.
 - **Suppliers** of drugs, devices, and diagnostic tests that improve outcomes and/or lower total costs will find their products incorporated into the treatments used by effective and efficient providers.
 - **Payers** will reduce their spending for treating medical conditions and providing primary and preventive care for population segments.

Examples

Menzis



Menzis together with the Dutch Heart Registry have been developing bundled payments for the purchase of cardiac care.

With this model, the quality of care rather than the number of treatments will be reimbursed. Hospital that score well on indicators such as survival, low complications and patient satisfaction are financially rewarded for this.

This is not without controversy, but is pathing the way for Value-based payment systems

MD Anderson Cancer Centre

MD Anderson has recently trialed bundled payments for head and neck cancer with positive results.

Dr Thomas Feeley, Head of the Institute for Cancer Care Innovations: “bundled pricing is the way all of healthcare should be paid for”

United Healthcare

Between 2009 and 2012 UH piloted single fee payment, instead of margins on drugs used for breast cancer care.

This effectively reduced the total cost of care by more than 1/3

